REGISTRATION DOCUMENT

dated 22 May 2013

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 ("**UBS AG**" or 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/investors 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 section 31 of the Articles of Association, UBS AG shareholders elect the auditors for a term of office of one year. At the AGM of 14 April 2010, 28 April 2011 and 3 May 2012, 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, respectively.

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 the prevailing market situation. Different risk factors can impair the company's ability to implement business strategies and may have a direct, negative impact on earnings. Accordingly, UBS AG's revenues and earnings are and have been subject to fluctuations. The revenues and earnings figures from a specific period, thus, are not evidence of sustainable results. They can change from one year to the next and affect UBS AG's ability to achieve its strategic objectives

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, Fitch and Moody's. 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 could have a material and adverse effect on UBS's 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 UBS has previously announced, UBS's total capital requirements are expected to fall to 17.5% reflecting the planned decrease in total exposure as part of the acceleration of UBS's strategy announced in October 2012. Actions and interpretations of governmental authorities may affect the calculation of UBS's capital ratios and increase its effective capital requirements. For example, UBS expects approximately CHF 2–3 billion to be added to its 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 UBS is not able to demonstrate that its 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, UBS could be required directly or indirectly, for example, to alter UBS's 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 UBS operates, UBS has been required to maintain substantially higher levels of liquidity overall than had been UBS's 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 UBS's overall ability to generate profits.

Regulatory and legislative changes outside Switzerland
Regulatory and legislative changes in other locations in which UBS operates may subject it 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 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 the subsidiary. Such changes could also negatively impact UBS's funding model and severely limit UBS's booking flexibility. For example, UBS has significant operations in the UK and use UBS AG's London branch as a global booking center for many types of products. UBS is being required by the UK Financial Services Authority and by FINMA to increase very substantially the capitalization of UBS's UK bank subsidiary, UBS Limited, and expect to be required to change UBS's booking practices to reduce or even eliminate UBS's 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 UBS's businesses located or booked in the UK.

The adoption of the Dodd-Frank Act in the US will also affect a number of UBS's activities, as well as those of other banks. The implementation of the Volcker Rule as of July 2012, for example, is one reason for UBS's exiting equities proprietary trading business segments within the Investment Bank. For other trading activity, UBS expects that it 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 UBS's 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) riskbased 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 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 and other jurisdictions, and will have a significant impact on UBS's OTC derivatives business, 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 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 UBS's 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 UBS's business with clients domiciled or booked in the EU is difficult to predict.

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 UBS's operations in other jurisdictions, including UBS's 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 UBS's analysis identifies impediments that are not acceptable to 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".

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 UBS has operations may have a material adverse effect on UBS's ability to execute UBS's strategic plans, on the profitability or viability of certain business lines globally or in particular locations, and in some cases on UBS's 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. 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 UBS's success in attracting client business.

UBS's capital strength is important in supporting UBS's strategy, client franchise and competitive position
UBS's 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 UBS experiences 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 UBS 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 UBS's business activities and by changes in the risk profile of UBS's exposures. 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. Any such reduction in eligible capital or increase in RWA could materially reduce UBS's capital ratios.

The required levels and calculation of UBS's regulatory capital and the calculation of UBS's RWA are also subject to changes in regulatory requirements or their interpretation. UBS is subject to regulatory capital requirements imposed by FINMA, under which UBS has 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 UBS's RWA and, therefore, have adversely affected UBS's capital ratios. UBS has 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 UBS will not be successful in pursuing its plans, either because UBs is unable to carry out fully the actions it has planned or because other business or regulatory developments to some degree counteract the benefit of UBS's actions.

In addition to the risk-based capital requirements, UBS is 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 UBS's business activities even if UBS is 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 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 executing its announced strategic plans
In October 2012, UBS announced a significant acceleration in the implementation of UBS's strategy. The strategy includes 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. There is a risk that UBS will not be successful in pursuing UBS's plans, including because UBS is unable to carry out fully the actions it has planned, or that even if it is able to implement its strategy as planned its effects may differ from those intended.
As part of UBS's strategy, UBS is exiting certain business lines, predominantly those formerly in the fixed income area of UBS's Investment Bank that have been rendered less attractive by changes in regulation and market developments. UBS's 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 UBS winds down these positions and those in the Legacy Portfolio previously transferred to Corporate Center, UBS 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 UBS to effect the winddowns and the corresponding reduction in RWA and balance sheet size as quickly as UBS has planned.

UBS also announced that it intends 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 UBS is taking in the Investment Bank and through further group wide efficiency measures. The success of UBS's strategy and UBS's ability to reach certain of the targets UBS has announced depends heavily on the effectiveness of the cost-saving 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 restructuringcosts may be higher and may be recognized sooner than UBS has projected and that UBS may not be able to identify feasible costsaving opportunities at the level of UBS's savings objective that are also consistent with UBS's business goals. In addition, when UBS implements itscost-saving and efficiency programs it may experience unintended consequences such as the loss or degradation of capabilities that UBS needs in order to maintain UBS's competitive position and achieve UBS's targeted returns.

UBS's reputation is critical to the success of its business
UBS's reputation is critical to the success of UBS's strategic plans. Damage to UBS's 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 UBS's 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 UBS's relationships with clients, investors, regulators and the general public, as well as with UBS's employees. More recently, the unauthorized trading incident announced in September 2011, and UBS's involvement in the LIBOR scandal 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 UBS's strategic goals and financial targets.

Material legal and regulatory risks arise in the conduct of UBS's business
The nature of UBS's 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 UBS 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 UBS's 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 continues 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. UBS is also subject to a large number of claims, disputes, legal proceedings and government investigations unrelated to the financial crisis, and expect that UBS's ongoing business activities will continue to give rise to such matters in the future.

Potentially material matters to which UBS is 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, UBS 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 UBS's 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 UBS's full cooperation with the authorities in their investigations, as a result of which UBS was 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. UBS understands 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 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 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. UBS is in active dialogue with its regulators concerning the actions that UBS is taking to improve its operational risk management and control framework. Ever since UBS's losses in 2007 and 2008, UBS has been subject to a very high level of regulatory scrutiny and to certain regulatory measures that constrain UBS's 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, the effects of these matters on UBS's 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 UBS would not be permitted to undertake acquisitions in UBS's Investment Bank unit (unless FINMA granted an exception), and that material new business initiatives in that unit would be subject to FINMA oversight. Although UBS has significantly enhanced its 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 UBS's relationships with regulatory authorities have the potential to adversely affect the execution of UBS's business strategy.

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 UBS's revenues and ultimately UBS's 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 UBS's ability to generate growth and revenue in the emerging markets, causing UBS 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 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 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 UBS;

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

- a further extended period of low interest rates will continue to erode interest margins in several of UBS's businesses;

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

- assets UBS owns 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), UBS could suffer losses from enforced default by counterparties, be unable to access UBS's own assets, or be impeded in – or prevented from – managing UBS's 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 can materially affect the performance of UBS's business units and of UBS as a whole, and ultimately UBS's 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 UBS implements its strategy and focus on complying with Basel III capital standards, UBS continues to hold substantial legacy risk positions. In many cases these risk positions continue to be illiquid, and UBS remains 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.

UBS has announced and is carrying out plans to reduce drastically the RWA associated with UBS's non-core and legacy risk positions. There can be no assurance that UBS will be able to liquidate them as quickly as UBS's plans suggest, or that UBS 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, UBS's strategy rests heavily on UBS's ability to reduce sharply the RWA associated with these exposures in order to meet UBS's future capital targets and requirements without incurring unacceptable losses. In addition, if in the future UBS exercises its option to acquire the equity of the SNB StabFund from subsidiaries of the Swiss National Bank, any positions remaining in that fund could augment UBS's risk exposure and RWA until they can be liquidated.

UBS holds positions related to real estate in various countries, and UBS 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.

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 UBS's 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 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 UBS's risk management and control processes to avoid or limit potential losses in UBS's 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 UBS's 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 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 UBS's 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 UBS's risk management and control framework, UBS could suffer further losses in the future if, for example:

- UBS does not fully identify the risks in UBS's portfolio, in particular risk concentrations and correlated risks;

- UBS's assessment of the risks identified or UBS's response to negative trends proves to be 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 UBS's 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 UBS's clients in UBS's asset and wealth management businesses. UBS's performance 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 (such as the property fund to which Wealth Management has exposure), UBS 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

Where possible, UBS marks its 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, UBS applies 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, UBS uses 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 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. 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 UBS's financial results.

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

UBS experienced substantial net outflows of client assets in UBS's 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 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 2012. Long-term changes affecting the cross-border private banking business model will, however, continue to affect client flows in UBS's 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 UBS's clients to do business with UBS or the viability of UBS's strategies and business model. In 2012, UBS experienced net withdrawals in UBS's 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 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 lowmargin products account for a larger share of UBS's revenues than in the past, put downward pressure on UBS's 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. UBS is also making changes to its business offerings and pricing practices in line with emerging industry trends favoring price transparency and recent legal and regulatory developments, including the Swiss Supreme CUBS'st case concerning “retrocessions”. There can be no assurance that UBS will be successful in UBS's 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 UBS's ongoing performance

The viability of UBS's business depends upon the availability of funding sources, and its success depends upon UBS's 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 wholesale and retail 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 recently 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 UBS's 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.

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.

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 UBS's 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 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 UBS's capability to detect and respond to the risks described above, if UBS's 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 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 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 UBS's 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, UBS's ability to conduct business may be adversely affected by a disruption in the infrastructure that supports UBS's 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 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, do not respond to them by devising and implementing adequate business strategies, adequately developing or updating UBS's 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 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. Reductions in the amount of variable compensation awarded for performance year 2012 have caused UBS's 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 UBS has made to the terms of compensation awards may place UBS 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 UBS has 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 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 UBS's strategy and to successfully improve UBS's operating and control environment.

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 also may affect UBS's regulatory capital and ratios. For example, in 2012 UBS adopted the revised international accounting standard IAS 19 Employee Benefits, which affected both UBS's financial position and UBS's 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 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 UBS's operating segments is tested for impairment at least annually. UBS's impairment test in respect of the assets recognized as of 31 December 2012 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 effects of taxes on UBS's financial results are significantly influenced by changes in UBS's deferred tax assets and final determinations on audits by tax authorities
The deferred tax assets UBS has recognized on its 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, UBS's effective tax rate will be highly sensitive both to UBS's 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 strong, particularly in the US, UK and Switzerland, UBS 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 UBS's performance in those countries is weaker than expected, UBS 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, UBS expects 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 UBS 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.

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 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, UBS changes its booking practices to reduce or eliminate UBS's 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 UBS's UK bank subsidiary, UBS Limited. UBS expects 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.”

Potential conflicts of interest

The Issuer and affiliated companies may participate in transactions related to the debt or derivative securities of the Issuer in some way, for their own account or for account of a client. Such transactions may not serve to benefit the Securityholders and may have a positive or negative effect on these securities and consequently on the value of the debt or derivative securities of the Issuer. Furthermore, companies affiliated with the Issuer may become counterparties in hedging transactions relating to obligations of the Issuer stemming from the debt or derivative securities of the Issuer. As a result, conflicts of interest can arise between companies affiliated with the Issuer, as well as between these companies and investors, in relation to obligations regarding the calculation of the price of the Securities and other associated determinations. In addition, the Issuer and its affiliates may act in other capacities with regard to the debt or derivative securities of the Issuer, such as calculation agent, paying agent and administrative agent and/or index sponsor.

Within the context of the offering and sale of the debt or derivative securities of the Issuer, the Issuer or any of its affiliates may directly or indirectly pay fees in varying amounts to third parties, such as distributors or investment advisors, or receive payment of fees in varying amounts, including those levied in association with the distribution of the debt or derivative securities of the Issuer, from third parties. Potential investors should be aware that the Issuer may retain fees in part or in full. The Issuer will, upon request, provide information on the amount of these fees.

IV. Information about UBS AG

UBS AG (UBS AG also "**Issuer**") with its subsidiaries (together with the Issuer, "**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 pre-eminent global wealth management businesses and its universal bank in Switzerland. These businesses, together with a client-focused Investment Bank and a strong, well-diversified Global Asset Management business, will enable UBS to expand its premier wealth management franchise and drive further growth across the Group. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centers.

On 31 March 2013 UBS's BIS Basel III common equity tier 1 capital ratio[1] was 15.3% on a phase-in basis and 10.1% on a fully applied basis, invested assets stood at CHF 2,373 billion, equity attributable to UBS shareholders was CHF 47,239 million and market capitalization was CHF 55,827 million. On the same date, UBS employed 61,782 people[2].

The rating agencies Standard & Poor's ("**Standard & Poor's**"), Fitch Ratings ("**Fitch**") and Moody's ("**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 (stable 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.

Moody's		**S&P**		**Fitch**		
Long-term	**Short-term**	**Long-term**	**Short-term**	**Long-term**	**Short-term**	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	Upper medium grade
A2		**A**		**A**		
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		Lower medium grade
Baa2	P-3	BBB	A-3	BBB	F3	
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		

1 The BIS Basel III common equity tier 1 capital ratio is the ratio of BIS Basel III common equity tier 1 capital to BIS Basel III risk-weighted assets. 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 capital instruments are phased out. For information as to how BIS Basel III common equity tier 1 capital is calculated, refer to the "Capital management" section of UBS's first quarter 2013 report.

2 Full-time equivalent

B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		
Caa1		CCC+	C	CCC	C	Substantial risks
Caa2		CCC				Extremely speculative
Caa3		CCC-				In default with little prospect for recovery
Ca		CC				
		C				
C		D	/	DDD	/	In default
/				DD		
/				D		

The rating from Fitch Ratings has been issued by Fitch Ratings Limited, and the rating from Standard & Poor's has been issued by Standard & Poor's Credit Market Services Europe Limited. Both are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011 (the "CRA Regulation"). The rating from Moody's has been issued by Moody's Investors Service, Inc., which 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.

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 CH-270.3.004.646-4.

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 of UBS AG ("**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, the Investment Bank, Global Asset Management and Retail & Corporate) 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 in the annual report 2012 of UBS AG as of 31 December 2012 published on 14 March 2013 in the English language (the "**Annual Report 2012**", attached to this Registration Document as Appendix 1), on pages 24-31 (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 2012, on pages 35-51 (inclusive).

Wealth Management
Wealth Management provides comprehensive financial services to wealthy private clients around the world - except to 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 own 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 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 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. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

Global Asset Management
Global Asset Management is, in its own opinion, 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 in 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.

Retail & Corporate
Retail & Corporate provides comprehensive financial products and services to retail, corporate and institutional clients in Switzerland and maintains, in its own opinion, 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 private clients to Wealth Management when client wealth increases.

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, which includes treasury services, funding, balance sheet and capital management. 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 and 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. Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses previously part of the Investment Bank and the Legacy Portfolio, including certain centrally managed positions such as the SNB StabFund option.

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:
Results as of and for the quarter ended 31 March 2013, as presented in UBS's first quarter report 2013 (including unaudited consolidated financial statements)

On 30 April 2013, UBS published its report for the first quarter of 2013. First-quarter 2013 net profit attributable to UBS shareholders was CHF 988 million compared with a loss of CHF 1,904 million in fourth quarter 2012. On an adjusted basis[3], excluding in the first quarter of 2013 an own credit loss of CHF 181 million, a net loss of CHF 92 million incurred on the buyback of debt in a public tender offer, a gain of CHF 34 million on the disposal of Global Asset Management's Canadian domestic business, a net gain of CHF 31 million on the sale of UBS's remaining proprietary trading business and net restructuring charges of CHF 246 million, and excluding in the fourth quarter of 2012 an own credit loss of CHF 414 million and net restructuring charges of CHF 258 million, the first quarter profit before tax was CHF 1,901 million compared with a loss before tax of CHF 1,165 million in the prior quarter. On a reported basis, profit before tax was CHF 1,447 million compared with a loss before tax of CHF 1,837 million in the prior quarter. Operating income increased by CHF 1,567 million, primarily due to higher net interest and trading income. Operating expenses declined by CHF 1,717 million, predominantly as a result of reduced net charges for provisions for litigation, regulatory and similar matters. In the first quarter, UBS recorded a tax expense of CHF 458 million compared with CHF 66 million in the prior quarter.

Wealth Management's profit before tax in the first quarter was CHF 664 million compared with CHF 398 million. Adjusted profit before tax was CHF 690 million compared with CHF 415 million in the prior quarter. The gross margin on invested assets increased 6 basis points to 91 basis points, mainly reflecting an upturn in transaction-based income. Operating expenses decreased to CHF 1,250 million from CHF 1,350 million, mainly due to seasonally lower general and administrative expenses. Net new money inflows of CHF 15.0 billion represented the highest quarterly net inflows since 2007. The cost/income ratio decreased to 64.9% from 77.3%. On an adjusted basis excluding restructuring charges of CHF 26 million compared with CHF 17 million in the previous quarter, the cost/income ratio improved 12.7 percentage points to 63.6% from 76.3%.

Wealth Management Americas profit before tax was USD 251 million compared with a profit before tax of USD 216 million in the prior quarter. It reported an adjusted quarterly profit before tax of USD 262 million in the first quarter of 2013 compared with an adjusted profit before tax of USD 219 million in the prior quarter. The improvement reflected a 3% decrease in operating expenses, mainly due to lower charges for provisions for litigation, regulatory and similar matters. Net new money continued to be strong and improved to USD 9.2 billion. In US dollar terms, the gross margin on invested assets decreased 4 basis points to 80 basis points. The gross margin from recurring income decreased 4 basis points due to lower mutual fund and annuity fee income, while the gross margin from non-recurring income remained unchanged from the prior quarter. The cost/income ratio decreased to 85.5% from 86.8% in the prior quarter. On an adjusted basis excluding restructuring charges, the cost/income ratio decreased to 84.9% from 86.6%.

The Investment Bank recorded a profit before tax of CHF 977 million in the first quarter of 2013 compared with a loss before tax of CHF 243 million in the fourth quarter of 2012. Adjusted profit before tax was CHF 928 million compared with a loss before tax of CHF 70 million. Return on attributed equity was 49.5%. Both Corporate Client Solutions and Investor Client Services reported higher revenues. Total operating expenses decreased 2% to CHF 1,806 million from CHF 1,847 million. On an adjusted basis, operating expenses increased 8% to CHF 1,800 million from CHF 1,674 million, mainly due to higher variable compensation accruals. Fully applied BIS Basel III risk-weighted assets increased by CHF 5 billion to CHF 69 billion as of 31 March 2013, compared with pro-forma CHF 64 billion as of 31 December 2012. Funded assets were CHF 193 billion as of 31 March 2013, unchanged from 31 December 2012. The cost/income ratio improved to 64.8% from 114.7%. On an adjusted basis, the cost/income ratio improved to 65.9% from 104.0%.

Global Asset Management's profit before tax in the first quarter of 2013 was CHF 190 million compared with CHF 148 million in the fourth quarter of 2012. Adjusted profit before tax was CHF 160 million compared with CHF 163 million. First quarter operating income included a gain of CHF 34 million from the disposal of the Canadian domestic business. Total operating expenses were CHF 327 million compared with CHF 343 million in the fourth quarter. Excluding money market flows, net new money inflows were CHF 5.1 billion compared with net outflows of CHF 3.8 billion in the prior quarter. The total gross margin was 35 basis points compared with

[3] In the remainder of this section "adjusted" figures exclude each of the adjustment items mentioned at UBS Group level, to the extent applicable at business division level. For information as to the impact of such adjustment items at business division level, refer to the "Group results" section of UBS's report for the first quarter of 2013.

34 basis points in the fourth quarter of 2012. Excluding the abovementioned gain on disposal, the gross margin was 33 basis points. The cost/income ratio was 63.2% compared with 69.9% in the fourth quarter. Adjusted for restructuring charges and the abovementioned gain on disposal, the cost/income ratio was 66.9%, compared with 66.8%.

Retail & Corporate's profit before tax was CHF 347 million in the first quarter of 2013 compared with CHF 361 million in the prior quarter. Adjusted for restructuring charges, profit before tax was unchanged at CHF 362 million as lower income was offset by lower operating expenses and credit loss expenses. Net new business volume growth was 4.7%, compared with 4.4%. Net new business volume growth was positive for both retail and corporate businesses as well as for net new client assets and to a lesser extent for loans. The net interest margin decreased 8 basis points to 154 basis points, reflecting lower net interest income and a slightly higher average loan volume. The cost/income ratio increased 2.2 percentage points to 62.2%, reflecting lower income. On an adjusted basis, excluding restructuring charges, the cost/income ratio increased to 60.6% from 59.9%.

Corporate Center – Core Functions recorded a loss before tax of CHF 719 million compared with a loss before tax of CHF 1,886 million in the previous quarter. On an adjusted basis, the loss before tax was CHF 398 million compared with a loss before tax of CHF 1,472 million. The first quarter included lower charges for provisions for litigation, regulatory and similar matters and an own credit loss of CHF 181 million compared with a loss of CHF 414 million in the fourth quarter of 2012. Treasury income remaining in Corporate Center – Core Functions after allocations to the business divisions was negative CHF 255 million compared with positive CHF 94 million in the prior quarter.

Corporate Center – Non-core and Legacy Portfolio recorded a loss before tax of CHF 245 million in the first quarter of 2013 compared with a loss before tax of CHF 816 million in the previous quarter. On an adjusted basis, the loss before tax was CHF 84 million compared with an adjusted loss before tax of CHF 765 million. This was mainly due to a positive debit valuation adjustment on the derivatives portfolio, lower charges for provisions for litigation, regulatory and similar matters, as well as a higher gain from the revaluation of the option to acquire the SNB StabFund's equity.

Balance sheet: As of 31 March 2013, UBS's balance sheet stood at CHF 1,214 billion, a decrease of CHF 46 billion from 31 December 2012. Funded assets, which represent total assets excluding positive replacement values, were reduced by CHF 9 billion to CHF 832 billion, primarily due to a reduction in trading portfolio assets, and to a lesser extent reduced financial investments available-for-sale and collateral trading activities, partially offset by an increase in lending assets. Excluding currency effects, funded assets were reduced by CHF 21 billion, mainly in Corporate Center – Non-core and Legacy Portfolio.

Capital management: The BIS Basel III framework came into effect in Switzerland on 1 January 2013. UBS's phase-in BIS Basel III common equity tier 1 (CET1) ratio was 15.3% as of 31 March 2013, unchanged from the end of the previous quarter. UBS's phase-in BIS Basel III CET1 capital increased slightly by CHF 0.2 billion to CHF 40.2 billion at the end of the first quarter of 2013. UBS's phase-in Basel III risk-weighted assets increased by CHF 0.7 billion to CHF 262.5 billion. On a fully applied basis, UBS's BIS Basel III CET 1 ratio increased 0.3 percentage points to 10.1% and the fully applied risk-weighted assets were CHF 258.7 billion.

Invested assets: Group invested assets stood at CHF 2,373 billion at the end of the first quarter, an increase of CHF 143 billion on the prior quarter. Of these, invested assets in Wealth Management increased by CHF 49 billion to CHF 870 billion, supported by positive market performance of CHF 24 billion, strong net new money inflows of CHF 15 billion and positive currency translation effects of CHF 10 billion. In Wealth Management Americas, invested assets increased by CHF 73 billion to CHF 845 billion. In US dollar terms, invested assets increased by USD 48 billion to USD 891 billion, reflecting positive market performance of USD 39 billion and continued strong net new money inflows of USD 9 billion. Global Asset Management's invested assets increased by CHF 18 billion to CHF 599 billion, mainly as a result of positive market movements of CHF 19 billion and positive currency translation effects of CHF 10 billion, partially offset by the disposal of the Canadian domestic business, which reduced invested assets by CHF 7 billion, and net new money outflows of CHF 3 billion.

VI. Organisational Structure of the Issuer

UBS AG is the parent company of the UBS Group. The objective of the UBS's group structure is to support the business activities of the parent company within an efficient legal, tax, regulatory and funding framework.

None of the individual business divisions of UBS or the Corporate Center are legally independent entities; instead, they primarily perform their activities through the domestic and foreign offices of the parent bank.

In cases where it is impossible or inefficient to operate via the parent bank, due to local legal, tax or regulatory provisions, or where additional legal entities join the Group through acquisition, the business is operated on location by legally independent Group companies. UBS AG's significant subsidiaries as of 31 December 2012 are listed in its annual report as of 31 December 2012 published on 14 March 2013 (the "**Annual Report 2012**"), on pages 441-442 (inclusive) of the English version. UBS AG's significant subsidiaries as of 31 December 2011 are listed in its Annual Report 2011, on pages 394-397 (inclusive).

VII. Trend Information

Outlook

(Outlook statement as presented in UBS's first quarter 2013 report, including unaudited consolidated financial statements, issued on 30 April 2013)

While market participants showed renewed interest early in the first quarter, events in Europe served as a reminder that many of the underlying challenges related to structural issues remain unsolved. The absence of further sustained and credible improvements to the eurozone sovereign debt situation, European banking system issues, ongoing geopolitical risks, and the outlook for growth in the global economy together with an increasing focus on unresolved US fiscal issues would continue to exert a strong influence on client confidence, and thus activity levels, in the second quarter of 2013. It would make further improvements in prevailing market conditions unlikely and would consequently generate headwinds for revenue growth, net interest margins and net new money. Nevertheless, UBS remains confident that its asset-gathering businesses as a whole will continue to attract net new money, reflecting its clients' steadfast trust in the firm. UBS is confident that the actions it has taken will ensure the firm's long-term success and will deliver sustainable returns for its shareholders going forward.

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. This structure establishes checks and balances and preserves the institutional independence of the Board of Directors ("**BoD**") from the day-to-day management of the firm, for which responsibility is delegated to the Group Executive Board ("**GEB**") under the leadership of the Group Chief Executive Officer ("**Group CEO**"). 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. The supervision and control of the GEB remains with the BoD. No member of one board may be a member of the other.

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-8098, Zurich	Chairman	2014	Member of the Group of Thirty, Washington, D.C.; research fellow at the Center for Economic Policy Research, London, and the Center for Financial Research, Cologne; member of the board of the Institute of International Finance and senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the Monetary Economics and International Economics Councils of the *Verein für Socialpolitik*; member of the Advisory Board of the German Market Economy Foundation; member of the Advisory Council of the Goethe University, Frankfurt/Main.
Michel Demaré UBS AG, Bahnhofstrasse 45, CH-8098, Zurich	Independent Vice Chairman	2014	Chairman of the board of Syngenta, a member of the IMD Foundation, Lausanne, and of SwissHoldings, Berne.
David Sidwell UBS AG, Bahnhofstrasse 45, CH-8098, Zurich	Senior Independent Director	2014	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, Mergenthalerallee 61, D-65760 Eschborn	Member	2014	CEO of Deutsche Börse AG (holding different mandates in boards of subsidiaries within the Deutsche Börse Group); professor at the University of Basel. Member of the Shanghai International Financial Advisory Committee; member of the Advisory Board of the Moscow International Financial Center (MIFIC); member of the Advisory Board of Instituto de Empresa; member of the Strategic Advisory Group of VHV Insurance; member of the Board of Trustees of the Goethe Business School; Vice President of the *Deutsches Aktieninstitut*
Rainer-Marc Frey Office of Rainer-Marc Frey, Seeweg 39, CH-8807 Freienbach	Member	2014	Founder of Horizon21 AG; Chairman of Horizon21 AG, its holding company and related entities and subsidiaries; member of the board of DKSH Group, Zurich, and of the Frey Charitable Foundation, Freienbach.
Ann F. Godbehere UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Member	2014	Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc, Rio Tinto Limited, Atrium Underwriters Ltd., and Atrium Underwriting Group Ltd., 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	2014	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; member of the Chief Risk Officer Forum; member of the board of Economiesuisse.
Helmut Panke BMW AG, Petuelring 130, D-80788 Munich	Member	2014	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	2014	Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; 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.
Isabelle Romy Froriep Renggli, Bellerivestrasse 201, CH-8034 Zurich	Member	2014	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	2014	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; member of the Supervisory Board of ThyssenKrupp AG, Essen, and of Robert Bosch GmbH, Stuttgart.
Joseph Yam UBS AG, Bahnhofstrasse 45, CH-8098, Zurich	Member	2014	Executive Vice President of the China Society for Finance and Banking; member of the international advisory councils of a number of government and academic institutions. Board member and Chairperson of the Risk Committee of China Construction Bank. 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 a Special Committee in connection with the unauthorized trading incident announced in September 2011, as well as, in 2012, an ad-hoc committee on strategy to discuss details of the acceleration of UBS's strategy with the senior management.

Audit Committee

The Audit Committee ("**AC**") comprises 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: (i) the Group's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) the Group's compliance with financial reporting requirements, (iv) 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 Chief Executive Officer ("**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.

The business address of the members of the GEB is UBS AG, Bahnhofstrasse 45, CH-8001 Zurich.

Members of the Group Executive Board

Sergio P. Ermotti	Group Chief Executive Officer
Markus U. Diethelm	Group General Counsel
John A. Fraser	Chairman and Chief Executive Officer Global Asset Management
Lukas Gähwiler	Chief Executive Officer UBS Switzerland, Chief Executive Officer Retail & Corporate
Ulrich Körner	Group Chief Operating Officer, Chief Executive Officer UBS Group EMEA
Philip J. Lofts	Group Chief Risk Officer
Robert J. McCann	Chief Executive Officer Wealth Management Americas, Chief Executive Officer UBS Group Americas
Tom Naratil	Group Chief Financial Officer
Andrea Orcel	Chief Executive Officer Investment Bank
Chi-Won Yoon	Chief Executive Officer UBS Group Asia Pacific
Jürg Zeltner	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 positions outside UBS AG (if any) 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 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 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 thresholds: 3, 5, 10, 15, 20, 25, 33 1/3, 50, or 66 2/3% of the voting rights, whether they are exercisable or not.

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:

- 30 September 2011: Norges Bank (the Central Bank of Norway), 3.04%;
- 12 March 2010: Government of Singapore Investment Corp., 6.45%;

- 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 2013, 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 (11.57%); Government of Singapore Investment Corp., Singapore (6.40%); the US securities clearing organization DTC (Cede & Co.) New York, "The Depository Trust Company" (5.40%); and Nortrust Nominees Ltd., London (4.02%).

UBS holds UBS AG shares primarily to hedge employee share and option participation plans. A smaller number is held by the Investment Bank for hedging related derivatives and for market-making in UBS AG shares. As of 31 March 2013, UBS held a stake of UBS AG's shares, which corresponded to less than 3.00% of UBS AG's total share capital. As of 31 December 2012, UBS had disposal positions relating to 422,236,769 voting rights, 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 year-end disposal positions also included the number of shares that may be issued, upon certain conditions, out of conditional capital to the Swiss National Bank ("**SNB**") in connection with the transfer of certain illiquid securities and other positions to a fund owned and controlled by the SNB.

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 2012 can be found in the Annual Report 2012, on pages 225-227 (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 2011 is available in the financial information section of the annual report of UBS AG as of 31 December 2011 in the English language ("**Annual Report 2011**", attached to this Registration Document as Appendix 2), and for financial year 2012 in the financial information section of the Annual Report 2012. The Issuer’s financial year is the calendar year.

Historical Financial Information

With respect to the financial year 2011, reference is made to the following parts of the Annual Report 2011 (within the Financial information section, English version):

1. the Consolidated Financial Statements of UBS Group, in particular to the Income Statement on page 289, the Balance Sheet on page 291, the Statement of Cash Flows on pages 295-296 (inclusive) and the Notes to the Consolidated Financial Statements on pages 297-410 (inclusive); and

2. the Financial Statements of UBS AG (Parent Bank), in particular to the Income Statement on page 414, the Balance Sheet on page 415, the Statement of Appropriation of Retained Earnings on page 416, the Notes to the Parent Bank Financial Statements on pages 417-434 (inclusive) and the Parent Bank Review on pages 411-413 (inclusive); and

3. the section entitled "Introduction and accounting principles" on page 282.

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.

The annual financial reports form an essential part of UBS'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 Federal Banking Law. 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 2011 and 2012 were audited by Ernst & Young. The reports of the auditors on the consolidated financial statements can be found on pages 287-288 (inclusive) of the Annual Report 2011 (Financial information section, English version) and on pages 321-322 (inclusive) of the Annual Report 2012 (Financial information section, English version). The reports of the auditors on the financial statements of UBS AG (Parent Bank) can be found on pages 435-436 (inclusive) of the Annual Report 2011 (Financial information section, English version) and on pages 483-484 (inclusive) of the Annual Report 2012 (Financial information section, English version).

Interim Financial Information
Reference is also made to UBS's first quarter 2013 report, 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 2013. 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.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 17a) to the unaudited consolidated financial statements of UBS's first quarter 2013 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.

Provisions for litigation, regulatory and similar matters by segment (unaudited)*

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	CC – Core Functions	CC – Non-core and Legacy Portfolio	**Total**
Balance as of 31 December 2012	130	170	28	7	29	338	732	**1,432**
Additions from acquired companies			8					**8**
Increase in provisions recognized in the income statement	8	12	1	0	0	27	346	**395**
Release of provisions recognized in the income statement	(4)	(6)	(2)	0	(1)	0	0	**(13)**
Provisions used in conformity with designated purpose	(19)	(11)	(0)		(2)	(0)	(30)	**(62)**
Foreign currency translation / unwind of discount	0	6	1	0	0	5	26	**38**
Balance as of 31 March 2013	114	172	35	7	26	370	1,074	**1,797**

* Source: UBS's first quarter 2013 report

1. 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.

2. 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". UBS has also received inquiries from German authorities concerning certain matters relating to its 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.

3. 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 transactions 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. In April 2013, the trial court dismissed with prejudice one of these suits in which plaintiffs claimed losses of at least USD 331 million.

UBS's balance sheet at 31 March 2013 reflected a provision with respect to matters described in this item 3 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.

4. 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's petition to appeal that ruling was denied by the Second Circuit and discovery has commenced. 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.

5. 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 has been named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits. These suits relate 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. A settlement announced in April 2013 by a third-party issuer could, upon court approval and finalization, reduce the original face amount of RMBS at issue in these cases from USD 44 billion to USD 21 billion, and the original face amount of RMBS at issue in cases involving third-party issuers from USD 33 billion to USD 10 billion. UBS cannot make any assurance that this third-party issuer settlement, to which UBS is not required or expected to make a financial contribution, will receive court approval and be finalized.

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 least USD 1.2 billion plus interest. The court denied UBS's motion to dismiss in May 2012. In April 2013, the court's decision with respect to two legal issues that were the subject of UBS's motion to dismiss was affirmed on appeal by the US Court of Appeals for the Second Circuit. 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, 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, 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 below summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 23 April 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.

Loan repurchase demands by year received – original principal balance of loans (unaudited) [1,*]

USD million	2006-2008	2009	2010	2011	2012	through 23 April 2013	**Total**
Resolved demands							
Actual or agreed loan repurchases / make whole payments by UBS	12	1	0				**13**
Demands rescinded by counterparty	110	100	19	8			**238**
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	142	1	**267**
Demands in dispute							
Demands in litigation			346	732	1,041		**2,118**
Demands in review by UBS		2	0	9	12	6	**29**
Demands rebutted by UBS but not yet rescinded by counterparty		3	2	290	244		**539**
Total	**123**	**205**	**368**	**1,084**	**1,438**	**7**	**3,225**

[1] Loans submitted by multiple counterparties are counted only once.
* Source: UBS's first quarter 2013 report

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 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 February 2012, Assured 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) UBS 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.

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 below, UBS's balance sheet at 31 March 2013 reflected a provision of USD 962 million with respect to matters described in this item 5. 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.

Provision for claims related to sales of residential mortgage-backed securities and mortgages (unaudited)*

USD million	
Balance as of 31 December 2012	**658**
Increase in provision recognized in the income statement	311
Release of provision recognized in the income statement	0
Provision used in conformity with designated purpose	(7)
Balance as of 31 March 2013	**962**

* Source: UBS's first quarter 2013 report

6. 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 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.

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 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. UBS's motion to dismiss the complaint is pending.

7. 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.

8. 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 December 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.

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 (the latter settlement is conditional upon Lazio making certain amendments to its pleading in ongoing litigation against third parties). An in-principle agreement has also been reached with the City of Florence and is expected to be formalized shortly. Provisions have been booked in respect of these agreed or prospective settlements.

9. 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.

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.

Since 2011, the SEC has been conducting an investigation concerning the KWL transactions and UBS is cooperating with the SEC.

10. 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 three billion dollars 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 on the grounds that plaintiffs did not have standing to bring the claim. 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 May 2012.

11. 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 its 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 27 June 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). 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. 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, 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 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 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, federal and state antitrust laws and the federal racketeering statute. 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. Plaintiffs will have the opportunity to replead certain claims that have been dismissed.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 31 March 2013 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 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.

12. Swiss retrocessions

The Swiss Supreme Court ruled in October 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.

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 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 2013 reflected a provision with respect to matters described in this item 12 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 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.

13. 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 1.3 billion (increased from the previously disclosed estimate due to interest calculations and currency movements), 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. 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.

14. 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. On March 26, 2013, the court denied UBS's motion for summary judgment seeking dismissal of all claims against UBS. The case went to trial in April 2013, and the jury returned a unanimous verdict in UBS's favor on all claims.

Besides the proceedings specified above under (1) through (14) no governmental, legal or arbitration proceedings, which may significantly affect 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 material change in the financial or trading position of UBS Group or of UBS AG since the reporting date of UBS's first quarter 2013 report (including unaudited consolidated financial statements) for the period ended on 31 March 2013.

There has been no material adverse change in the prospects of UBS AG since 31 December 2012.

XIII. Material Contracts

No material agreements have been concluded outside of the normal course of business which could lead to UBS being subjected to an obligation or obtaining a right, which would be of key significance to the Issuer'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 2011, 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 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"); and

- UBS's report for the quarter ended 31 March 2013 (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 1 – First Quarterly Report as of 31 March 2013
(original pagination)

UBS

Our financial results for the *first* quarter of 2013.

Dear shareholders,

We are pleased to report that for the first quarter of 2013 we generated a net profit attributable to UBS shareholders of CHF 988 million and diluted earnings per share of CHF 0.26.

Markets were buoyant at the start of the year, reflecting in particular positive developments in the US, leading to a sharp rise in client activity compared with the fourth quarter. This was later tempered by developments in Europe, which underlined the continued risks related to the debt crisis. Client confidence mirrored developments in the markets, underscoring the fragility of investor sentiment.

For the first quarter, we recorded an adjusted[1] profit before tax of CHF 1.9 billion. All of our businesses delivered strong results, driven by a CHF 1.4 billion increase in revenues, mostly in trading income, and a CHF 1.7 billion reduction in operating expenses, almost entirely due to lower litigation expenses. We attracted significant net new money inflows across the Group, with combined inflows in our wealth management businesses reaching almost CHF 24 billion. The results underline our employees' relentless focus, even in the midst of significant change, as well as the continued loyalty of our clients. We would like to thank both our clients and our employees for their strong commitment to UBS.

Our industry-leading capital position continued to be a unique competitive advantage for the bank. At the end of the first quarter, our fully applied BIS Basel III common equity tier 1 ratio[2] was 10.1%, surpassing the Swiss SRB Basel III common equity tier 1 ratio minimum for systemically relevant banks six years ahead of schedule. Our phase-in BIS Basel III common equity tier 1 ratio remained unchanged at 15.3%. At the same time, we reduced our balance sheet by a further CHF 46 billion. Overall, risk-weighted assets (RWA) were stable. We deployed more resources in the Investment Bank on the back of stronger client activity, resulting in a moderate RWA increase that was offset by the progress we made reducing risk-weighted assets within Corporate Center – Non-core and Legacy Portfolio. Our liquidity and funding positions remain strong and are comfortably above the minimum requirements of our regulator.

Looking at our businesses in more detail, **Wealth Management** recorded the highest quarterly inflows of net new money since 2007, and the highest quarterly profit since 2009. On an adjusted basis[1], profit before tax in Wealth Management was CHF 690 million driven by a 10% increase in income reflecting an improvement in trading activity globally, predominantly in Asia Pacific. Net new money inflows reached CHF 15.0 billion with growth in all regions and several large inflows benefiting our performance. Net new money growth in Asia Pacific and the emerging markets and from ultra-high net worth clients globally accelerated. In Europe, net inflows into our onshore businesses more than outweighed outflows from offshore businesses. The business division's net new money growth rate increased to 7.3%, significantly above the target range. Gross margins rose by 6 basis points to 91 basis points. Although this remains outside our gross margin target range, our performance at the beginning of the quarter underlines the relevance of this target range, which we continue to view as appropriate on a multi-year rather than multi-quarter basis. Expenses declined mostly on seasonally lower general and administrative costs. Together with the increase in income, this led to an adjusted[1] cost/income ratio well within the target for Wealth Management.

Wealth Management Americas continued to build momentum. The business achieved a new record with an adjusted[1] profit before tax of USD 262 million, and once again attracted excellent net new money inflows. Net new money inflows increased to USD 9.2 billion driven by new recruits and collaboration efforts with our Global Family Office unit. Experienced advisor attrition rates remained at historically low levels. Operating income decreased slightly as higher transaction-based income and lower credit-loss expenses were offset by reduced mutual fund and annuity fee income and lower realized gains from the available-for-sale portfolio. However, the result benefited from a decrease in operating expenses due to lower litigation costs. The business continued to perform well against its gross margin, cost/income and net new money growth targets.

Our **Retail & Corporate** business recorded another resilient performance. On an adjusted basis[1], profit before tax remained stable at CHF 362 million despite continued interest rate margin pressure. Revenues were down as lower net interest income and net fee and commission income were only partly offset by lower credit loss expenses. The business recorded strong net new business volume growth of 4.7%, above its target range and a further sign that we are growing our market share in Switzerland. We recorded strong inflows from both retail and corporate clients.

1 Unless otherwise indicated, "adjusted" figures exclude each of the following items, to the extent applicable, on a Group and business division level: own credit loss on financial liabilities designated at fair value for the Group of CHF 181 million in 1Q13 (CHF 414 million loss in 4Q12), net restructuring charges of CHF 246 million for the Group in 1Q13 (net charge of CHF 258 million in 4Q12), a gain of CHF 34 million on the disposal of Global Asset Management's Canadian domestic business, a gain on the sale of the remaining proprietary trading business in the Investment Bank of CHF 55 million and an associated foreign currency translation loss of CHF 24 million in Corporate Center – Core Functions in 1Q13, a net loss of CHF 92 million related to the buyback of debt in a public tender offer for the Group, and a credit to personnel expenses related to changes to UBS's Swiss pension plan (CHF 730 million for the Group in 1Q12). 2 BIS Basel III common equity tier 1 (CET1) ratio equals Swiss SRB Basel III CET1 ratio for systemically relevant banks.

The business's cost/income ratio rose slightly above its target range, but it remained within the range for its net interest margin.

Global Asset Management continued to deliver for its clients, with a solid adjusted[1] profit before tax of CHF 160 million and good cost control. On a reported basis, profit before tax was CHF 190 million, which included a gain on the disposal of the Canadian domestic business. Excluding this gain, net management fees were slightly lower while performance fees were higher reflecting increases in traditional investments, notably equities. The business remains focused on growing long-term assets and attracted net new money inflows of over CHF 5 billion in the quarter, excluding money market flows. We were pleased to see our wealth management clients contributing to these inflows during the quarter. Money market flows are by nature short-term and volatile, and the net outflows we saw during the quarter were in line with industry trends. Despite the business remaining outside its net new money target range, the aggregate flows we saw in the quarter will be accretive to future earnings. The business's gross margin and cost/income ratio both remained within target ranges.

The **Investment Bank** reported a particularly strong quarter. The business delivered a profit before tax of CHF 977 million while deploying significantly fewer risk-weighted assets than a year ago and remained below its CHF 70 billion risk-weighted asset target. The business also achieved a return on attributed equity of almost 50%. While conditions at the start of the year traditionally benefit the industry, the result shows clearly that our Investment Bank's focused business model works. Revenues were up significantly across many businesses. The result underlines the market share gains we made in a number of our core businesses in 2012, with industry surveys highlighting our success in our leading equities and our foreign exchange businesses. We saw a particularly strong performance in equity capital markets, higher growth in our equities business, particularly in derivatives, and a strong performance in our foreign exchange business. Our rates and credit businesses prudently allocated resources to client flow business and delivered a very good result. Costs overall rose on improved performance, but good operating expense management drove the business's adjusted[1] cost/income ratio to well within its target range.

Corporate Center – Core Functions recorded an adjusted[1] loss before tax of CHF 398 million compared with a loss before tax of CHF 1,472 million in the prior quarter, primarily reflecting reduced litigation charges. In **Non-core and Legacy Portfolio,** we recorded an adjusted[1] loss before tax of CHF 84 million compared with an adjusted loss before tax of CHF 765 million in the prior quarter. In the quarter, we recorded a higher gain from the revaluation of our option to acquire the SNB StabFund's equity and increased revenues from our Non-core portfolio together with decreased litigation expenses. We also made steady progress reducing risk-weighted assets by CHF 8 billion and balance sheet assets by CHF 46 billion, both at minimal cost.

Maintaining strict cost discipline and a focus on effectiveness are prerequisites for our future success. In the first quarter, we continued to streamline front-to-back processes and our organizational structure leading to operational improvements and the headcount reductions for which we planned. We remain committed to reducing costs in a disciplined and focused manner over the short- to medium term as well as fundamentally transforming our operating model to leverage long-term effectiveness and efficiency gains.

During the quarter, the firm continued to support the arts through culturally enriching programs for our clients, employees and the public. There were two notable events in this regard in the first quarter. In February, the firm supported the inaugural exhibition in New York of the Guggenheim UBS MAP project which showcases art from emerging market regions. The program is an ideal fit as it reflects the firm's and our clients' interests in the art world as well as our established and growing businesses in emerging markets. We are also sponsoring a major exhibition in Switzerland featuring the well-known terracotta army of Qin, the first Chinese emperor. The exhibition will run until November and provides a fascinating glimpse into China's rich history.

Outlook – While market participants showed renewed interest early in the first quarter, events in Europe served as a reminder that many of the underlying challenges related to structural issues remain unsolved. The absence of further sustained and credible improvements to the eurozone sovereign debt situation, European banking system issues, ongoing geopolitical risks, and the outlook for growth in the global economy together with an increasing focus on unresolved US fiscal issues would continue to exert a strong influence on client confidence, and thus activity levels, in the second quarter of 2013. It would make further improvements in prevailing market conditions unlikely and would consequently generate headwinds for revenue growth, net interest margins and net new money. Nevertheless, we remain confident that our asset-gathering businesses as a whole will continue to attract net new money, reflecting our clients' steadfast trust in the firm. We are confident that the actions we have taken will ensure the firm's long-term success and will deliver sustainable returns for our shareholders going forward.

Yours sincerely,

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

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	**31.3.13**	31.12.12	31.3.12
Group results			
Operating income	**7,775**	6,208	6,523
Operating expenses	**6,327**	8,044	4,956
Operating profit / (loss) before tax	**1,447**	(1,837)	1,567
Net profit / (loss) attributable to UBS shareholders	**988**	(1,904)	1,035
Diluted earnings per share (CHF)[1]	**0.26**	(0.51)	0.27
Key performance indicators[2], balance sheet and capital management, and additional information			
Performance			
Return on equity (RoE) (%)	**8.5**	(5.1)	8.5
Return on tangible equity (%)[3]	**10.1**	1.6	10.8
Return on risk-weighted assets, gross (%)[4]	**11.9**	12.0	11.5
Return on assets, gross (%)	**2.5**	1.9	1.9
Growth			
Net profit growth (%)[5]	**N/A**	N/A	220.4
Net new money growth (%)[6]	**3.7**	1.2	0.6
Efficiency			
Cost / income ratio (%)	**81.2**	129.1	76.4
Capital strength			
BIS Basel III common equity tier 1 capital ratio (%, phase-in)[7]	**15.3**	15.3	
BIS Basel III common equity tier 1 capital ratio (%, fully applied)[7]	**10.1**	9.8	
Swiss SRB leverage ratio (%)[7, 8]	**3.8**	3.6	
Balance sheet and capital management			
Total assets	**1,213,844**	1,259,797	1,364,036
Equity attributable to UBS shareholders	**47,239**	45,949	48,792
Total book value per share (CHF)	**12.57**	12.26	12.92
Tangible book value per share (CHF)	**10.79**	10.54	10.45
BIS Basel III common equity tier 1 capital (phase-in)[7]	**40,235**	40,032	
BIS Basel III common equity tier 1 capital (fully applied)[7]	**26,176**	25,182	
BIS Basel III risk-weighted assets (phase-in)[7]	**262,454**	261,800	
BIS Basel III risk-weighted assets (fully applied)[7]	**258,701**	258,113	
BIS Basel III total capital ratio (%) (phase-in)[7]	**18.9**	18.9	
BIS Basel III total capital ratio (%) (fully applied)[7]	**11.8**	11.4	
Additional information			
Invested assets (CHF billion)[9]	**2,373**	2,230	2,115
Personnel (full-time equivalents)	**61,782**	62,628	64,243
Market capitalization[10]	**55,827**	54,729	48,488

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 our Annual Report 2012. 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 BIS Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 for 2012. 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 BIS Basel III numbers for 31 December 2012 are on a pro-forma basis. Refer to the "Capital management" section of this report for more information. 8 Formerly referred to as FINMA Basel III leverage ratio. SRB: systemically relevant banks. 9 Group invested assets includes invested assets for Retail & Corporate. 10 Refer to the appendix "UBS shares" of this report for more information.

Corporate calendar

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

Publication of the fourth quarter 2013 report
Tuesday, 4 February 2014

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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 62,000 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

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

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 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 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. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

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 both traditional investment funds and alternative funds.

Retail & Corporate

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 when client wealth increases.

Corporate Center

The Corporate Center provides control functions for the business divisions and the Group in such areas as risk control and legal and compliance, as well as finance, which includes treasury services, funding, balance sheet and capital management. 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 and 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. Corporate Center – Non-core and Legacy Portfolio comprises the non-core businesses previously part of the Investment Bank and the Legacy Portfolio, including certain centrally managed positions such as the SNB StabFund option.

UBS Group

Management report

Recent developments

Financial reporting structure changes relating to the Investment Bank and the Corporate Center

In October 2012, we announced a significant acceleration in the implementation of our strategy presented in November 2011.

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. From the first quarter of 2013, these non-core activities and positions formerly in the Investment Bank have been 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, these non-core activities and positions are reported as a separate reportable segment within the Corporate Center called "Non-core and Legacy Portfolio".

The vast majority of the transfers from the Investment Bank to Non-core and Legacy Portfolio were effective from 1 January 2013, but we have since made – and may make in the future – further, limited transfers of business activities between the Investment Bank and Non-core and Legacy Portfolio. We have and may also in the future refine the allocation methodologies for certain charges, balance sheet, profit and loss, off balance sheet and risk-weighted assets items.

From the first quarter of 2013, the Investment Bank has been reorganized into two business units, Corporate Client Solutions and Investor Client Services.

Corporate Client Solutions comprises all advisory and financing solutions businesses, origination, structuring and execution, including equity and debt capital markets supporting corporate, financial institution and financial sponsor clients, and risk management which reflects the performance of the corporate lending business, offset by associated charges (risk management premiums) for hedging the related exposure.

Investor Client Services comprises execution, distribution and trading for institutional investors and provides support to Corporate Client Solutions and our wealth management businesses. It includes our equities business, which incorporates our prime brokerage business and research, our foreign exchange business, including precious metals, and our rates and credit business. The Investor Client Services unit also provides distribution and risk management capabilities required to support all of our Investment Bank's businesses.

In addition, the repo 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 the first quarter of 2013. Following this transfer, the Asset Liability Management unit oversees all financing, portfolio, and structural risk management activities for the Group. With effect from the first quarter of 2013, 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 periods have been restated to reflect the abovementioned changes to our financial reporting structure. This restated information is not representative of the way the business was managed during the period in question and as such is an estimate of its performance. Amounts have been determined reflecting a number of assumptions and allocations in order to achieve comparability with how the business will be managed going forward. As a result of these changes, as of 31 December 2012, assets in the Investment Bank decreased by CHF 411 billion, assets in Core Functions increased by CHF 21 billion and assets in Non-core and Legacy Portfolio increased by CHF 391 billion.

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.

As a result, related allocations of personnel increased by 250 in Wealth Management and 150 in Wealth Management Americas, while decreasing by approximately 650 in the Investment Bank, 500 in Retail & Corporate and 400 in Corporate Center – Non-core and Legacy Portfolio and remaining broadly unchanged in Global Asset Management. In addition, personnel in Corporate Center – Core Functions increased by approximately 600, primarily due to the ongoing refinement of the cost allocation keys for the business divisions and Non-core and Legacy Portfolio following the accelerated implementation of our strategy, particularly the changes affecting our Investment Bank. Before allocations, the Corporate Center personnel decreased by approximately 550 during the first quarter of 2013.

Significant accounting changes

IFRS 10 *Consolidated Financial Statements*

Effective 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. On 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 subordinated notes issued to these entities instead of the preferred securities which were previously presented as equity attributable to non-controlling interests. Except for one subordinated note issuance of CHF 1.2 billion, which is classified as a liability, UBS presents the subordinated notes as equity attributable to preferred note holders. Accordingly, as of 31 December 2012, the Group's equity attributable to non-controlling interests decreased by CHF 4.3 billion; equity attributable to preferred note holders increased by CHF 3.1 billion and debt issued held at amortized cost increased by CHF 1.2 billion. Similarly, for 2012, net profit attributable to non-controlling interests decreased by CHF 271 million and net profit attributable to preferred note holders increased by CHF 220 million. The implementation of IFRS 10 did not have a material effect on our regulatory capital.

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 and introduces new and enhanced disclosure requirements.

IFRS 7 *Financial Instruments: Disclosures*

On 1 January 2013, UBS adopted revisions to IFRS 7 *Financial Instruments: Disclosures,* requiring the disclosure of new information in respect of an entity's use of enforceable netting arrangements.

➔ **Refer to "Note 1 Basis of accounting" in the "Financial information" section of this report for more information on the effect of adopting these accounting standards**

Attributed equity

With effect from 1 January 2013, attributed equity required to support remaining goodwill and intangible assets that arose from the PaineWebber acquisition has been transferred from the business divisions to the Corporate Center. Net charges associated with this attributed equity are retained in Corporate Center – Core Functions.

Changes to key performance indicators in 2013

In the first quarter of 2013, we replaced "BIS tier 1 ratio (%)" and "FINMA leverage ratio (%)" at Group level with "BIS Basel III common equity tier 1 capital ratio (%)" and "Swiss SRB (systemically relevant banks) leverage ratio (%)" respectively, to align our KPI framework to the new Basel III requirements.

"BIS Basel III common equity tier 1 capital ratio (%)" is 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 2014 to 2018, during which new capital deductions are phased in. Furthermore, Basel 2.5 hybrid tier 1 capital instruments will be phased out between 2013 and 2022. "Swiss SRB leverage ratio (%)" considers total Swiss SRB Basel III capital, which includes Swiss SRB Basel III common equity tier 1 capital on a phase-in basis and Swiss SRB Basel III 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.

➔ **For the definition of our key performance indicators, refer to the "Measurement and performance" section of our Annual Report 2012**

Regulatory developments

BIS Basel III and Swiss systemically relevant banks (SRB) rules come into effect in Switzerland

The Basel III global regulatory rules were introduced by the Basel Committee on Banking Supervision in the years 2010 and 2011, mainly in response to the 2007 to 2009 financial crisis. In Switzerland, the BIS Basel III framework came into effect on 1 January 2013. These requirements are being phased in and will become fully effective on 1 January 2019. Furthermore, Basel 2.5 hybrid tier 1 and tier 2 capital instruments will be phased out between 2013 and 2022.

In addition to being required to comply with the BIS Basel III rules, as implemented by the revised Swiss Capital Adequacy Ordinance issued by the Swiss Federal Council and required by FINMA regulation, systemically relevant banks (SRB) in Switzerland (currently UBS and Credit Suisse) are additionally required to comply with Swiss SRB-specific rules.

The Swiss SRB minimum leverage ratio for systemically relevant banks in Switzerland (formerly referred to as "FINMA Basel III leverage ratio") also came into force on 1 January 2013.

➔ **Refer to the "Capital management" section of this report for more information on the new capital requirements**

Swiss Federal Council proposes stricter legislation on money laundering and tax evasion

At the end of February 2013, the Swiss Federal Council proposed two legislative changes to combat money laundering and to prevent tax evasion, with a consultation period for both the public and private sector that runs until mid-June 2013.

The first draft bill is aimed primarily at translating the Financial Action Task Force's (FATF) anti-money laundering recommendations into national legislation. While Switzerland's anti-money laundering regulations are already largely compatible with the new FATF standards, certain amendments are needed, including the introduction of a new predicate offence of money laundering in the form of qualified tax fraud in the area of direct taxation as well as the extension of the existing predicate offence in the area of indirect taxation.

The second draft bill, representing a key element of Switzerland's financial integrity strategy (Weissgeldstrategie), would introduce extended due diligence requirements to prevent untaxed assets from being accepted by financial intermediaries in Switzerland. The Federal Council refrained from proposing that financial intermediaries must obtain self-declarations from all clients, instead proposing that financial intermediaries apply a risk-based assessment when accepting new assets. Should certain criteria, as outlined in the new law, indicate an increased risk that assets are untaxed, the financial intermediary must perform a deeper examination and, if there is a basis for reasonable suspicion that the client is not tax-compliant, reject assets and decline or terminate the business relationship.

Given the early stages of the legislative process, an assessment of the potential consequences for UBS is not currently possible.

The European Commission issues a proposal for an enhanced cooperation financial transaction tax

In the European Union (EU), 11 member states have committed to implementing a financial transaction tax by 1 January 2014 via an "enhanced cooperation" procedure. The European Commission issued in February a proposal, which is currently under scrutiny by the Council. 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 nature will affect financial institutions and transactions in all 27 EU member states and beyond. The proposed tax would apply to a wide range of financial transactions and the draft sets minimum rates of 0.1% (securities) and 0.01% (derivatives) applicable to both parties of a transaction. The final rates that will be implemented in each of the participating countries can, however, differ. Based on the current proposal, UBS would be affected by the scope of 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.

Political agreement reached on the Capital Requirements Directive

In the European Union, political agreement was reached on the Capital Requirements Directive (CRD IV), which aims to implement Basel III requirements for the EU member states. The final version contains a number of differences from the Basel III requirements. These include differences in capital treatment for several types of exposures, the inclusion of several exemptions from capital charges related to Credit Valuation Adjustments (CVA) and the proposed early implementation of the Liquidity Coverage Ratio (LCR). Remuneration is not a topic included in Basel III but has received significant attention in CRD IV, which introduces a cap on the ratio of variable to fixed remuneration and, for specified proportions of variable remuneration, requires these amounts to be paid in non-cash instruments meeting prescribed criteria.

The CRD IV package (Directive and Regulation) is expected to come into force on 1 January 2014 and will impact certain subsidiaries and branches of UBS.

Group results

First quarter 2013 net profit attributable to UBS shareholders was CHF 988 million compared with a loss of CHF 1,904 million in the fourth quarter of 2012. Profit before tax was CHF 1,447 million compared with a loss of CHF 1,837 million in the prior quarter. Operating income increased by CHF 1,567 million, primarily due to higher net interest and trading income. Operating expenses declined by CHF 1,717 million, predominantly as a result of reduced net charges for provisions for litigation, regulatory and similar matters. In the first quarter, we recorded a tax expense of CHF 458 million compared with CHF 66 million in the prior quarter.

Income statement

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Interest income	**3,484**	3,550	4,130	(2)	(16)
Interest expense	**(2,003)**	(2,078)	(2,541)	(4)	(21)
Net interest income	**1,481**	1,472	1,589	1	(7)
Credit loss (expense) / recovery	**(15)**	(24)	37	(38)	
Net interest income after credit loss expense	**1,466**	1,448	1,626	1	(10)
Net fee and commission income	**4,123**	3,992	3,840	3	7
Net trading income	**2,222**	378	976	488	128
of which: net trading income excluding own credit	***2,403***	*792*	*2,140*	*203*	*12*
of which: own credit on financial liabilities designated at fair value	***(181)***	*(414)*	*(1,164)*	*(56)*	*(84)*
Other income	**(37)**	390	81		
Total operating income	**7,775**	6,208	6,523	25	19
Personnel expenses	**4,100**	4,014	3,378	2	21
General and administrative expenses	**1,999**	3,843	1,398	(48)	43
Depreciation and impairment of property and equipment	**208**	169	158	23	32
Amortization and impairment of intangible assets	**20**	19	23	5	(13)
Total operating expenses	**6,327**	8,044	4,956	(21)	28
Operating profit / (loss) before tax	**1,447**	(1,837)	1,567		(8)
Tax expense / (benefit)	**458**	66	531	594	(14)
Net profit / (loss)	**989**	(1,903)	1,036		(5)
Net profit / (loss) attributable to preferred note holders	**0**	0	0		
Net profit / (loss) attributable to non-controlling interests	**1**	1	1	0	0
Net profit / (loss) attributable to UBS shareholders	**988**	(1,904)	1,035		(5)
Comprehensive income					
Total comprehensive income	**1,560**	(2,451)	313		398
Total comprehensive income attributable to preferred note holders	**57**	(33)	(64)		
Total comprehensive income attributable to non-controlling interests	**1**	6	0	(83)	
Total comprehensive income attributable to UBS shareholders	**1,503**	(2,423)	377		299

Adjusted results[1]

	For the quarter ended 31.3.13							
CHF million	Wealth Manage-ment	Wealth Manage-ment Americas	Investment Bank	Global Asset Manage-ment	Retail & Corporate	CC – Core Functions	CC – Non-core and Legacy Portfolio	**Total**
Operating income as reported	1,913	1,618	2,783	517	919	(479)	504	**7,775**
of which: own credit on financial liabilities designated at fair value[2]						*(181)*		***(181)***
of which: net loss related to the buyback of debt in a public tender offer						*(119)*	*27*	***(92)***
of which: gain on disposal of Global AM's Canadian domestic business				*34*				***34***
of which: net gain on sale of remaining proprietary trading business			*55*			*(24)[3]*		***31***
Operating income (adjusted)	1,913	1,618	2,728	483	919	(155)	477	**7,983**
Operating expenses as reported	1,250	1,384	1,806	327	572	239	749	**6,327**
of which: personnel-related restructuring charges[4]	*3*	*1*	*(26)*	*(2)*	*2*	*(1)*	*10*	***(14)***
of which: other restructuring charges[4]	*22*	*9*	*32*	*6*	*13*	*(1)*	*179*	***260***
Operating expenses (adjusted)	1,224	1,374	1,800	323	557	242	561	**6,081**
Operating profit / (loss) before tax as reported	664	234	977	190	347	(719)	(245)	**1,447**
Operating profit / (loss) before tax (adjusted)	**690**	**244**	**928**	**160**	**362**	**(398)**	**(84)**	**1,901**

	For the quarter ended 31.12.12							
CHF million	Wealth Manage-ment	Wealth Manage-ment Americas	Investment Bank	Global Asset Manage-ment	Retail & Corporate	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total
Operating income as reported	1,748	1,614	1,604	491	933	(240)	57	6,208
of which: own credit on financial liabilities designated at fair value[2]						*(414)*		*(414)*
Operating income (adjusted)	1,748	1,614	1,604	491	933	174	57	6,622
Operating expenses as reported	1,350	1,414	1,847	343	572	1,646	873	8,044
of which: personnel-related restructuring charges[4]	*13*	*3*	*175*	*15*	*1*	*0*	*51*	*257*
of which: other restructuring charges[4]	*4*	*(1)*	*(2)*	*0*	*0*	*0*	*0*	*1*
Operating expenses (adjusted)	1,333	1,412	1,674	328	571	1,646	822	7,786
Operating profit / (loss) before tax as reported	398	200	(243)	148	361	(1,886)	(816)	(1,837)
Operating profit / (loss) before tax (adjusted)	**415**	**202**	**(70)**	**163**	**362**	**(1,472)**	**(765)**	**(1,165)**

	For the quarter ended 31.3.12							
CHF million	Wealth Manage-ment	Wealth Manage-ment Americas	Investment Bank	Global Asset Manage-ment	Retail & Corporate	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total
Operating income as reported	1,769	1,425	2,297	477	936	(1,091)	710	6,523
of which: own credit on financial liabilities designated at fair value[2]						*(1,164)*		*(1,164)*
Operating income (adjusted)	1,769	1,425	2,297	477	936	73	710	7,687
Operating expenses as reported	846	1,233	1,788	309	265	104	412	4,956
of which: credit related to changes to the Swiss pension plan[5]	*(357)*	*0*	*(51)*	*(30)*	*(287)*	*(3)*	*(2)*	*(730)*
of which: personnel-related restructuring charges[4]	*14*	*0*	*102*	*6*	*7*	*3*	*7*	139
of which: other restructuring charges[4]	*(2)*	*(2)*	*(8)*	*0*	*0*	*(1)*	*0*	(13)
Operating expenses (adjusted)	1,191	1,235	1,745	333	545	104	407	5,560
Operating profit / (loss) before tax as reported	923	192	509	169	671	(1,196)	298	1,567
Operating profit / (loss) before tax (adjusted)	**578**	**190**	**552**	**145**	**391**	**(32)**	**303**	**2,127**

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Refer to "Note 12 Fair value measurement" in the "Financial information" section of this report for more information. 3 Reflects a foreign currency translation loss. 4 Refer to "Note 19 Changes in organization" in the "Financial information" section of this report for more information. 5 Refer to "Note 30 Pension and other post-employment benefit plans" in our Annual Report 2012 for more information.

Performance: 1Q13 vs 4Q12

Operating profit before tax was CHF 1,447 million in the first quarter of 2013 compared with an operating loss of CHF 1,837 million in the prior quarter, reflecting higher operating income mainly due to improved net interest and trading revenues, as well as reduced operating expenses predominantly resulting from reduced net charges for provisions for litigation, regulatory and similar matters.

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 the first quarter, these adjustments are an own credit loss of CHF 181 million, a net loss of CHF 92 million incurred on the buyback of debt in a public tender offer, a gain of CHF 34 million on the disposal of Global Asset Management's Canadian domestic business, a net gain of CHF 31 million on the sale of our remaining proprietary trading business and net restructuring charges of CHF 246 million. For the fourth quarter, these adjustments were an own credit loss of CHF 414 million and net restructuring charges of CHF 258 million.

On this adjusted basis, first quarter profit before tax was CHF 1,901 million compared with a loss of CHF 1,165 million in the prior quarter, mainly as net charges for provisions for litigation, regulatory and similar matters decreased by CHF 1,703 million to CHF 378 million. In addition, adjusted operating income increased by CHF 1,361 million, primarily due to higher net interest and trading income in both the Investment Bank and Corporate Center – Non-core and Legacy Portfolio. This was partly offset by reduced other income.

Operating income: 1Q13 vs 4Q12

Total operating income was CHF 7,775 million compared with CHF 6,208 million. On an adjusted basis, total operating income was CHF 7,983 million compared with CHF 6,622 million.

Net interest and trading income

Net interest and trading income increased by CHF 1,854 million to CHF 3,703 million. The first quarter of 2013 included an own credit loss on financial liabilities designated at fair value, primarily reflecting the tightening of our funding spreads over the quarter, of CHF 181 million compared with an own credit loss of CHF 414 million in the prior quarter. Excluding the impact of own credit, net interest and trading income increased by CHF 1,621 million, mainly due to higher revenues in both the Investment Bank and Non-core and Legacy Portfolio.

Investor Client Services net interest and trading revenues increased by CHF 730 million, primarily due to higher equity derivatives and rates and credit revenues, mainly as client activity increased.

Corporate Client Solutions net interest and trading revenues increased by CHF 307 million, reflecting the result of a large private transaction.

Net interest and trading revenues in Non-core and Legacy Portfolio increased by CHF 678 million, partly due to a larger gain from the revaluation of our option to acquire the SNB StabFund's equity, which was CHF 240 million, compared with CHF 91 million in the prior quarter. The first quarter of 2013 also included a positive debit valuation adjustment of CHF 37 million on derivatives compared with negative CHF 188 million in the prior quarter. Furthermore, Legacy Portfolio revenues benefited from continuing improved performance on real estate assets and reference-linked notes, partly offset by losses on municipal swaps.

Net interest and trading income

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Net interest and trading income					
Net interest income	**1,481**	1,472	1,589	1	(7)
Net trading income	**2,222**	378	976	488	128
Total net interest and trading income	**3,703**	1,849	2,565	100	44
Wealth Management	**727**	669	688	9	6
Wealth Management Americas	**307**	328	323	(6)	(5)
Investment Bank	**1,833**	796	1,328	130	38
Global Asset Management	**6**	6	5	0	20
Retail & Corporate	**609**	634	603	(4)	1
Corporate Center	**223**	(583)	(381)		
of which: own credit on financial liabilities designated at fair value	***(181)***	*(414)*	*(1,164)*	*(56)*	*(84)*
Total net interest and trading income	**3,703**	1,849	2,565	100	44

Net interest and trading income in Wealth Management increased by CHF 58 million. In Wealth Management Americas and Retail & Corporate, net interest and trading revenues declined by CHF 21 million and CHF 25 million, respectively.

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

➔ Refer to "Note 12 Fair value measurement" in the "Financial information" section of this report for more information on own credit

➔ Refer to the "Non-trading portfolios" section within the "Risk, treasury and capital management" section of our Annual Report 2012 for more information on our option to acquire the SNB StabFund's equity

Credit loss expense / recovery

We recorded a net credit loss expense of CHF 15 million compared with a net credit loss expense of CHF 24 million in the prior quarter. In the first quarter of 2013, we recorded a net credit loss expense of CHF 12 million in Wealth Management. In the fourth quarter of 2012 we recorded a net credit loss expense of CHF 15 million in Wealth Management Americas and a net credit loss expense of CHF 20 million in Retail & Corporate, partly offset by a net credit loss recovery of CHF 15 million in Non-core and Legacy Portfolio.

➔ Refer to the discussions of credit loss expense / recovery in the "UBS business divisions and Corporate Center" section of this report for more information

Net fee and commission income

Net fee and commission income increased by CHF 131 million to CHF 4,123 million.

Net brokerage fees increased by CHF 138 million, mainly in the Investment Bank as a result of increased client activity.

Investment fund fees increased by CHF 77 million, mainly reflecting increased client activity in Wealth Management.

Merger and acquisition and corporate finance fees decreased by CHF 78 million to CHF 119 million due to seasonally low activity levels.

➔ 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 negative CHF 37 million in the first quarter compared with positive CHF 390 million in the prior quarter.

First quarter 2013 other income included a loss of CHF 119 million on the buyback of debt in a public tender offer.

The fourth quarter included gains of CHF 112 million on sales of Swiss real estate, as well as a gain of CHF 88 million on the sale of an equity investment previously classified as available-for-sale in Corporate Center.

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

Operating expenses: 1Q13 vs 4Q12

Total operating expenses decreased by CHF 1,717 million to CHF 6,327 million. Non-personnel related restructuring charges were CHF 260 million in the first quarter, primarily due to the recognition of provisions for onerous lease contracts and related asset impairments as we progress with the accelerated implementation of our strategy and the Group-wide program to drive long-term efficiencies, both announced in October 2012. Those restructuring charges associated with the acceleration of our strategy are allocated to Non-core and Legacy Portfolio. Restructuring charges associated with the long-term efficiency program are allocated across the business divisions in proportion to the estimated future cost savings. On an adjusted basis, total operating expenses decreased by CHF 1,705 million, primarily as net charges for provisions for litigation, regulatory and similar matters decreased by CHF 1,703 million.

Personnel expenses

Personnel expenses increased by CHF 86 million to CHF 4,100 million. The first quarter included a net release of CHF 14 million in personnel-related restructuring provisions compared with net charges of CHF 257 million in the prior quarter.

Excluding the effects of restructuring, personnel expenses increased by CHF 357 million. On this adjusted basis, expenses for total variable compensation increased by CHF 386 million, reflecting higher discretionary performance award accruals. Expenses for total variable compensation, excluding restructuring, included a charge of CHF 298 million for the amortization of deferred com-

Credit loss (expense) / recovery

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Wealth Management	**(12)**	1	(1)		
Wealth Management Americas	**0**	(15)	(0)	(100)	
Investment Bank	**(1)**	(5)	(1)	(80)	0
Retail & Corporate	**0**	(20)	18	(100)	(100)
Corporate Center	**(2)**	15	22		
of which: Core Functions	***0***	*0*	*0*		
of which: Non-core and Legacy Portfolio	***(2)***	*15*	*22*		
Total	**(15)**	(24)	37	(38)	

Operating expenses

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Personnel expenses (adjusted)[1]					
Salaries	**1,649**	1,645	1,738	0	(5)
Total variable compensation	**1,057**	671	931	58	14
of which: relating to prior years[2]	***298***	*280*	*329*	*6*	*(9)*
of which: relating to current year[3]	***759***	*391*	*602*	*94*	*26*
Wealth Management Americas: Financial advisor compensation[4]	**776**	739	679	5	14
Other personnel expenses[5]	**632**	701	622	(10)	2
Total personnel expenses (adjusted)[1]	**4,114**	3,757	3,969	10	4
Non-personnel expenses (adjusted)[1]					
Provisions for litigation, regulatory and similar matters	**378**	2,081	48	(82)	688
Other non-personnel expenses[6]	**1,589**	1,949	1,544	(18)	3
Total non-personnel expenses (adjusted)[1]	**1,967**	4,030	1,592	(51)	24
Adjusting items	**246**	258	(604)	(5)	
of which: personnel-related restructuring charges	***(14)***	*257*	*139*		
of which: other restructuring charges	***260***	*1*	*(13)*		
of which: credit related to changes to the Swiss pension plan	***0***	*0*	*(730)*		*(100)*
Total operating expenses as reported	**6,327**	8,044	4,956	(21)	28

1 Excluding adjusting items. 2 Consists of amortization of prior years' awards relating to performance awards and other variable compensation. 3 Includes expenses relating to performance awards and other variable compensation for the respective performance year. 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 and advances granted to financial advisors 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 provisions for litigation, regulatory and similar matters, as well as depreciation and impairment of property and equipment and amortization and impairment of intangible assets.

pensation awards from prior years compared with CHF 280 million in the prior quarter. Salary expenses excluding restructuring were virtually unchanged as increased accruals for untaken vacation were offset by lower expenses reflecting reduced staff levels. Financial advisor compensation in Wealth Management Americas increased by CHF 37 million, corresponding to higher transaction-based revenues. Other personnel expenses, which consist of expenses related to contractors, social security, pension and other post-employment benefit plans and other expenses, decreased by CHF 69 million excluding restructuring, mainly due to lower expenses for pensions and other post-employment benefit plans.

➔ **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 1,844 million to CHF 1,999 million in the first quarter.

Net charges for provisions for litigation, regulatory and similar matters decreased by CHF 1,703 million to CHF 378 million, primarily as the prior quarter included charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. 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.

The first quarter included net restructuring charges of CHF 225 million, primarily related to onerous lease contracts. The fourth quarter included net restructuring charges of CHF 1 million.

Administration costs decreased by CHF 136 million, primarily as the fourth quarter included a charge of CHF 124 million for the annual UK bank levy. Professional fees, expenses related to outsourcing and costs for marketing and public relations decreased by CHF 72 million, CHF 68 million and CHF 53 million, respectively.

➔ **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 increased by CHF 39 million to CHF 208 million, mainly due to restructuring-related impairment charges of CHF 35 million in the first quarter of 2013.

Amortization and impairment of intangible assets was CHF 20 million compared with CHF 19 million.

Tax: 1Q13 vs 4Q12

We recognized a net income tax expense of CHF 458 million for the first quarter of 2013. This primarily reflects a deferred tax expense of CHF 319 million in respect of the amortization of deferred tax assets previously recognized in relation to tax losses carried forward, to offset taxable profits for the quarter for Switzerland and the US. The remainder reflects other tax expenses of

CHF 139 million, primarily in relation to taxable profits in other locations. For the fourth quarter of 2012, we recognized a net income tax expense of CHF 66 million, which included tax expenses for subsidiaries and branches with taxable profits, partly offset by a release of tax provisions in respect of tax positions that had previously been uncertain.

We are currently forecasting a tax rate of approximately 30% for the second quarter of 2013. This tax rate is higher than the normal expected effective tax rate of 20-25% as the net profit for the Group in 2013 may reflect losses for some branches or subsidiaries for which we may not obtain a full tax benefit. In addition, the actual tax rate may differ if there are significant book tax adjustments that affect Swiss taxable profits – for example, own credit gains and losses. Also, the full year tax rate may depend on the extent to which deferred tax assets are revalued during 2013.

Total comprehensive income attributable to UBS shareholders: 1Q13 vs 4Q12

Total comprehensive income attributable to UBS shareholders was positive CHF 1,503 million compared with negative CHF 2,423 million. Net profit attributable to UBS shareholders was CHF 988 million compared with a loss of CHF 1,904 million. Other comprehensive income (OCI) attributable to UBS shareholders was positive CHF 514 million (net of tax) compared with negative CHF 519 million.

First quarter 2013 OCI included foreign currency translation gains of CHF 528 million (net of tax), predominantly related to the 4% strengthening of the US dollar against the Swiss franc, compared with a loss of CHF 544 million in the prior quarter.

Gains on defined benefit plans (net of tax) were CHF 253 million in the first quarter compared with gains of CHF 391 million in the previous quarter. The first quarter gains mainly related to the Swiss pension plan, primarily resulting from a reduction in the defined benefit obligation (DBO) largely due to an increase in the applicable discount rate, as well as from an increase in the fair value of the underlying plan assets. This was partly offset by OCI losses on non-Swiss pension plans, mainly reflecting an increase in the net liability for the UK pension plan that was driven by a higher inflation rate and a lower discount rate for the DBO, partly offset by an increase in the fair value of the underlying plan assets.

Financial investments available-for-sale OCI in the first quarter was positive CHF 3 million (net of tax) compared with negative CHF 110 million, mainly as in the prior quarter more previously unrealized gains were reclassified to the income statement upon sale of investments.

Cash flow hedge OCI was negative CHF 270 million (net of tax) in the first quarter compared with negative CHF 256 million in the previous quarter and mainly reflected an increase in long-term interest rates.

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

Performance by reporting segment: 1Q13 vs 4Q12

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: 1Q13 vs 4Q12

Cost/income ratio

The cost/income ratio was 81.2% in the first quarter of 2013 compared with 129.1% in the prior quarter. On an adjusted basis, the cost/income ratio decreased to 76.0% from 117.2%.

Risk-weighted assets

Our phase-in BIS Basel III RWA increased by CHF 0.7 billion to CHF 262.5 billion at the end of the first quarter. On a fully applied basis, BIS Basel III RWA increased by CHF 0.6 billion to CHF 258.7 billion. The main contributors to the phase-in BIS Basel III RWA increase were a CHF 6.7 billion increase in credit risk RWA, a CHF 0.7 billion increase in non-counterparty-related risk RWA and a CHF 1.0 billion increase in operational risk RWA, partly offset by a decrease of CHF 7.7 billion in market risk RWA. The increase in BIS Basel III phase-in credit risk RWA of CHF 6.7 billion was predominantly due to an increase in drawn exposures as well as increased RWA for securitizations as a result of rating downgrades and higher hedge-related exposures. The phase-in BIS Basel III market risk RWA decrease of CHF 7.7 billion was mainly due to a decrease in the incremental risk charge (IRC) of CHF 1.5 billion as a result of risk reductions, a decrease in regulatory VaR RWA of CHF 2.2 billion, a decrease in stressed VaR RWA of CHF 2.5 billion due to risk reductions and a decrease in the comprehensive risk measure (CRM) of CHF 1.4 billion due to the reduction of correlation trading positions.

➔ **Refer to the "Investment Bank", "Corporate Center" and "Capital management" sections of this report for more information**

Net new money

In Wealth Management, net new money inflows, which included a number of larger inflows, increased to CHF 15.0 billion from CHF 2.4 billion in the previous quarter and were at their strongest since the fourth quarter of 2007. All regions contributed to this result, with Asia Pacific and emerging markets delivering the highest net inflows. In Europe, onshore growth compensated for net outflows from offshore clients. On a global basis, ultra high net worth clients reported strong net new money inflows of CHF 10.7 billion compared with CHF 5.6 billion inflows in the previous quarter.

In Wealth Management Americas, net new money totaled CHF 8.6 billion or USD 9.2 billion compared with CHF 8.1 billion or USD 8.8 billion in the prior quarter due to continued strong inflows from net recruits and financial advisors employed with UBS for more than one year. Net new money also included CHF 1.3 billion or USD 1.4 billion related to the transfer of an Investment Bank client to Wealth Management Americas in connection with the Global Family Office initiative.

In Global Asset Management, there were net new money outflows of CHF 3.1 billion, but excluding money market flows there were net new money inflows of CHF 5.1 billion. Excluding money market flows, Global Asset Management recorded net new money inflows from third parties of CHF 4.2 billion compared with net outflows of CHF 1.4 billion in the fourth quarter. Net inflows, mainly from sovereign clients and clients serviced from Asia Pacific, were partially offset by net outflows from clients serviced from the Americas and Europe. Also excluding money market flows, net new money inflows from clients of UBS's wealth management businesses were CHF 0.9 billion compared with net outflows of CHF 2.4 billion in the fourth quarter and were mainly from clients booked in Switzerland. Money market net outflows from third parties were CHF 4.4 billion compared with CHF 1.4 billion in the fourth quarter and were mainly from clients in the Americas. Money market net outflows from clients of UBS's wealth management businesses were CHF 3.8 billion compared with net inflows of CHF 1.9 billion in the fourth quarter and were primarily from clients in the Americas and Switzerland.

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

Invested assets

Invested assets in Wealth Management increased by CHF 49 billion to CHF 870 billion, supported by positive market performance of CHF 24 billion, strong net new money inflows of CHF 15 billion and positive currency translation effects of CHF 10 billion.

In Wealth Management Americas, invested assets increased by CHF 73 billion to CHF 845 billion. In US dollar terms, invested assets increased by USD 48 billion to USD 891 billion, reflecting positive market performance of USD 39 billion and continued strong net new money inflows of USD 9 billion.

Global Asset Management's invested assets increased by CHF 18 billion to CHF 599 billion, mainly due to positive market movements of CHF 19 billion and positive currency translation effects of CHF 10 billion, partially offset by the disposal of our Canadian domestic business, which reduced invested assets by CHF 7 billion, and net new money outflows of CHF 3 billion.

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

Personnel

We employed 61,782 personnel as of 31 March 2013, a reduction of 846 compared with 62,628 personnel as of 31 December 2012.

Personnel decreased by 1,051 in the Investment Bank, mainly due to a decrease of approximately 650 personnel attributable to changes to allocations of centralized shared services units' personnel and 396 front office personnel related to our ongoing cost

Net new money[1]

	For the quarter ended		
CHF billion	**31.3.13**	31.12.12	31.3.12
Wealth Management	**15.0**	2.4	6.7
Wealth Management Americas	**8.6**	8.1	4.2
Global Asset Management	**(3.1)**	(3.3)	(8.2)
of which: non-money market flows	***5.1***	*(3.8)*	*(2.6)*
of which: money market flows	***(8.2)***	*0.5*	*(5.6)*

1 Net new money excludes interest and dividend income.

Invested assets

	As of			% change from	
CHF billion	**31.3.13**	31.12.12	31.3.12	31.12.12	31.3.12
Wealth Management	**870**	821	772	6	13
Wealth Management Americas	**845**	772	728	9	16
Global Asset Management	**599**	581	559	3	7

reduction programs. Personnel in Retail & Corporate declined by 504, mainly reflecting changes to allocations of centralized shared services units' personnel. These decreases were partly offset by increases in Wealth Management of 302, Corporate Center of 208, and Wealth Management Americas of 179, which were affected by changes to the allocation of shared services personnel.

➔ **Refer to the "Recent developments" section of this report for more information on changes to allocations of centralized shared services units' personnel**

Performance: 1Q13 vs 1Q12

Operating profit before tax was CHF 1,447 million in the first quarter of 2013 compared with CHF 1,567 million in the same quarter last year, reflecting higher operating expenses, partly offset by improved operating income. On an adjusted basis, first quarter 2013 profit before tax was CHF 1,901 million compared with CHF 2,127 million in the first quarter of 2012.

On this basis, operating income increased by CHF 296 million, primarily reflecting increased net fee and commission income. Adjusted operating expenses increased by CHF 521 million, mainly as a result of increased charges for provisions for litigation, regulatory and similar matters, as well as due to increased expenses for variable compensation.

Personnel by business division and Corporate Center

	As of			% change from	
Full-time equivalents	**31.3.13**	31.12.12	31.3.12	31.12.12	31.3.12
Wealth Management	**16,512**	16,210	15,551	2	6
Wealth Management Americas	**16,273**	16,094	16,296	1	0
Investment Bank	**12,544**	13,595	14,435	(8)	(13)
Global Asset Management	**3,801**	3,781	3,716	1	2
Retail & Corporate	**9,652**	10,156	11,417	(5)	(15)
Corporate Center	**3,000**	2,792	2,827	7	6
of which: Core Functions	***1,092***	*488*	*413*	*124*	*164*
of which: Non-core and Legacy Portfolio	***1,908***	*2,304*	*2,414*	*(17)*	*(21)*
Total	**61,782**	62,628	64,243	(1)	(4)
of which: Corporate Center personnel (before allocations) [1]	***25,284***	*25,813*	*26,534*	*(2)*	*(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	**31.3.13**	31.12.12	31.3.12	31.12.12	31.3.12
Americas	**21,802**	21,995	22,881	(1)	(5)
of which: USA	***20,504***	*20,833*	*21,685*	*(2)*	*(5)*
Asia Pacific	**7,277**	7,426	7,617	(2)	(4)
Europe, Middle East and Africa	**10,473**	10,829	10,926	(3)	(4)
of which: UK	***6,081***	*6,459*	*6,616*	*(6)*	*(8)*
of which: Rest of Europe	***4,234***	*4,202*	*4,140*	*1*	*2*
of which: Middle East and Africa	***158***	*167*	*169*	*(5)*	*(7)*
Switzerland	**22,229**	22,378	22,819	(1)	(3)
Total	**61,782**	62,628	64,243	(1)	(4)

UBS business divisions and Corporate Center

Management report

Wealth Management

Profit before tax in the first quarter of 2013 was CHF 664 million compared with CHF 398 million in the fourth quarter of 2012. The gross margin on invested assets increased 6 basis points to 91 basis points, mainly reflecting an upturn in transaction-based income. Operating expenses decreased to CHF 1,250 million from CHF 1,350 million, mainly due to seasonally lower general and administrative expenses. Net new money inflows of CHF 15.0 billion represented the highest quarterly net inflows since 2007.

Business division reporting[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Net interest income	**508**	480	478	6	6
Net fee and commission income	**1,191**	1,069	1,079	11	10
Net trading income	**219**	189	209	16	5
Other income	**8**	10	3	(20)	167
Income	**1,926**	1,747	1,770	10	9
Credit loss (expense) / recovery	**(12)**	1	(1)		
Total operating income	**1,913**	1,748	1,769	9	8
Personnel expenses[2]	**839**	864	439	(3)	91
General and administrative expenses	**345**	413	276	(16)	25
Services (to) / from other business divisions	**19**	28	93	(32)	(80)
Depreciation and impairment of property and equipment	**46**	44	36	5	28
Amortization and impairment of intangible assets	**1**	1	2	0	(50)
Total operating expenses[2, 3]	**1,250**	1,350	846	(7)	48
Business division operating profit / (loss) before tax	**664**	398	923	67	(28)
Key performance indicators[4]					
Pre-tax profit growth (%)	**66.8**	(31.6)	100.7		
Cost / income ratio (%)	**64.9**	77.3	47.8		
Net new money growth (%)[5]	**7.3**	1.2	3.6		
Gross margin on invested assets (bps)[6]	**91**	85	93	7	(2)
Additional information					
Average attributed equity (CHF billion)[7]	**3.7**	4.3	4.0	(14)	(8)
Return on attributed equity (RoaE) (%)	**71.8**	60.9	92.3		
Risk-weighted assets (phase-in, CHF billion)[8]	**19.1**	18.6		3	
Risk-weighted assets (fully applied, CHF billion)[8]	**18.7**	18.2		3	
Return on risk-weighted assets, gross (%)[9]	**40.9**	41.4	43.0		
Goodwill and intangible assets (CHF billion)	**1.4**	1.4	1.3	0	8
Net new money (CHF billion)[5]	**15.0**	2.4	6.7		
Invested assets (CHF billion)	**870**	821	772	6	13
Client assets (CHF billion)	**1,012**	951	901	6	12
Loans, gross (CHF billion)	**93.2**	86.6	75.9	8	23
Due to customers (CHF billion)	**186.9**	180.2	168.2	4	11
Personnel (full-time equivalents)	**16,512**	16,210	15,551	2	6
Client advisors (full-time equivalents)	**4,162**	4,128	4,175	1	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. Refer to the "Recent developments" section of this report for more information. 2 Personnel expenses include credits to personnel expenses related to changes to our Swiss pension plan in the first quarter of 2012. 3 Refer to "Note 19 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 our Annual Report 2012. 5 Net new money excludes interest and dividend income. 6 Excludes any effect on profit or loss from a property fund: a realized gain due to partial repayment of fund shares of CHF 0 million in the first quarter of 2013, CHF 2 million in the fourth quarter of 2012 and CHF 0 million in the first quarter of 2012. 7 Refer to the "Capital management" section of our Annual Report 2012 for more information about the equity attribution framework. 8 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information. 9 Based on BIS Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012.

Regional breakdown of key figures[1,2]

As of or for the quarter ended 31.3.13	Europe	Asia Pacific	Switzerland	Emerging markets	of which: ultra high net worth	of which: Global Family Office[3]
Net new money (CHF billion)[4]	1.1	5.5	3.0	4.9	10.7	2.5
Net new money growth (%)[4]	1.3	11.2	8.3	15.4	11.8	23.3
Invested assets (CHF billion)	357	214	155	135	391	50
Gross margin on invested assets (bps)	89	89	98	95	54	37[5]
Client advisors (full-time equivalents)	1,633	994	772	695	849[6]	N/A

1 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of our Annual Report 2012. 2 Based on the Wealth Management business area structure, and excluding minor functions with 68 client advisors, and CHF 9 billion of invested assets, and CHF 0.5 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 20 basis points. 6 Dedicated ultra high net worth units: 594 client advisors. Non-dedicated ultra high net worth units: 255 client advisors.

Results: 1Q13 vs 4Q12

Operating income

Total operating income increased by CHF 165 million to CHF 1,913 million from CHF 1,748 million in the prior quarter, reflecting higher revenues resulting from increased client activity, increased treasury-related income and a rise in recurring fees mainly due to higher invested assets. This was partially offset by higher credit loss expenses.

Net interest income increased by CHF 28 million to CHF 508 million due to the inclusion of incremental treasury-related income of CHF 30 million previously reported in the Investment Bank and lower costs related to the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury. Moreover, continuing growth in loan and deposit volumes, supported by pricing measures on client deposit rates in Switzerland, helped to mitigate the negative effect of historically low interest rates on income from our replication portfolios.

➔ **Refer to the "Interest rate and currency management" section of our Annual Report 2012 for more information on our replication portfolios**

Net fee and commission income increased by CHF 122 million to CHF 1,191 million from CHF 1,069 million in the prior quarter. Transaction-based fees increased significantly on considerably higher client activity in all regions, particularly in Asia Pacific in the first six weeks of the quarter. Recurring fees also improved, mainly due to the increased invested asset base.

Net trading income increased to CHF 219 million from CHF 189 million in the previous quarter due to increased client activity in foreign exchange-related products, particularly in Asia Pacific.

Other income decreased to CHF 8 million from CHF 10 million.

Credit loss expenses were CHF 12 million compared with a net release of CHF 1 million in the prior quarter.

Operating expenses

Total operating expenses decreased by CHF 100 million to CHF 1,250 million from CHF 1,350 million in the prior quarter.

Personnel expenses decreased to CHF 839 million from CHF 864 million, mainly reflecting lower accruals for variable compensation, lower pension plan costs and reduced restructuring costs of CHF 3 million compared with CHF 13 million in the prior quarter. This was partially offset by higher accruals for untaken holidays.

General and administrative expenses decreased to CHF 345 million from CHF 413 million due to seasonally lower costs for marketing and communication as well as lower charges related to provisions for litigation, regulatory and similar matters. These effects were partially offset by higher real estate-related restructuring charges of CHF 19 million due to the recognition of provisions for onerous lease contracts and related asset impairments as we progress with the Group-wide program to drive long-term efficiencies announced in October 2012.

Net charges for services from other business divisions decreased to CHF 19 million from CHF 28 million in the previous quarter, including higher charges from the Investment Product and Sales unit to other business divisions.

Cost/income ratio

The cost/income ratio decreased to 64.9% from 77.3%. On an adjusted basis excluding restructuring charges of CHF 26 million compared with CHF 17 million in the previous quarter, the cost/income ratio improved 12.7 percentage points to 63.6% from 76.3%, and was within our target range of 60% to 70%.

➔ **Refer to the "Group results" section of this report for more information on adjusting items**

Net new money growth

The annualized net new money growth rate was 7.3% compared with 1.2% in the previous quarter, exceeding our target range of 3% to 5%.

Net new money inflows, which included a number of larger inflows, increased to CHF 15.0 billion from CHF 2.4 billion in the previous quarter and were at their strongest since the fourth quarter of 2007. All regions contributed to this result, with Asia Pacific and emerging markets delivering the highest net inflows. In Europe, onshore growth compensated for net outflows from offshore clients. On a global basis, ultra high net worth clients reported strong net new money inflows of CHF 10.7 billion compared with CHF 5.6 billion inflows in the previous quarter.

Invested assets

Invested assets increased by CHF 49 billion to CHF 870 billion, supported by positive market performance of CHF 24 billion, strong net new money inflows of CHF 15 billion and positive currency effects of CHF 10 billion.

Gross margin on invested assets

The gross margin for the first quarter was 91 basis points, an increase of 6 basis points from the prior quarter, resulting from 10% higher income and a 3% increase in the average invested asset base. The gross margin remained below our target range of 95 to 105 basis points.

Personnel: 1Q13 vs 4Q12

Wealth Management employed 16,512 personnel on 31 March 2013 compared with 16,210 on 31 December 2012, reflecting an increase in client advisors and non-client-facing staff.

The number of client advisors increased to 4,162 from 4,128 in the prior quarter, mainly in emerging markets, the European offices and Asia Pacific, with a slight reduction in the Swiss market. Non-client-facing personnel increased to 12,350 from 12,082 at the end of the prior quarter. Approximately 250 of these additional personnel were attributable to changes to allocations of centralized shared services units' personnel.

➔ Refer to the "Recent developments" section of this report for more information on changes to allocations of centralized shared services units' personnel

Results: 1Q13 vs 1Q12

Profit before tax was CHF 664 million in the first quarter of 2013, down CHF 259 million compared with the first quarter of 2012, which included a credit of CHF 357 million related to changes to our Swiss pension plan. Excluding this credit and restructuring costs, profit before tax increased by CHF 112 million to CHF 690 million.

Total operating income increased by CHF 144 million to CHF 1,913 million.

Net interest income increased to CHF 508 million from CHF 478 million. This included higher treasury-related interest income and lower costs related to the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury. These factors, together with increased client deposit and loan volumes, more than offset the negative effect of lower margins resulting from historically low interest rates.

Net fee and commission income increased by CHF 112 million to CHF 1,191 million from CHF 1,079 million, primarily due to higher transaction-based fees resulting from a significant upturn in client activity, primarily in Asia Pacific, as well as higher recurring fees, which reflected the higher average invested asset base.

Trading income increased to CHF 219 million from CHF 209 million. Higher income from foreign exchange-related products was partially offset by increased costs related to assets managed centrally by Group Treasury.

The first quarter of 2013 included a credit loss expense of CHF 12 million compared with a credit loss expense of CHF 1 million in the first quarter of 2012.

Operating expenses increased by CHF 404 million to CHF 1,250 million from CHF 846 million in the first quarter of 2012, which included a credit of CHF 357 million related to changes to our Swiss pension plan. Excluding this credit and restructuring costs, operating expenses increased CHF 33 million to CHF 1,224 million.

Excluding the abovementioned items, personnel expenses increased by CHF 54 million to CHF 836 million, mainly due to the centralization of our operations units at the beginning of the third quarter of 2012. This centralization and subsequent reallocation of the operations units resulted in increased personnel costs and non-personnel costs and decreased net charges from other business divisions.

Non-personnel expenses were CHF 411 million compared with CHF 407 million in the first quarter of 2012. Excluding restructuring costs, non-personnel expenses decreased by CHF 20 million to CHF 389 million from CHF 409 million. The abovementioned centralization of operations units led to an increase in general and administrative expenses, which was more than offset by related lower charges for services from other business divisions.

Wealth Management Americas

Wealth Management Americas reported record quarterly profit before tax of USD 251 million in the first quarter of 2013 compared with a profit of USD 216 million in the prior quarter. The improvement reflected a 3% decrease in operating expenses, mainly due to lower charges for provisions for litigation, regulatory and similar matters. Net new money continued to be strong and improved to USD 9.2 billion.

Business division reporting – in US dollars[1]

	As of or for the quarter ended			% change from	
USD million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Net interest income	**217**	230	218	(6)	0
Net fee and commission income	**1,366**	1,350	1,153	1	18
Net trading income	**112**	124	136	(10)	(18)
Other income	**43**	58	60	(26)	(28)
Income	**1,738**	1,762	1,568	(1)	11
Credit loss (expense) / recovery	**0**	(16)	0	(100)	
Total operating income	**1,737**	1,745	1,568	0	11
Personnel expenses	**1,203**	1,172	1,121	3	7
Financial advisor compensation[2]	**662**	627	579	6	14
Compensation commitments and advances related to recruited financial advisors[3]	**171**	173	168	(1)	2
Salaries and other personnel costs	**370**	372	374	(1)	(1)
General and administrative expenses	**234**	321	198	(27)	18
Services (to) / from other business divisions	**4**	(5)	(3)		
Depreciation and impairment of property and equipment	**30**	27	26	11	15
Amortization and impairment of intangible assets	**14**	14	14	0	0
Total operating expenses[4]	**1,486**	1,529	1,357	(3)	10
Business division operating profit / (loss) before tax	**251**	216	211	16	19
Key performance indicators[5]					
Pre-tax profit growth (%)[6]	**16.2**	(6.9)	32.7		
Cost / income ratio (%)	**85.5**	86.8	86.5		
Share of recurring revenues (%)	**66.8**	69.2	62.5		
Net new money growth (%)[7]	**4.4**	4.2	2.4		
Gross margin on invested assets (bps)	**80**	84	80	(5)	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 adoptions of new accounting standards. Refer to the "Recent developments" section of this report for more information. 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 19 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 our Annual Report 2012. 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 quarter ended			% change from	
USD million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Additional information					
Recurring income	**1,161**	1,208	980	(4)	18
Average attributed equity (USD billion)[2]	**3.1**	6.4	7.7	(52)	(60)
Return on attributed equity (RoaE) (%)	**32.4**	13.2	11.0		
Risk-weighted assets (phase-in, USD billion)[3]	**23.1**	25.8		(10)	
Risk-weighted assets (fully applied, USD billion)[3]	**22.8**	25.5		(11)	
Return on risk-weighted assets, gross (%)[4]	**28.4**	25.4	23.2		
Goodwill and intangible assets (USD billion)	**3.8**	3.9	3.9	(3)	(3)
Net new money (USD billion)[5]	**9.2**	8.8	4.6		
Net new money including interest and dividend income (USD billion)[6]	**14.0**	16.7	9.3		
Invested assets (USD billion)	**891**	843	807	6	10
Client assets (USD billion)	**936**	885	851	6	10
Loans, gross (USD billion)	**34.5**	34.1	29.8	1	16
Due to customers (USD billion)	**55.1**	56.6	43.7	(3)	26
of which: deposit accounts (USD billion)	***42.2***	*43.6*	*30.7*	*(3)*	*37*
Personnel (full-time equivalents)	**16,273**	16,094	16,296	1	0
Financial advisors (full-time equivalents)	**7,065**	7,059	7,015	0	1
Business division reporting excluding PaineWebber acquisition costs[7]					
Business division performance before tax	**261**	242	237	8	10
Cost / income ratio (%)	**85.0**	85.4	85.0		
Average attributed equity (USD billion)[2]		3.2	4.4		

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 retrospective adoptions of new accounting standards. Refer to the "Recent developments" section of this report for more information. 2 Refer to the "Capital management" section of our Annual Report 2012 for more information about the equity attribution framework. 3 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information. 4 Based on BIS Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 5 Net new money excludes interest and dividend income. 6 Presented in line with the historical US methodology. 7 Acquisition costs represent intangible assets amortization costs related to UBS's 2000 acquisition of the PaineWebber retail brokerage business. Until 31 December 2012, they also included the net charges associated with the attributed equity required to support the goodwill and intangible assets that arose from the PaineWebber acquisition. Refer to the "Recent developments" section of this report for more information about the transfer of attributed equity from the PaineWebber acquisition to the Corporate Center.

Business division reporting – in Swiss francs[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Net interest income	**202**	213	199	(5)	2
Net fee and commission income	**1,271**	1,248	1,048	2	21
Net trading income	**105**	115	124	(9)	(15)
Other income	**40**	53	54	(25)	(26)
Income	**1,618**	1,629	1,425	(1)	14
Credit loss (expense) / recovery	**0**	(15)	0	(100)	
Total operating income	**1,618**	1,614	1,425	0	14
Personnel expenses	**1,120**	1,084	1,019	3	10
Financial advisor compensation[2]	**616**	580	527	6	17
Compensation commitments and advances related to recruited financial advisors[3]	**160**	159	153	1	5
Salaries and other personnel costs	**345**	344	340	0	1
General and administrative expenses	**219**	297	180	(26)	22
Services (to) / from other business divisions	**4**	(4)	(2)		
Depreciation and impairment of property and equipment	**28**	25	24	12	17
Amortization and impairment of intangible assets	**13**	13	12	0	8
Total operating expenses[4]	**1,384**	1,414	1,233	(2)	12
Business division operating profit / (loss) before tax	**234**	200	192	17	22

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 adoptions of new accounting standards. Refer to the "Recent developments" section of this report for more information. 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 19 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 quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Key performance indicators[2]					
Pre-tax profit growth (%)[3]	**17.0**	(9.5)	31.5		
Cost/income ratio (%)	**85.5**	86.8	86.5		
Share of recurring revenues (%)	**66.9**	69.1	62.5		
Net new money growth (%)[4]	**4.5**	4.1	2.4		
Gross margin on invested assets (bps)	**80**	84	79	(5)	1
Additional information					
Recurring income	**1,082**	1,116	891	(3)	21
Average attributed equity (CHF billion)[5]	**2.9**	5.9	7.0	(51)	(59)
Return on attributed equity (RoaE) (%)	**32.3**	13.3	11.0		
Risk-weighted assets (phase-in, CHF billion)[6]	**21.9**	23.6		(7)	
Risk-weighted assets (fully applied, CHF billion)[6]	**21.7**	23.3		(7)	
Return on risk-weighted assets, gross (%)[7]	**28.4**	25.6	22.9		
Goodwill and intangible assets (CHF billion)	**3.7**	3.5	3.5	6	6
Net new money (CHF billion)[4]	**8.6**	8.1	4.2		
Net new money including interest and dividend income (CHF billion)[8]	**13.1**	15.4	8.4		
Invested assets (CHF billion)	**845**	772	728	9	16
Client assets (CHF billion)	**888**	810	768	10	16
Loans, gross (CHF billion)	**32.7**	31.2	26.9	5	22
Due to customers (CHF billion)	**52.3**	51.8	39.4	1	33
of which: deposit accounts (CHF billion)	***40.1***	*39.9*	*27.7*	*1*	*45*
Personnel (full-time equivalents)	**16,273**	16,094	16,296	1	0
Financial advisors (full-time equivalents)	**7,065**	7,059	7,015	0	1
Business division reporting excluding PaineWebber acquisition costs[9]					
Business division performance before tax	**242**	224	215	8	13
Cost/income ratio (%)	**85.0**	85.5	85.1		
Average attributed equity (CHF billion)[5]		2.9	4.0		

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 adoptions of new accounting standards. Refer to the "Recent developments" section of this report for more information. 2 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of our Annual Report 2012. 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 our Annual Report 2012 for more information about the equity attribution framework. 6 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information. 7 Based on BIS Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 8 Presented in line with the historical US methodology. 9 Acquisition costs represent intangible assets amortization costs related to UBS's 2000 acquisition of the PaineWebber retail brokerage business. Until 31 December 2012, they also included the net charges associated with the attributed equity required to support the goodwill and intangible assets that arose from the PaineWebber acquisition. Refer to the "Recent developments" section of this report for more information about the transfer of attributed equity from the PaineWebber acquisition to the Corporate Center.

Results: 1Q13 vs 4Q12

Operating income

Operating income decreased slightly to USD 1,737 million from USD 1,745 million, as higher transaction-based revenues and lower credit loss expenses were offset by lower mutual fund and annuity fee income and lower realized gains on sales of financial investments held in the available-for-sale portfolio.

Net fee and commission income increased by USD 16 million to USD 1,366 million, mainly due to a 13% increase in transaction-based revenues, which were particularly strong earlier in the quarter. Recurring fees decreased 3%, as the prior quarter 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. This was partly offset by higher managed account fees due to higher invested asset levels at the end of the fourth quarter.

Net interest income decreased by USD 13 million to USD 217 million due to lower income in the available-for-sale portfolio as a result of lower balances, lower spreads and a reduction in amortized cost arising from updated future cash flow estimates on certain mortgage-backed securities. This was partly offset by the inclusion in the prior quarter of internal cost allocations of USD 16 million on attributed equity related to the goodwill and intangible assets that arose from the PaineWebber acquisition, which is now reported in the Corporate Center. Average mortgage balances increased 16% and average securities-backed lending balances increased 3% over the quarter.

Net trading income decreased by USD 12 million to USD 112 million from USD 124 million due to lower income related to emerging market products and lower municipal trading revenue in the quarter. This decrease was slightly offset by increased trading revenue from taxable fixed income as this business is now fully managed within Wealth Management Americas after the discontinuation of a joint venture with the Investment Bank, effective 1 January 2013.

Other income decreased by USD 15 million to USD 43 million as realized gains from sales of financial investments held in the available-for-sale portfolio decreased to USD 41 million compared with USD 59 million. These realized gains were generated by a rebalancing of the investment portfolio risk profile as guided by the portfolio's investment policy. The new composition and reduced size of the investment portfolio from recent rebalancings is likely to result in lower realized gains in upcoming quarters given the expected future interest rate environment.

Net credit loss expense decreased to zero. The prior quarter included a USD 16 million loan loss allowance related to a single client.

Recurring income, the combination of recurring fees and net interest income, decreased USD 47 million to USD 1,161 million, primarily due to lower mutual fund and annuity fee income as well as lower net interest income. Recurring income for the first quarter comprised 67% of operating income compared with 69% in the prior quarter. Non-recurring income increased USD 23 million, mainly due to higher transaction-based revenue, partly offset by a decrease in realized gains on the sale of financial investments in the available-for-sale portfolio.

Operating expenses

Total operating expenses decreased by USD 43 million to USD 1,486 million, primarily due to a 27% decrease in general and administrative expense as charges for provisions for litigation, regulatory and similar matters declined to USD 4 million from USD 91 million in the prior quarter. The first quarter included restructuring charges of USD 10 million, primarily related to real estate, compared with USD 3 million in the prior quarter, mainly related to personnel reductions. Real estate-related charges in the first quarter resulted from the recognition of provisions for onerous lease contracts and related asset impairments as we progress with the Group-wide program to drive long-term efficiencies announced in October 2012.

Personnel expenses increased by USD 31 million to USD 1,203 million due to higher financial advisor compensation corresponding to higher transaction-based revenues. Expenses for compensation commitments and advances related to recruited financial advisors decreased slightly to USD 171 million. Compensation advance balances decreased by USD 108 million to USD 3,722 million. Salaries and other personnel costs decreased by USD 2 million as a reduction of USD 8 million due to a change to the post-retirement employee benefit plan was mainly offset by higher variable compensation.

Non-personnel expenses decreased by USD 74 million to USD 283 million, primarily due to the decrease in charges for provisions for litigation, regulatory and similar matters, partly offset by real estate-related restructuring charges, as mentioned above.

Cost/income ratio

The cost/income ratio decreased to 85.5% from 86.8% in the prior quarter. On an adjusted basis excluding restructuring charges, the cost/income ratio decreased to 84.9% from 86.6% and remained within the target range of 80% to 90%.

➔ **Refer to the "Group results" section of this report for more information on adjusting items**

Net new money growth

The annualized net new money growth rate for the first quarter was 4.4% compared with 4.2% in the prior quarter and slightly above the target rate of 2% to 4%. Net new money totaled USD 9.2 billion compared with USD 8.8 billion in the prior quarter due to continued strong inflows from net recruits and financial advisors employed with UBS for more than one year. Net new money also included USD 1.4 billion related to the transfer of an Investment Bank client to Wealth Management Americas in connection with the Global Family Office initiative. Including interest and dividend income, net new money decreased to USD 14.0 billion from USD 16.7 billion, as the prior quarter included seasonal dividend payments.

Invested assets

Invested assets increased by USD 48 billion to USD 891 billion during the quarter, reflecting positive market performance of USD 39 billion and continued strong net new money inflows of USD 9 billion. Managed account assets increased by USD 22 billion to USD 270 billion and comprised 30% of total invested assets on 31 March 2013.

Gross margin on invested assets

In US dollar terms, the gross margin on invested assets decreased 4 basis points to 80 basis points and remained within the target range of 75 to 85 basis points. The gross margin from recurring income decreased 4 basis points due to lower mutual fund and annuity fee income, while the gross margin from non-recurring income remained unchanged from the prior quarter.

Personnel: 1Q13 vs. 4Q12

As of 31 March 2013, Wealth Management Americas employed 16,273 personnel, including 7,065 financial advisors, up 179 from 31 December 2012. Financial advisor headcount increased by 6 from the previous quarter, mainly reflecting the hiring of experienced financial advisors and low financial advisor attrition. The number of non-financial advisor employees increased by 173 to 9,208. Approximately 150 of the additional personnel were attributable to changes to allocations of centralized shared services units' personnel.

➔ **Refer to the "Recent developments" section of this report for more information on changes to allocations of centralized shared services units' personnel**

Results: 1Q13 vs. 1Q12

Profit before tax improved by USD 40 million to USD 251 million in the first quarter of 2013 from USD 211 million in the first quarter of 2012 due to an overall improvement in revenues, accompanied by an increase in expenses. Operating income increased by USD 169 million to USD 1,737 million, primarily due to a USD 183 million rise in recurring fees related to higher asset levels. Transaction-based revenue increased by USD 30 million from the prior year as a result of higher commissions from equities products. The first quarter of 2013 included USD 41 million in realized gains on sales of financial investments held in the available-for-sale portfolio compared with USD 45 million in the first quarter of 2012. Operating expenses increased by USD 129 million to USD 1,486 million. Personnel expenses increased by USD 82 million to USD 1,203 million due to an increase of USD 83 million in financial advisor compensation related to increased revenue production. Salaries and other personnel costs decreased by USD 4 million to USD 370 million. Non-personnel expenses increased by USD 48 million to USD 283 million, mainly due to higher restructuring charges and higher technology and operations-related expenses.

Investment Bank

The Investment Bank recorded a profit before tax of CHF 977 million in the first quarter of 2013 compared with a loss before tax of CHF 243 million in the fourth quarter of 2012. Adjusted profit before tax was CHF 928 million compared with a loss before tax of CHF 70 million. Both Corporate Client Solutions and Investor Client Services reported higher revenues. BIS Basel III risk-weighted assets on a fully applied basis increased by CHF 5 billion to CHF 69 billion as of 31 March 2013 compared with pro-forma CHF 64 billion as of 31 December 2012 and were below our target of CHF 70 billion.

Business division reporting[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Corporate Client Solutions	**997**	763	692	31	44
Advisory	**114**	180	169	(37)	(33)
Equity Capital Markets	**503**	195	200	158	152
Debt Capital Markets	**249**	298	268	(16)	(7)
Financing Solutions	**203**	170	146	19	39
Risk Management	**(73)**	(80)	(92)	(9)	(21)
Investor Client Services	**1,787**	847	1,607	111	11
Equities	**1,168**	542	999	115	17
Foreign Exchange, Rates and Credit	**619**	304	607	104	2
Income	**2,785**	1,610	2,298	73	21
Credit loss (expense) / recovery	**(1)**	(5)	(1)	(80)	0
Total operating income	**2,783**	1,604	2,297	74	21
Personnel expenses[2]	**1,265**	1,194	1,313	6	(4)
General and administrative expenses	**457**	607	490	(25)	(7)
Services (to) / from other business divisions	**21**	0	(64)		
Depreciation and impairment of property and equipment	**59**	43	46	37	28
Amortization and impairment of intangible assets	**3**	2	3	50	0
Total operating expenses[2, 3]	**1,806**	1,847	1,788	(2)	1
Business division operating profit / (loss) before tax	**977**	(243)	509		92

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. Refer to the "Recent developments" section of this report for more information. 2 Personnel expenses include credits to personnel expenses related to changes to our Swiss pension plan in the first quarter of 2012. 3 Refer to "Note 19 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 31.3.13	31.12.12	31.3.12	% change from 4Q12	1Q12
Key performance indicators[2]					
Pre-tax profit growth (%)[3]	**N/A**	N/A	26.6		
Cost/income ratio (%)	**64.8**	114.7	77.8		
Return on attributed equity (RoaE) (%)	**49.5**	2.4	16.8		
Return on assets, gross (%)	**4.2**	2.4	2.7		
Average VaR (1-day, 95% confidence, 5 years of historical data)[4]	**15**	23	33		
Additional information					
Total assets (CHF billion)[5]	**263.0**	261.5	289.3	1	(9)
Average attributed equity (CHF billion)[6]	**7.9**	8.0	12.1	(1)	(35)
Risk-weighted assets (phase-in, CHF billion)[7]	**69.2**	64.9		7	
Risk-weighted assets (fully applied, CHF billion)[7]	**68.6**	64.3		7	
Return on risk-weighted assets, gross (%)[8]	**16.6**	12.8	15.2		
Goodwill and intangible assets (CHF billion)	**0.2**	0.1	0.1	100	100
Compensation ratio (%)	**45.4**	74.2	57.1		
Impaired loan portfolio as a % of total loan portfolio, gross (%)[9]	**0.2**	0.3	1.4		
Personnel (full-time equivalents)	**12,544**	13,595	14,435	(8)	(13)

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. Refer to the "Recent developments" section of this report for more information. 2 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of our Annual Report 2012. 3 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 4 Average VaR has not been restated for prior periods. 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 Refer to the "Capital management" section of our Annual Report 2012 for more information about the equity attribution framework. 7 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information. 8 Based on BIS Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 9 Refer to the "Risk management and control" section of this report for more information on impairment ratios.

Results: 1Q13 vs 4Q12

Operating income

Total operating income increased 74% to CHF 2,783 million from CHF 1,604 million in the prior quarter as a result of improved performance across both Corporate Client Solutions and Investor Client Services. Adjusted operating income increased 70% to CHF 2,728 million from CHF 1,604 million. In US dollar terms, adjusted revenues increased 69%.

➔ **Refer to the "Group results" section of this report for more information on adjusting items**

Within Corporate Client Solutions, equity capital markets reported strong results, partly offset by lower advisory and debt capital markets revenues. Revenues in Investor Client Services more than doubled with strong performance across all business areas. Net credit loss expenses were CHF 1 million compared with net credit loss expenses of CHF 5 million in the prior quarter.

➔ **Refer to the "Risk management and control" section of this report for more information on credit risk**

Operating expenses

Total operating expenses decreased 2% to CHF 1,806 million from CHF 1,847 million. On an adjusted basis, operating expenses increased 8% to CHF 1,800 million from CHF 1,674 million, mainly due to higher variable compensation accruals. In US dollar terms, adjusted operating expenses increased 7%.

Personnel expenses increased to CHF 1,265 million from CHF 1,194 million, mainly due to higher variable compensation accruals reflecting improved performance and following lower accruals in the fourth quarter of 2012. Increases in variable compensation accruals were partly offset by restructuring releases of CHF 26 million compared with restructuring charges of CHF 175 million and savings resulting from ongoing cost reduction programs. On an adjusted basis, personnel expenses increased to CHF 1,291 million from CHF 1,019 million, mainly due to higher variable compensation accruals.

General and administrative expenses decreased to CHF 457 million from CHF 607 million. This decrease was mainly due to lower professional fees and reduced charges relating to provisions for litigation, regulatory and similar matters, and the fourth quarter of 2012 included a charge of CHF 49 million for the annual UK bank levy. These decreases were partly offset by higher restructuring charges.

Cost/income ratio

The cost/income ratio improved to 64.8% from 114.7%. On an adjusted basis, the cost/income ratio improved to 65.9% from 104.0%, within the target range of 65% to 85%.

Risk-weighted assets

Fully applied BIS Basel III RWA increased by CHF 5 billion to CHF 69 billion as of 31 March 2013 from CHF 64 billion on a pro-forma basis as of 31 December 2012, and were within our target range of less than CHF 70 billion. The increase mainly resulted from the transfer from the Investment Bank to Corporate Center – Core Functions of the market risk diversification benefits that arise between positions that have now been moved to Corporate Center – Non-core and positions remaining in the Investment Bank, and due to model changes and foreign currency effects.These increases outweigh a reduction of approximately CHF 2 billion of RWA related to the transfer during the quarter of certain lending facilities from the Investment Bank to Corporate Center – Non-core.

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

Funded assets

Funded assets, which represent total assets excluding positive replacement values, were CHF 193 billion as of 31 March 2013 unchanged from 31 December 2012 and within our target range of less than CHF 200 billion.

Operating income by business unit: 1Q13 vs 4Q12

Corporate Client Solutions

Corporate Client Solutions revenues increased 31% to CHF 997 million from CHF 763 million, as our focus on client centric solutions delivered higher revenues in equity capital markets and financing solutions. In US dollar terms, revenues improved 29%.

Advisory revenues decreased 37% to CHF 114 million from CHF 180 million, in line with a 39% reduction in the market fee pool due to seasonally low activity.

Equity capital markets revenues more than doubled to CHF 503 million from CHF 195 million, reflecting the result of a large private transaction.

Debt capital markets revenues decreased 16% to CHF 249 million from CHF 298 million. Investment grade revenues improved as the market fee pool increased and we gained market share. Leveraged finance revenues fell despite a gain in market share as the market fee pool declined.

Financing solutions revenues increased to CHF 203 million from CHF 170 million as revenues in structured financing and special situations groups improved, partly offset by lower revenues in real estate finance.

Risk management revenues improved to negative CHF 73 million compared with negative CHF 80 million due to reduced risk management premiums.

Investor Client Services

Investor Client Services revenues more than doubled to CHF 1,787 million from CHF 847 million mainly due to higher equities derivatives, foreign exchange options, credit flow and rates solutions revenues. In US dollar terms, revenues increased 110%.

Equities

Equities revenues increased to CHF 1,168 million from CHF 542 million, largely due to improved performance in the derivatives business.

Cash revenues were CHF 357 million compared with CHF 303 million as commission income improved across all regions due to increased volumes.

Derivatives revenues were CHF 414 million compared with CHF 23 million. Europe, the Middle East and Africa and Asia Pacific reported higher revenues as client activity increased and trading revenues improved. This follows weaker trading in the prior quarter in Asia Pacific and losses from the Japan structured products book.

In prime services, revenues increased to CHF 287 million from CHF 239 million, primarily due to higher trading revenues in equity finance.

Other equities revenues were CHF 110 million compared with negative CHF 23 million, largely due to 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

Foreign exchange, rates and credit revenues were CHF 619 million compared with CHF 304 million in the fourth quarter, largely due to improved performance in rates and credit.

Foreign exchange revenues increased, mainly due to strong performances in foreign exchange options and electronic trading as increased volatility in G10 currencies resulted in higher client activity.

Rates and credit revenues were up, mainly due to higher revenues in the credit flow and rates solutions businesses. Credit flow revenues improved as a result of higher client activity and increases in trading revenues, stemming from the market rally at the beginning of the year. Revenues in rates solutions increased due to a series of restructuring trades. The first quarter included a debit valuation adjustment gain of CHF 3 million compared with a debit valuation adjustment loss of CHF 80 million in the fourth quarter.

Personnel: 1Q13 vs 4Q12

The Investment Bank employed 12,544 personnel on 31 March 2013, a decrease of 1,051 from 13,595 personnel on 31 December 2012, mainly due to a decrease of approximately 650 personnel attributable to changes to allocations of centralized shared services units' personnel and 396 front office personnel related to our ongoing cost reduction programs.

➔ **Refer to the "Recent developments" section of this report for more information on changes to allocations of centralized shared services units' personnel**

Results: 1Q13 vs 1Q12

The Investment Bank recorded a profit before tax of CHF 977 million compared with a profit before tax of CHF 509 million, mainly as a result of a large private transaction in Corporate Client Solutions. Adjusted profit before tax was CHF 928 million compared with CHF 552 million.

Revenues in Corporate Client Solutions increased 44% to CHF 997 million from CHF 692 million, mainly as a result of higher equity capital markets revenues reflecting the result of a large private transaction and higher financing solutions revenues. This was partly offset by lower advisory revenues as the global fee pool declined. In US dollar terms, revenues increased 40%.

Investor Client Services revenues improved 11% to CHF 1,787 million from CHF 1,607 million. In US dollar terms, revenues increased 9%. Equities revenues increased 17% to CHF 1,168 million from CHF 999 million due to improved performance in derivatives and other equities. Derivatives benefited from increased client activity and improved trading revenues. In other equities, revenues increased, mainly due to 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 improved 2% to CHF 619 million from CHF 607 million, mainly due to higher revenues in the foreign exchange options business as client activity increased.

Total operating expenses increased 1% to CHF 1,806 million compared with CHF 1,788 million. Adjusted operating expenses were CHF 1,800 million compared with CHF 1,745 million. In US dollar terms, adjusted operating expenses increased 1%. Personnel expenses decreased to CHF 1,265 million from CHF 1,313 million, mainly due to savings resulting from our cost reduction programs and restructuring releases of CHF 26 million compared with restructuring charges of CHF 102 million, partly offset by higher variable compensation accruals, in line with performance, and a credit of CHF 51 million related to changes to our Swiss pension plan in the first quarter of 2012. General and administrative expenses decreased to CHF 457 million from CHF 490 million, mainly due to lower professional fees.

Global Asset Management

Profit before tax in the first quarter of 2013 was CHF 190 million compared with CHF 148 million in the fourth quarter of 2012. First quarter operating income included a gain of CHF 34 million on the disposal of our Canadian domestic business. Excluding money market flows, net new money inflows were CHF 5.1 billion compared with net outflows of CHF 3.8 billion in the prior quarter.

Business division reporting[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Net management fees[2]	**463**	442	426	5	9
Performance fees	**53**	49	52	8	2
Total operating income	**517**	491	477	5	8
Personnel expenses[3]	**211**	236	206	(11)	2
General and administrative expenses	**107**	100	92	7	16
Services (to)/from other business divisions	**(4)**	(5)	0	(20)	
Depreciation and impairment of property and equipment	**11**	9	9	22	22
Amortization and impairment of intangible assets	**2**	2	2	0	0
Total operating expenses[3,4]	**327**	343	309	(5)	6
Business division operating profit/(loss) before tax	**190**	148	169	28	12
Key performance indicators[5]					
Pre-tax profit growth (%)	**28.4**	17.5	40.8		
Cost/income ratio (%)	**63.2**	69.9	64.8		
Net new money growth (%)[6]	**(2.1)**	(2.2)	(5.7)		
Information by business line					
Operating income					
Traditional investments	**319**	275	294	16	9
Alternative and quantitative investments	**73**	79	68	(8)	7
Global real estate	**75**	84	67	(11)	12
Infrastructure and private equity	**9**	12	8	(25)	13
Fund services	**41**	42	41	(2)	0
Total operating income	**517**	491	477	5	8
Gross margin on invested assets (bps)					
Traditional investments	**25**	22	24	14	4
Alternative and quantitative investments	**102**	111	89	(8)	15
Global real estate	**74**	83	71	(11)	4
Infrastructure and private equity	**45**	60	40	(25)	13
Total gross margin	**35**	34	34	3	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 retrospective adoption of new accounting standards. Refer to the "Recent developments" section of this report for more information. 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. In addition, in the first quarter of 2013 net management fees included a gain of CHF 34 million on the disposal of our Canadian domestic business. 3 Personnel expenses include credits to personnel expenses related to changes to our Swiss pension plan in the first quarter of 2012. 4 Refer to "Note 19 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 our Annual Report 2012. 6 Net new money excludes interest and dividend income.

Business division reporting[1] (continued)

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Net new money (CHF billion)[2]					
Traditional investments	**(3.2)**	(2.7)	(8.0)		
Alternative and quantitative investments	**(0.2)**	(0.8)	(0.6)		
Global real estate	**0.2**	0.4	0.4		
Infrastructure and private equity	**0.0**	(0.2)	0.0		
Total net new money	**(3.1)**	(3.3)	(8.2)		
Net new money excluding money market flows	**5.1**	(3.8)	(2.6)		
of which: from third parties	***4.2***	*(1.4)*	*(2.9)*		
of which: from UBS's wealth management businesses	***0.9***	*(2.4)*	*0.3*		
Money market flows	**(8.2)**	0.5	(5.6)		
of which: from third parties	***(4.4)***	*(1.4)*	*(2.8)*		
of which: from UBS's wealth management businesses	***(3.8)***	*1.9*	*(2.8)*		
Invested assets (CHF billion)					
Traditional investments	**521**	504	484	3	8
of which: money market funds	***76***	*83*	*84*	*(8)*	*(10)*
Alternative and quantitative investments	**29**	28	30	4	(3)
Global real estate	**41**	40	38	3	8
Infrastructure and private equity	**8**	8	8	0	0
Total invested assets	**599**	581	559	3	7
Assets under administration by fund services					
Assets under administration (CHF billion)[3]	**431**	410	388	5	11
Net new assets under administration (CHF billion)[4]	**3.6**	(4.2)	(0.3)		
Gross margin on assets under administration (bps)	**4**	4	4	0	0
Additional information					
Average attributed equity (CHF billion)[5]	**1.9**	2.1	2.5	(10)	(24)
Return on attributed equity (RoaE) (%)	**40.0**	25.9	27.0		
Risk-weighted assets (phase-in, CHF billion)[6]	**4.1**	3.7		11	
Risk-weighted assets (fully applied, CHF billion)[6]	**4.0**	3.6		11	
Return on risk-weighted assets, gross (%)[7]	**53.0**	54.4	54.5		
Goodwill and intangible assets (CHF billion)	**1.5**	1.5	1.4	0	7
Personnel (full-time equivalents)	**3,801**	3,781	3,716	1	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 retrospective adoption of new accounting standards. Refer to the "Recent developments" section of this report for more information. 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 our Annual Report 2012 for more information about the equity attribution framework. 6 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information. 7 Based on BIS Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012.

Results: 1Q13 vs 4Q12

Operating income

Total operating income was CHF 517 million compared with CHF 491 million in the fourth quarter and included a gain of CHF 34 million on the disposal of our Canadian domestic business. Excluding this gain, net management fees in the first quarter were CHF 13 million lower as a slight increase in traditional investments was more than offset by modest decreases in other business lines. Performance fees were CHF 4 million higher as an increase in traditional investments was partly offset by decreases in global real estate and alternative and quantitative investments, which were both very strong in the fourth quarter.

Operating expenses

Total operating expenses were CHF 327 million compared with CHF 343 million in the fourth quarter. Restructuring charges were CHF 4 million in the first quarter compared with CHF 15 million in the fourth quarter and included charges of CHF 2 million related to the abovementioned disposal.

Personnel expenses were CHF 211 million compared with CHF 236 million in the fourth quarter. Adjusted for a restructuring credit of CHF 2 million in the first quarter and restructuring charges of CHF 15 million in the fourth quarter, personnel expenses decreased by CHF 8 million. The decrease was due to a credit related to deferred compensation.

General and administrative expenses were CHF 107 million compared with CHF 100 million in the fourth quarter. The first quarter included real estate-related restructuring charges of CHF 6 million due to the recognition of provisions for onerous lease contracts and related asset impairments as we progressed with the Group-wide program to drive long-term efficiencies announced in October 2012.

➔ **Refer to the "Group results" section of this report for more information on adjusting items**

Cost/income ratio

The cost/income ratio was 63.2% compared with 69.9% in the fourth quarter. Adjusted for restructuring charges and the abovementioned gain on disposal, the cost/income ratio was 66.9% compared with 66.8%, within our target range of 60% to 70%.

Net new money growth

The annualized net new money growth rate was negative 2.1% compared with negative 2.2% in the fourth quarter. Our target net new money growth rate range is 3% to 5%.

There were net new money outflows of CHF 3.1 billion, but excluding money market flows there were net new money inflows of CHF 5.1 billion. Net new money inflows from third parties excluding money market flows were CHF 4.2 billion compared with net outflows of CHF 1.4 billion in the fourth quarter and were mainly from sovereign clients and clients serviced from Asia Pacific, partially offset by net outflows from clients serviced from the Americas and Europe.

Also excluding money market flows, net new money inflows from clients of UBS's wealth management businesses were CHF 0.9 billion compared with net outflows of CHF 2.4 billion in the fourth quarter and were mainly from clients booked in Switzerland.

Money market net outflows from third parties were CHF 4.4 billion compared with CHF 1.4 billion in the fourth quarter and were mainly from clients in the Americas.

Money market net outflows from clients of UBS's wealth management businesses were CHF 3.8 billion compared with net inflows of CHF 1.9 billion in the fourth quarter and were primarily from clients in the Americas and Switzerland.

Invested assets

Invested assets increased by CHF 18 billion to CHF 599 billion on 31 March 2013 compared with CHF 581 billion on 31 December 2012, mainly due to positive market movements of CHF 19 billion and positive currency translation effects of CHF 10 billion, partially offset by the abovementioned disposal, which reduced invested assets by CHF 7 billion, and total net new money outflows of CHF 3 billion.

On 31 March 2013, CHF 76 billion or 13% of invested assets were money market assets. On a regional basis, 33% of invested assets related to clients serviced from Switzerland; 26% from the Americas; 21% from Europe, Middle East and Africa and 20% from Asia Pacific.

Gross margin on invested assets

The total gross margin was 35 basis points compared with 34 basis points in the fourth quarter of 2012. Excluding the abovementioned gain on disposal, the gross margin was 33 basis points and remained within our target range of 32 to 38 basis points.

Results by business line: 1Q13 vs 4Q12

Traditional investments

Excluding the abovementioned gain on disposal, operating income was CHF 285 million compared with CHF 275 million in the fourth quarter, mainly due to higher performance fees in equities.

The gross margin was 25 basis points compared with 22 basis points in the fourth quarter. Excluding the abovementioned gain on disposal, the gross margin was 20 basis points.

Excluding money market flows, net new money inflows were CHF 5.0 billion compared with net outflows of CHF 3.2 billion in the fourth quarter. Equities net inflows were CHF 5.9 billion compared with net outflows of CHF 1.7 billion and included strong inflows to indexed strategies. Fixed income net outflows were CHF 2.9 billion compared with CHF 1.1 billion. Multi-asset net inflows were CHF 2.1 billion compared with net outflows of CHF 0.4 billion.

Invested assets were CHF 521 billion on 31 March 2013 compared with CHF 504 billion on 31 December 2012. By mandate type, CHF 185 billion of invested assets related to equities, CHF 151 billion related to fixed income, CHF 76 billion related to money markets and CHF 109 billion related 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

Operating income was CHF 73 million compared with CHF 79 million in the fourth quarter. Net management and performance fees were lower compared with the very strong fourth quarter. As of 31 March 2013, over 85% of alternative and quantitative investments' performance fee-eligible assets were above their high water marks compared with over 80% as of 31 December 2012 as a number of multi-manager funds reached high water marks during the quarter.

The gross margin was 102 basis points compared with 111 basis points in the fourth quarter, largely due to lower performance fees.

Net new money outflows were CHF 0.2 billion compared with CHF 0.8 billion in the fourth quarter.

Invested assets were CHF 29 billion on 31 March 2013 compared with CHF 28 billion on 31 December 2012.

Global real estate

Operating income was CHF 75 million compared with CHF 84 million in the fourth quarter. Net management fees were lower partly due to a reduction in transaction fees. Performance fees were also lower compared with the very strong fourth quarter.

The gross margin was 74 basis points compared with 83 basis points in the fourth quarter due to the lower operating income.

Net new money inflows were CHF 0.2 billion compared with CHF 0.4 billion in the fourth quarter.

Invested assets were CHF 41 billion on 31 March 2013 compared with CHF 40 billion on 31 December 2012.

Infrastructure and private equity

Operating income was CHF 9 million, higher than most recent quarters but lower than the fourth quarter's CHF 12 million, which included an income distribution from a co-investment.

The gross margin was 45 basis points compared with 60 basis points in the fourth quarter, which included the abovementioned income distribution.

Net new money flows were flat compared with net outflows of CHF 0.2 billion in the fourth quarter.

Invested assets were CHF 8 billion on 31 March 2013, in line with 31 December 2012.

Fund services

Operating income was CHF 41 million compared with CHF 42 million in the fourth quarter.

The gross margin on assets under administration was 4 basis points, in line with the fourth quarter.

Net new assets under administration inflows were CHF 3.6 billion compared with net outflows of CHF 4.2 billion in the fourth quarter.

Total assets under administration were CHF 431 billion on 31 March 2013 compared with CHF 410 billion on 31 December 2012.

Personnel: 1Q13 vs 4Q12

Global Asset Management employed 3,801 personnel on 31 March 2013, an increase of 20 compared with 3,781 on 31 December 2012. Reductions from the disposal of our Canadian domestic business were more than offset by modest headcount increases in growth areas of the business and small increases in the allocation of centralized support functions.

Results: 1Q13 vs 1Q12

Profit before tax in the first quarter of 2013 was CHF 190 million compared with CHF 169 million in the first quarter of 2012. Total operating income increased to CHF 517 million compared with CHF 477 million due to the gain on the disposal of our Canadian domestic business and a marginal increase in revenue in the ongoing businesses. Traditional investments operating income was CHF 319 million compared with CHF 294 million due to the abovementioned gain on disposal. Alternative and quantitative investments operating income was higher at CHF 73 million compared with CHF 68 million. Global real estate operating income was also higher at CHF 75 million compared with CHF 67 million. Infrastructure and private equity operating income was CHF 9 million, CHF 1 million higher than in the first quarter of 2012. Fund services operating income was CHF 41 million, unchanged from the first quarter of 2012.

Total operating expenses were CHF 327 million compared with CHF 309 million in the first quarter of 2012. After adjusting for a credit of CHF 30 million in the first quarter of 2012 related to changes to our Swiss pension plan and the net effects of restructuring, operating expenses were CHF 10 million lower in the first quarter of 2013.

Investment performance

In the first quarter, a majority of our equity strategies outperformed their benchmarks. In markets that continued to be driven primarily by stock fundamentals, our good performance across the strategy range reflects our focus mainly on stock selection strategies underpinned by research-driven processes.

In fixed income it was a mixed quarter, with some strategies outperforming benchmarks while others lagged. In an environment of continued macro uncertainty, our duration positioning detracted. The contribution from our credit positioning was broadly flat although security selection was negative in a period where we generally reduced portfolio risk. Longer-term performance records remained strong.

In global investment solutions, performance of key allocation strategies was in line with or above benchmarks for the quarter. Absolute return strategies had positive performance for the quarter and income-orientated strategies performed notably strongly.

Among alternative strategies (not shown in the Investment performance – key composites versus benchmarks table), our real estate strategies generally delivered positive absolute performance. In alternative and quantitative investments, core single-manager funds produced mixed returns for the quarter while multi-manager fund of hedge funds generated solid positive returns. Direct infrastructure, infrastructure fund of funds and private equity fund of funds performed in line with their respective investment strategies.

Investment performance versus peers, as represented by a broad range of UBS wholesale funds, remained robust. Across all asset classes, and on an asset-weighted basis, 60% of our funds ranked in the top two quartiles over one year, 73% over three years and 76% over five years. In real estate and alternatives, the percentage in the top two quartiles over one year deteriorated compared with the prior quarter as a large Swiss listed real estate fund, which dominates that category, moved from lower second quartile to upper third quartile.

Investment performance – key composites versus benchmarks

The table below shows investment performance for approximately 50% of Global Asset Management's CHF 291 billion actively managed invested assets in traditional investments on 31 March 2013. This figure excludes CHF 148 billion in indexed (passive) investments, CHF 76 billion in actively managed money market funds and CHF 85 billion in actively managed alternatives (including alternative and quantitative investments, 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. UBS Australian Composite Bond Index (0+ Yrs)	+	+	+	+
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	+	–	–	–
Dynamic Alpha Composite vs. US T-Bills 30 Day	+	+	+	+
Global Convertible Bonds Composite (hedged in EUR) vs. UBS Global Convertible Index – Global Vanilla Hedged EUR	–	+	–	+

1 Customized benchmark.

(+) 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 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 96 billion on 31 March 2013. The peer universe includes all funds registered in countries included in the MSCI Europe Developed Markets Universe. Money market funds and indexed (passive) funds are excluded.

		Annualized	
Percentage of fund assets ranking in first or second quartile	1 year	3 years	5 years
Equities	43	58	72
Fixed income	67	71	79
Multi-asset	79	84	74
Real estate and alternative	20	80	80
Total	**60**	**73**	**76**

Source: ThomsonReuters LIM 2.7 (Lipper Investment Management) data extracted on 8 April 2013 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.

Retail & Corporate

Profit before tax was CHF 347 million in the first quarter of 2013 compared with CHF 361 million in the prior quarter. Adjusted for restructuring charges, profit before tax was unchanged at CHF 362 million as lower income was offset by lower operating expenses and credit loss expenses. Net new business volume growth was 4.7% and remained above our target range. Net new business volume growth was positive for both retail and corporate businesses as well as for net new client assets and to a lesser extent for loans.

Business division reporting[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Net interest income	**531**	556	539	(4)	(1)
Net fee and commission income	**296**	301	303	(2)	(2)
Net trading income	**78**	78	64	0	22
Other income	**14**	18	12	(22)	17
Income	**919**	953	918	(4)	0
Credit loss (expense) / recovery	**0**	(20)	18	(100)	(100)
Total operating income	**919**	933	936	(2)	(2)
Personnel expenses[2]	**378**	354	156	7	142
General and administrative expenses	**197**	228	214	(14)	(8)
Services (to) / from other business divisions	**(37)**	(41)	(138)	(10)	(73)
Depreciation and impairment of property and equipment	**34**	32	33	6	3
Amortization and impairment of intangible assets	**0**	0	0		
Total operating expenses[2, 3]	**572**	572	265	0	116
Business division operating profit / (loss) before tax	**347**	361	671	(4)	(48)
Key performance indicators[4]					
Pre-tax profit growth (%)	**(3.9)**	(8.6)	66.5		
Cost / income ratio (%)	**62.2**	60.0	28.9		
Net interest margin (%)	**1.54**	1.62	1.59		
Net new business volume growth (%)	**4.7**	4.4	4.2		
Impaired loan portfolio as a % of total loan portfolio, gross (%)[5]	**0.7**	0.7	0.7		
Additional information					
Average attributed equity (CHF billion)[6]	**4.4**	4.4	5.0	0	(12)
Return on attributed equity (RoaE) (%)	**31.5**	40.6	53.7		
Risk-weighted assets (phase-in, CHF billion)[7]	**33.7**	31.9		6	
Risk-weighted assets (fully applied, CHF billion)[7]	**32.0**	30.2		6	
Return on risk-weighted assets, gross (%)[8]	**11.2**	13.8	14.6		
Goodwill and intangible assets (CHF billion)	**0.0**	0.0	0.0		
Business volume (CHF billion)	**534**	518	476	3	12
Client assets (CHF billion)[9]	**396**	381	341	4	16
Loans, gross (CHF billion)	**138.1**	137.3	136.0	1	2
Due to customers (CHF billion)	**132.1**	131.1	120.7	1	9
Secured loan portfolio as a % of total loan portfolio, gross (%)	**92.1**	91.7	90.9		
Personnel (full-time equivalents)	**9,652**	10,156	11,417	(5)	(15)

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. Refer to the "Recent developments" section of this report for more information. 2 Personnel expenses include credits to personnel expenses related to changes to our Swiss pension plan in the first quarter of 2012. 3 Refer to "Note 19 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 our Annual Report 2012. 5 Refer to the "Risk management and control" section of this report for more information on impairment ratios. 6 Refer to the "Capital management" section of our Annual Report 2012 for more information about the equity attribution framework. 7 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information. 8 Based on BIS Basel III risk-weighted assets (phase-in) for 2013. Based on Basel 2.5 risk-weighted assets for 2012. 9 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 the Annual Report 2012 for more information.

Results: 1Q13 vs 4Q12

Operating income

Total operating income decreased by CHF 14 million to CHF 919 million, as lower income was only partly offset by lower credit loss expenses.

Net interest income decreased by CHF 25 million to CHF 531 million, mainly reflecting lower treasury-related interest income. Historically low interest rates continued to negatively affect the client deposit margin as lower deposit reinvestment rates were only partly offset by selective pricing adjustments implemented late in the quarter, while the loan margin remained stable. Average client deposit as well as loan volumes increased for the fourth consecutive quarter. In addition, interest income decreased due to lower income allocation from the Group related to investment proceeds from the firm's equity. This was partly offset by lower costs related to the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury.

Net fee and commission income was CHF 296 million, down CHF 5 million as the previous quarter included fees from high corporate finance activity. Net trading income was unchanged at CHF 78 million.

Other income decreased by CHF 4 million to CHF 14 million, reflecting lower income related to assets managed centrally by Group Treasury.

Net credit loss expenses were CHF 0 million in the first quarter compared with CHF 20 million in the previous quarter. The first quarter results included a release of CHF 14 million collective loan loss allowances, mainly reflecting the ongoing review of the portfolio, compared with a release of CHF 19 million in the prior quarter, offset by credit loss expenses of CHF 14 million from specific allowances compared with CHF 39 million in the prior quarter.

Operating expenses

Total operating expenses were CHF 572 million, unchanged from the previous quarter, reflecting lower general and administrative expenses which were mostly offset by higher personnel expenses. Adjusted for restructuring charges of CHF 15 million in the first quarter and CHF 1 million in the fourth quarter, operating expenses decreased by CHF 14 million to CHF 557 million.

Personnel expenses increased to CHF 378 million from CHF 354 million, mainly due to higher variable compensation accruals, compared with a low fourth quarter, as well as increased accruals for untaken vacation. This was partly offset by lower pension plan costs.

General and administrative expenses were CHF 197 million compared with CHF 228 million in the previous quarter, which included net charges for provisions for litigation, regulatory and similar matters of CHF 17 million. Moreover, there were seasonally lower costs for information technology and real estate as well as decreased marketing expenses in the first quarter, partly offset by higher restructuring costs.

Net charges out for services to other business divisions were CHF 37 million, slightly down from CHF 41 million in the previous quarter. Depreciation expenses were CHF 34 million, a slight increase from CHF 32 million in the fourth quarter.

➔ **Refer to the "Group results" section of this report for more information on adjusting items**

Cost/income ratio

The cost/income ratio increased 2.2 percentage points to 62.2%, reflecting lower income. On an adjusted basis excluding restructuring charges, the cost/income ratio increased to 60.6% from 59.9% and was slightly above the target range of 50% to 60%.

Net interest margin

The net interest margin decreased 8 basis points to 154 basis points, reflecting lower net interest income and a slightly higher average loan volume. The net interest margin was within the target range of 140 to 180 basis points.

Net new business volume growth

The annualized growth rate for net new business volume was 4.7% compared with 4.4% in the previous quarter. 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. Moderate net new loan inflows were in line with our strategy to selectively grow our business in high-quality loans. Net new business volume growth was above the target range of 1% to 4%.

Personnel: 1Q13 vs 4Q12

Retail & Corporate employed 9,652 personnel on 31 March 2013 compared with 10,156 on 31 December 2012. The changes to allocations of centralized shared services units' personnel led to a decline of approximately 500 personnel.

➔ **Refer to the "Recent developments" section of this report for more information on changes to allocations of centralized shared services units' personnel**

Results: 1Q13 vs 1Q12

Profit before tax decreased to CHF 347 million from CHF 671 million in the first quarter of 2012, mainly as the first quarter of 2012 included a credit in personnel expenses of CHF 287 million related to changes to our Swiss pension plan. Moreover, restructuring charges were CHF 15 million in the first quarter of 2013 compared with CHF 7 million a year earlier. Adjusted for these items, profit before tax decreased to CHF 362 million from CHF 391 million.

Total operating income decreased by CHF 17 million to CHF 919 million from CHF 936 million a year earlier. Net interest income was CHF 8 million lower at CHF 531 million, as historically low interest rates continued to affect the deposit margin substantially despite selective pricing adjustments, while the loan margin remained stable. This was partly offset by lower costs related to assets managed centrally by Group Treasury and higher treasury-related income.

Net fee and commission income were CHF 296 million down from CHF 303 million in the prior year partly reflecting lower non-asset-based fees. Net trading income increased to CHF 78 million from CHF 64 million, reflecting changes in the fair value of credit default swaps to hedge certain loans and higher treasury-related income. Other income was at CHF 14 million, virtually unchanged from CHF 12 million in the first quarter of 2012.

Credit loss expenses were CHF 0 million in the first quarter of 2013 compared with a credit loss recovery of CHF 18 million one year earlier. This included collective loan loss allowances, which are based on an ongoing review of the portfolio, reflecting a decrease of CHF 14 million in the first quarter of 2013 compared with a decrease of CHF 8 million in the first quarter of the prior year.

Operating expenses increased to CHF 572 million from CHF 265 million one year earlier, mainly as the first quarter of 2012 included a credit in personnel expenses of CHF 287 million related to changes to our Swiss pension plan. Adjusted for these changes and restructuring charges, operating expenses were up by CHF 12 million to CHF 557 million.

Personnel expenses increased by CHF 222 million to CHF 378 million, reflecting the abovementioned changes to our Swiss pension plan. Adjusted for these changes and restructuring charges, personnel expenses decreased by CHF 60 million, mainly due to the centralization of operations units at the beginning of the third quarter of 2012. This centralization and subsequent reallocation of the operations units had the effect of reducing personnel as well as general and administrative expenses and decreasing net charges to other business divisions.

➔ Refer to the "Significant accounting and financial reporting structure changes" section in the Annual Report 2012 for more information on changes related to the centralization of operations units

Non-personnel expenses increased to CHF 194 million from CHF 108 million in the first quarter of 2012. Adjusted for restructuring charges of CHF 13 million in the first quarter of 2013, non-personnel expenses increased by CHF 73 million to CHF 181 million. The abovementioned centralization of operations units led to a decrease in net charges to other business divisions, which was partially offset by a decrease in general and administrative expenses.

Corporate Center

Corporate Center reporting – Total[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Income	**207**	216	761	(4)	(73)
Credit loss (expense) / recovery[2]	**(2)**	15	22		
Total operating income excluding own credit	**206**	231	783	(11)	(74)
Own credit[3]	**(181)**	(414)	(1,164)	(56)	(84)
Total operating income as reported	**24**	(183)	(381)		
Personnel expenses[4]	**287**	283	244	1	18
General and administrative expenses	**675**	2,198	147	(69)	359
Services (to) / from other business divisions	**(4)**	22	112		
Depreciation and impairment of property and equipment	**31**	15	10	107	210
Amortization and impairment of intangible assets	**1**	0	4		(75)
Total operating expenses[4, 5]	**989**	2,519	517	(61)	91
Operating profit / (loss) before tax	**(964)**	(2,702)	(898)	(64)	7
Operating profit / (loss) before tax excluding own credit	***(783)***	*(2,288)*	*267*	*(66)*	
Additional information					
Average attributed equity (CHF billion)[6]	**24.8**	20.8	24.9	19	0
Total assets (CHF billion)[7]	**616.5**	671.9	772.6	(8)	(20)
Risk-weighted assets (phase-in, CHF billion)[8]	**114.5**	119.1		(4)	
Risk-weighted assets (fully applied, CHF billion)[8]	**113.9**	118.6		(4)	
Personnel before allocations (full-time equivalents)	**25,284**	25,813	26,534	(2)	(5)
Allocations to business divisions (full-time equivalents)	**(22,284)**	(23,022)	(23,707)	(3)	(6)
Personnel after allocations (full-time equivalents)	**3,000**	2,792	2,827	7	6

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. Refer to the "Recent developments" section of this report for more information. 2 Includes credit loss (expense) / recovery on 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 March 2013 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 12 Fair value measurement" in the "Financial information" section of this report for more information. 4 Personnel expenses include credits to personnel expenses related to changes to our Swiss pension plan in the first quarter of 2012. 5 Refer to "Note 19 Changes in organization" in the "Financial information" section of this report for information on restructuring charges. 6 Refer to the "Capital management" section of our Annual Report 2012 for more information about the equity attribution framework. 7 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. 8 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information.

Corporate Center – Core Functions

The result before tax in the first quarter of 2013 was a loss of CHF 719 million compared with a loss of CHF 1,886 million in the previous quarter. The first quarter included lower charges for provisions for litigation, regulatory and similar matters and an own credit loss of CHF 181 million compared with a loss of CHF 414 million in the fourth quarter of 2012. Treasury income remaining in Corporate Center – Core Functions after allocations to the business divisions was negative CHF 255 million compared with positive CHF 94 million in the prior quarter.

Corporate Center reporting – Core Functions[1]

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Income	**(298)**	174	73		
Credit loss (expense) / recovery	**0**	0	0		
Total operating income excluding own credit	**(298)**	174	73		
Own credit[2]	**(181)**	(414)	(1,164)	(56)	(84)
Total operating income as reported	**(479)**	(240)	(1,091)	100	(56)
Personnel expenses[3]	**146**	85	78	72	87
General and administrative expenses	**94**	1,556	19	(94)	395
Services (to) / from other business divisions	**0**	2	6	(100)	(100)
Depreciation and impairment of property and equipment	**(1)**	3	1		
Amortization and impairment of intangible assets	**0**	0	0		
Total operating expenses[3, 4]	**239**	1,646	104	(85)	130
Operating profit / (loss) before tax	**(719)**	(1,886)	(1,196)	(62)	(40)
Operating profit / (loss) before tax excluding own credit	***(538)***	*(1,472)*	*(31)*	*(63)*	
Additional information					
Average attributed equity (CHF billion)[5]	**10.9**	4.9	7.4	122	47
Total assets (CHF billion)[6]	**234.3**	243.3	301.7	(4)	(22)
Risk-weighted assets (phase-in, CHF billion)[7]	**19.6**	16.6		18	
Risk-weighted assets (fully applied, CHF billion)[7]	**19.0**	16.1		18	
Personnel before allocations (full-time equivalents)	**24,961**	25,272	25,947	(1)	(4)
Allocations to business divisions (full-time equivalents)	**(23,869)**	(24,784)	(25,534)	(4)	(7)
Personnel after allocations (full-time equivalents)	**1,092**	488	413	124	164
Corporate Center – Core Functions – expenses before service allocation to business divisions and CC – Non-core and Legacy Portfolio					
Personnel expenses[3]	**1,107**	1,118	860	(1)	29
General and administrative expenses	**1,148**	2,514	845	(54)	36
Depreciation and impairment of property and equipment	**197**	176	148	12	33
Amortization and impairment of intangible assets	**1**	0	0		
Total operating expenses before service allocation to business divisions and CC – Non-core and Legacy Portfolio[3, 4]	**2,453**	3,809	1,853	(36)	32
Net allocations to business divisions and CC – Non-core and Legacy Portfolio	**(2,213)**	(2,163)	(1,749)	2	27
Total operating expenses[3, 4]	**239**	1,646	104	(85)	130

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. Refer to the "Recent developments" section of this report for more information. 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 2013 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 12 Fair value measurement" in the "Financial information" section of this report for more information. 3 Personnel expenses include credits to personnel expenses related to changes to our Swiss pension plan in the first quarter of 2012. 4 Refer to "Note 19 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 2012 for more information about 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 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information.

Results: 1Q13 vs 4Q12

Operating income

Total operating income was negative CHF 479 million in the first quarter of 2013 compared with negative CHF 240 million in the prior quarter. On an adjusted basis, excluding own credit, losses related to the buyback of debt in a public tender offer and the foreign currency translation loss related to the sale of the remaining proprietary trading business through the sale of a subsidiary, operating income was negative CHF 155 million compared with positive CHF 174 million in the prior quarter.

Adjusted Treasury income excluding the losses related to the buyback of debt in a public tender offer and the abovementioned foreign currency translation loss, remaining in Corporate Center – Core Functions, after allocations to the business divisions, was negative CHF 112 million compared with positive CHF 94 million in the prior quarter. This change was driven by hedge ineffectiveness losses of CHF 60 million arising from the basis risk inherent within our macro cash flow hedge accounting model compared with a gain of CHF 37 million in the prior quarter. Furthermore, the implementation of an agreement to allocate the income from management of excess liabilities of CHF 30 million to the business divisions reduced Treasury income as such income was retained in the previous quarter. The result also reflected losses from valuation adjustments and hedging activity.

The average size of our multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Group Treasury remained stable. However, the costs associated with managing this portfolio decreased in the first quarter due to reduced funding costs. The first quarter included CHF 27 million of costs on attributed equity related to the goodwill and intangible assets that arose from the PaineWebber acquisition that was allocated to the business divisions in prior periods. Furthermore, the previous quarter included a gain of CHF 112 million related to the sale of properties in Switzerland.

➔ **Refer to the "Group results" section of this report for more information on adjusting items**

➔ **Refer to the "Recent developments" section of this report for more information on changes related to attributed equity**

Own credit

An own credit loss on financial liabilities designated at fair value of CHF 181 million was recorded in the first quarter of 2013, primarily due to a tightening of our funding spreads over the quarter. An own credit loss of CHF 414 million was recorded in the prior quarter.

➔ **Refer to "Note 12 Fair value measurement" 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 and Corporate Center – Non-core and Legacy Portfolio, total operating expenses decreased by CHF 1,356 million to CHF 2,453 million in the first quarter of 2013.

Adjusted operating expenses before service allocations excluding restructuring charges of CHF 269 million were CHF 2,184 million in the first quarter compared with CHF 3,789 million excluding restructuring charges of CHF 20 million in the previous quarter. This decrease of CHF 1,605 million was primarily related to charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates of CHF 1,470 million in the fourth quarter of 2012. In addition, in Corporate Center – Core Functions there were lower marketing and technology costs in the first quarter of 2013.

Personnel expenses decreased by CHF 11 million to CHF 1,107 million, mainly due to headcount reductions related to the accelerated implementation of our strategy, partly offset by additional variable compensation accruals and the seasonal effect of vacation accruals in the first quarter of 2013.

General and administrative expenses decreased by CHF 1,366 million to CHF 1,148 million, mainly due to a reduction of CHF 1,444 million in charges for provisions for litigation, regulatory and similar matters as well as higher marketing and technology-related service costs in the fourth quarter. This was partly offset by real estate-related restructuring charges of CHF 219 million in the first quarter due to the recognition of provisions for onerous lease contracts as we progress with the Group-wide program to drive long-term efficiencies, announced in October 2012.

Depreciation increased to CHF 197 million from CHF 176 million in the previous quarter, mainly due to real estate-related restructuring charges resulting from the recognition of asset impairments in the first quarter.

The business divisions and Non-core and Legacy Portfolio were charged CHF 2,213 million for shared services costs, an increase of CHF 50 million from the previous quarter, primarily reflecting the aforementioned real estate-related restructuring charges, partly offset by lower marketing and technology-related service costs in the first quarter.

Total operating expenses remaining after allocations to the business divisions and Non-core and Legacy Portfolio decreased to CHF 239 million from CHF 1,646 million in the prior quarter, primarily due to charges for provisions for litigation, regulatory and similar matters of CHF 1,470 million incurred in the fourth quarter. This was partly offset in the first quarter by the seasonal effect of vacation accruals. Another offsetting factor was the ongoing refinement of the cost allocation keys for the business divisions and Non-core and Legacy Portfolio following the accelerated implementation of our strategy, particularly the changes affecting our Investment Bank, which resulted in an under-recovery in Corporate Center – Core Functions of approximately CHF 50 million.

Risk-weighted assets

Fully applied BIS Basel III risk-weighted assets (RWA) increased by CHF 3 billion to CHF 19 billion as of 31 March 2013 from CHF 16 billion on a pro-forma basis as of 31 December 2012 mainly because of an increase in operational risk RWA triggered by the losses incurred in 2012 related to the LIBOR matter, which was partially offset by a decrease in market risk RWA resulting from the transfer from the Investment Bank to Corporate Center – Core Functions of the market risk diversification benefits that arise between positions that have now been moved to Corporate Center – Non-core and positions remaining in the Investment Bank.

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

Personnel: 1Q13 vs 4Q12

At the end of the first quarter of 2013, Corporate Center – Core Functions employed 24,961 personnel, with 23,869 allocated to the business divisions as well as the Non-core and Legacy Portfolio unit, based on services consumed. The decrease of 311 personnel from the prior quarter was mainly related to the accelerated implementation of our strategy announced in October 2012. The 1,092 personnel remaining in Corporate Center – Core Functions after allocations were related to Group governance functions and other corporate activities. In addition, it reflects the ongoing refinement of the cost allocation keys for the business divisions and Non-core and Legacy Portfolio following the accelerated implementation of our strategy, particularly the changes affecting our Investment Bank, which resulted in an under-recovery in Corporate Center – Core Functions equivalent to approximately 600 personnel.

➔ Refer to the "Recent developments" section of this report for more information on changes to allocations of centralized shared services units' personnel

Results: 1Q13 vs 1Q12

The result before tax was a loss of CHF 719 million in the first quarter of 2013 compared with a loss of CHF 1,196 million in the first quarter of 2012. On an adjusted basis, the result before tax was a loss of CHF 398 million compared with an adjusted loss of CHF 32 million.

Adjusted total operating income excluding own credit as well as the losses related to the buyback of debt in a public tender offer and the abovementioned foreign currency translation loss decreased by CHF 228 million to negative CHF 155 million. Adjusted Treasury income remaining in Corporate Center – Core Functions after allocations to the business divisions decreased by CHF 253 million to negative CHF 112 million. This change was driven by hedge ineffectiveness losses of CHF 60 million arising from the basis risk inherent within our macro cash flow hedge accounting model compared with a gain of CHF 60 million in the prior quarter. The result also reflected losses from valuation adjustments and hedging activity.

On a gross basis before service allocations, total operating expenses increased by CHF 600 million to CHF 2,453 million. Adjusted costs before allocations to the business divisions and Non-core and Legacy Portfolio excluding restructuring charges of CHF 269 million were CHF 2,184 million compared with CHF 2,132 million excluding restructuring charge releases of CHF 3 million and a positive effect of the changes to our Swiss pension plan of CHF 276 million. This increase of CHF 52 million was mainly related to charges for provisions for litigation, regulatory and similar matters as well as increased legal fees.

Corporate Center – Non-core and Legacy Portfolio

The result before tax was a loss of CHF 245 million in the first quarter of 2013 compared with a loss of CHF 816 million in the previous quarter. This was mainly due to a positive debit valuation adjustment on our derivatives portfolio, a higher gain from the revaluation of our option to acquire the SNB StabFund's equity as well as lower charges for provisions for litigation, regulatory and similar matters.

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

	As of or for the quarter ended			% change from	
CHF million, except where indicated	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Non-core	**231**	31	525	645	(56)
Legacy Portfolio	**274**	12	163		68
of which: SNB StabFund option	***245***	*94*	*131*	*161*	*87*
Income	**506**	43	688		(26)
Credit loss (expense) / recovery[2]	**(2)**	15	22		
Total operating income	**504**	57	710	784	(29)
Personnel expenses[3]	**141**	198	166	(29)	(15)
General and administrative expenses	**580**	642	127	(10)	357
Services (to) / from other business divisions	**(4)**	20	106		
Depreciation and impairment of property and equipment	**31**	13	9	138	244
Amortization and impairment of intangible assets	**1**	1	4	0	(75)
Total operating expenses[3, 4]	**749**	873	412	(14)	82
Operating profit / (loss) before tax	**(245)**	(816)	298	(70)	
Additional information					
Average attributed equity (CHF billion)[5]	**13.9**	15.9	17.5	(13)	(21)
Total assets (CHF billion)[6]	**382.2**	428.6	470.9	(11)	(19)
Risk-weighted assets (phase-in, CHF billion)[7]	**94.9**	102.5		(7)	
Risk-weighted assets (fully applied, CHF billion)[7]	**94.9**	102.5		(7)	
Personnel after allocations (full-time equivalents)	**1,908**	2,304	2,414	(17)	(21)

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. Refer to the "Recent developments" section of this report for more information. 2 Includes credit loss (expense) / recovery on reclassified and acquired securities. 3 Personnel expenses include credits to personnel expenses related to changes to our Swiss pension plan in the first quarter of 2012. 4 Refer to "Note 19 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 2012 for more information about 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 In accordance with the BIS Basel III framework. Refer to the "Capital management" section of this report for more information.

Results: 1Q13 vs 4Q12

Operating income
Total operating income was CHF 504 million in the first quarter of 2013 compared with CHF 57 million in the fourth quarter of 2012. On an adjusted basis, total operating income excluding a CHF 27 million trading gain related to the buyback of debt in a public tender offer increased by CHF 420 million to CHF 477 million. The revaluation of our option to acquire the SNB StabFund's equity resulted in a gain of CHF 240 million in the first quarter, primarily due to higher market valuation of the fund's assets, compared with CHF 91 million in the prior quarter. Non-core revenues increased in credit. Also within Non-core, we recorded a debit valuation adjustment gain in our derivatives portfolio of CHF 37 million compared with a loss of CHF 188 million in the prior quarter. Legacy Portfolio income excluding the SNB StabFund was positive CHF 27 million in the first quarter, mainly due to residual risk positions.

➔ Refer to the "Group results" section of this report for more information on adjusting items

Operating expenses
Total operating expenses decreased to CHF 749 million from CHF 873 million in the prior quarter. On an adjusted basis, excluding restructuring charges, operating expenses decreased by CHF 261 million to CHF 561 million.

Personnel expenses decreased by CHF 57 million to CHF 141 million in the first quarter, mainly resulting from the headcount reductions related to the accelerated implementation of our strategy.

General and administrative expenses decreased by CHF 62 million to CHF 580 million, largely due to lower charges for provisions for litigation, regulatory and similar matters as well as decreased legal fees. In addition, the fourth quarter of 2012 included a charge of CHF 73 million for the annual UK bank levy. This was partly offset by real estate-related restructuring charges in the first quarter related to the aforementioned progress with the accelerated implementation of our strategy and the Group-wide program to drive long-term efficiencies.

Depreciation increased to CHF 31 million from CHF 13 million in the previous quarter, mainly due to real estate-related restructuring charges resulting from the recognition of asset impairments in the first quarter.

Risk-weighted assets
Fully applied BIS Basel III risk-weighted assets decreased by CHF 8 billion to CHF 95 billion at the end of the first quarter of 2013, making clear progress towards achieving our target of approximately CHF 85 billion by 31 December 2013. Most of this decrease resulted from changes in methodology and from a revised divisional allocation of operational risk RWA triggered by the losses incurred in 2012 in Corporate Center – Core Functions related to the LIBOR matter. The decrease also reflected asset disposals that reduced market risk RWA. These factors were partially offset by RWA increases due to foreign exchange movements and rating downgrades on securitized assets.

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

Operating income by business unit: 1Q13 vs 4Q12

Non-core
Total operating income increased by CHF 198 million to CHF 232 million in the first quarter of 2013. On an adjusted basis, total operating income was CHF 205 million in the first quarter of 2013 which was significantly up on the CHF 34 million reported in the fourth quarter of 2012. This was predominantly due to a positive result in credit as well as a positive debit valuation adjustment on our derivatives portfolio. In line with our strategy to reduce RWA, we took advantage of favorable market conditions in the first quarter to unwind certain risk positions, which contributed to lower RWA of CHF 59 billion compared with CHF 65 billion at the end of the prior quarter.

Credit revenues increased 16% to CHF 114 million from CHF 98 million in the fourth quarter of 2012. This was a result of mark-to-market gains for distressed assets resulting from increased investor appetite for higher yielding assets in the first quarter of 2013, together with idiosyncratic events around specific risk positions. In addition, continued risk reduction in structured credit portfolios and tighter credit spreads resulted in gains from liquidity and model reserve releases. Rates revenues decreased 64% from CHF 168 million to CHF 60 million due to risk mitigation in the first quarter related to the accelerated implementation of our strategy. The fourth quarter of 2012 included commodities revenues of CHF 88 million related to the sale of an equity investment classified as available-for-sale. Other Non-core revenues were CHF 58 million for the first quarter compared with negative CHF 232 million, mainly due to a debit valuation adjustment on our derivatives portfolio of positive CHF 37 million for the first quarter compared with a debit valuation adjustment of negative CHF 188 million in the prior quarter.

Legacy Portfolio

Total operating income was CHF 272 million, predominantly related to the revaluation of our option to acquire the SNB StabFund's equity, which resulted in a gain of CHF 240 million in the first quarter of 2013, primarily due to higher market valuation of the fund's assets, compared with a gain of CHF 91 million in the prior quarter.

Furthermore, operating income excluding the SNB StabFund increased by CHF 98 million to positive CHF 27 million. This was primarily due to continuing improved performance on real estate assets and reference-linked notes, partly offset by losses on municipal swaps. Fourth quarter 2012 revenues were negative CHF 71 million driven by a negative basis adjustment related to student loan-auction rate securities, markdowns on collateralized debt obligations and a credit valuation adjustment.

➔ **Refer to the "Non-trading portfolios" section within the "Risk, treasury and capital management" section of our Annual Report 2012 for more information on our option to acquire the SNB StabFund's equity**

Personnel: 1Q13 vs 4Q12

At the end of the first quarter of 2013, a total of 1,908 personnel were employed within Non-core and Legacy Portfolio including the SNB StabFund investment management team compared with 2,304 in the prior quarter. This reduction included 218 front office personnel and a lower allocation of centralized shared services units' personnel.

➔ **Refer to the "Recent developments" section of this report for more information on changes to allocations of centralized shared services units' personnel**

Results: 1Q13 vs 1Q12

The result before tax was a loss of CHF 245 million in the first quarter of 2013 compared with a gain of CHF 298 million in the first quarter of 2012. On an adjusted basis, the result before tax was a loss of CHF 84 million compared with a gain of CHF 303 million.

Total operating income decreased by CHF 206 million to CHF 504 million. Adjusted operating income decreased to CHF 477 million from CHF 710 million. Adjusted Non-core total operating income was CHF 205 million in the first quarter of 2013 compared with CHF 541 million in the first quarter of 2012. This resulted from decreased revenues in credit and rates due to risk mitigation and RWA reduction in the first quarter of 2013 related to the accelerated implementation of our strategy. The first quarter of 2012 was characterized by increased liquidity with strong two-way client flow in credit and rates, along with a loss of CHF 37 million from a debit valuation adjustment on our derivatives portfolio.

Total operating income in the Legacy Portfolio was CHF 272 million compared with CHF 170 million. The revaluation of our option to acquire the SNB StabFund's equity resulted in a gain of CHF 240 million in the first quarter of 2013 compared with a gain of CHF 127 million in the first quarter of 2012. Excluding the SNB StabFund option, total operating income from the Legacy Portfolio was CHF 27 million compared with CHF 39 million. This decrease was mainly due to a net credit loss recovery in the first quarter of 2012.

Total operating expenses increased to CHF 749 million from CHF 412 million. On an adjusted basis excluding restructuring charges, total operating expenses increased by CHF 154 million to CHF 561 million, mainly due to higher charges for provisions for litigation, regulatory and similar matters partly offset by lower personnel expenses resulting from the headcount reductions related to the accelerated implementation of our strategy as well as reduced services consumed.

Risk and treasury management

Management report

Risk management and control

Our credit risk profile was largely unchanged over the quarter and there were no material credit losses in the period. Market risk remained at a low level. Further progress was made in strengthening our operational control framework and in the continued remediation of identified operational risk issues. Beyond the traditional credit, market and operational risks, the firm continues to be subject to execution risk, especially in relation to the accelerated implementation of its strategy, including the rundown of positions in Corporate Center – Non-core and Legacy Portfolio, as well as the risk from pending or potential litigation.

In the first quarter of 2013, the non-core businesses of the Investment Bank were transferred to the Corporate Center. The management of market risk has been aligned to the new organization structure, although the management of counterparty credit risk continues to operate on a centralized basis at a counterparty level.

Notwithstanding the separation of non-core activities, the organization and day-to-day responsibilities of Risk Control have not fundamentally changed and the function continues to apply a holistic approach to risks across the Investment Bank, Non-core and the Legacy Portfolio.

We have modified the structure of the Risk management and control section to present the risk profile of UBS excluding Non-core and Legacy Portfolio and to provide more granular information on Non-core and Legacy Portfolio exposures.

Risk profile of the Group

This section provides an overview of credit risk (comprising banking products and traded products), market risk, interest rate risk in the banking book, exposure to selected eurozone countries and operational risk across the Group as of 31 March 2013.

Banking products

Gross banking products exposure increased by CHF 10 billion to CHF 456 billion over the quarter, mainly due to increased levels of lending in our wealth management businesses. CHF 292 billion of banking products related to loans, of which 41% was loans secured by residential and commercial properties in Retail & Corporate, 22% from loans secured by securities within our wealth management businesses and 5% from loans within Non-core and Legacy Portfolio.

➔ **Refer to the "Risk, treasury and capital management" section of our Annual Report 2012 for information on credit risk, impairment and default**

Traded products

Credit risk arising from traded products (OTC derivatives, exchange traded derivatives, securities financing transactions), after the effects of master netting agreements, but excluding credit valuation adjustments (CVA) and hedges, increased by CHF 7 billion to CHF 63 billion over the quarter. The majority of this exposure related to OTC derivatives, predominantly within the Investment Bank and Non-core and Legacy Portfolio. As counterparty risk for OTC exposure is managed at counterparty level, no split between exposures in Non-core and Legacy Portfolio and those in the Investment Bank is provided.

Allowances and provisions for credit losses[1]

CHF million, except where indicated	IFRS exposure, gross		Impaired exposure[2]		Specific allowances and provisions for credit losses[3]		Estimated liquidation proceeds of collateral		Impairment ratio (%)	
	31.3.13	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12
Group										
Balances with central banks	**62,564**	63,997	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Due from banks	**19,882**	20,362	**45**	45	**20**	20	**0**	0	**0.2**	0.2
Loans[4]	**277,770**	266,512	**1,025**	1,053	**529**	532	**243**	264	**0.4**	0.4
Guarantees[4]	**14,828**	15,765	**72**	74	**50**	56	**5**	6	**0.5**	0.5
Loan commitments[4]	**46,931**	58,032	**17**	28	**11**	8	**0**	0	**0.0**	0.0
Banking products Group, excluding CC – Non-core and Legacy Portfolio	**421,974**	424,668	**1,159**	1,200	**611**	617	**248**	270	**0.3**	0.3
Banking products Non-core[4]	**22,392**	9,186	**463**	437	**30**	22	**100**	99	**2.1**	4.8
Banking products Legacy Portfolio[5]	**11,875**	11,988	**115**	113	**41**	38	**76**	74	**1.0**	0.9
Banking products CC – Non-core and Legacy Portfolio	**34,267**	21,175	**577**	549	**71**	61	**175**	173	**1.7**	2.6
Total banking products	**456,241**	445,843	**1,736**	1,749	**682**	677	**424**	443	**0.4**	0.4

1 Excludes allowances for securities borrowed. 2 Excludes reclassified securities that are not considered impaired. 3 Excludes CHF 100 million (31.12.12: CHF 114 million) in collective loan loss allowances. 4 In March 2013, certain lending facilities in the Investment Bank were transferred to Corporate Center – Non-core, resulting in a decrease to Loans of CHF 1.7 billion, to Guarantees of CHF 0.4 billion and to Loan commitments of CHF 11.4 billion, with a corresponding increase of CHF 13.5 billion to Banking products Non-core. 5 Includes reclassified securities, see "Note 13 Reclassification of financial assets" in the "Financial information section" of this report for more information.

Market risk

Market risk, measured as 1-day, 95% confidence level management value-at-risk (VaR), decreased by CHF 3 million to CHF 15 million and remains at low levels by historical standards. The main contributors to VaR are the Investment Bank and the Corporate Center – Non-core portfolio, mainly credit spread and interest rate risk.

There were no material changes to our VaR model in the first quarter of 2013.

We had no group backtesting exceptions in the first quarter of 2013 and a total of one backtesting exception during the 12 months preceding the quarter end.

➔ **Refer to the "Risk, treasury and capital management" section of our Annual Report 2012 for information on market risk and VaR**

Group: management value-at-risk (1-day, 95% confidence, 5 years of historical data) by business division and Corporate Center

	For the quarter ended 31.3.13				For the quarter ended 31.12.12			
CHF million, except where indicated	Min.	Max.	Average	31.3.13	Min.	Max.	Average	31.12.12
Wealth Management	0	0	0	0	0	0	0	0
Wealth Management Americas	1	2	1	2	1	2	2	2
Investment Bank[1]	9	28	15	10	15	30	23	15
Global Asset Management	0	0	0	0	0	0	0	0
Retail & Corporate	0	0	0	0	0	0	0	0
Corporate Center – Core Functions[1]	4	11	6	5	4	8	6	5
Diversification effect[3]	–[2]	–[2]	(6)	(6)				
Group, excluding CC – Non-core and Legacy Portfolio	10	33	16	11				
Non-core[1]	9	13	11	11				
Legacy Portfolio[1]	6	10	8	7	8	11	9	10
Diversification effect[4]	–[2]	–[2]	(9)	(6)				
CC – Non-core and Legacy Portfolio[1]	6	14	11	12				
Diversification effect[5]	–[2]	–[2]	(8)	(8)				
Total management VaR, Group	13	33	18	15	18	33	25	18

1 Prior period figures have not been restated to reflect the transfer of non-core positions from the Investment Bank to the Corporate Center in the first quarter of 2013. 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 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. 4 Difference between the sum of the two standalone VaRs for "Non-core" and "Legacy Portfolio" and the VaR for these two portfolios as a whole. 5 Difference between the sum of the two standalone VaRs for "Group, excluding CC – Non-core and Legacy Portfolio" and the "CC – Non-core and Legacy Portfolio" and the VaR for the Group as a whole.

Group: management value-at-risk (1-day, 95% confidence, 5 years of historical data) by risk type

	For the quarter ended 31.3.13				For the quarter ended 31.12.12			
CHF million, except where indicated	Min.	Max.	Average	31.3.13	Min.	Max.	Average	31.12.12
Equities	6	16	8	8	7	20	10	8
Interest rates	9	14	11	12	11	19	14	12
Credit spreads	20	31	24	21	26	37	30	26
Foreign exchange	3	9	6	6	3	11	5	5
Energy, metals and commodities	2	5	3	2	1	7	4	3
Diversification effect	–[1]	–[1]	(34)	(35)	–[1]	–[1]	(39)	(37)
Total management VaR, Group	13	33	18	15	18	33	25	18
Diversification effect (%)			(65)	(70)			(61)	(68)

1 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Interest rate risk in the banking book

The interest rate risk sensitivity figures presented in the following table 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 are floored to ensure that the resulting interest rates are not negative. This effect, combined with pre-payment risk on US mortgage-related products, results in nonlinear behavior of the sensitivity.

➔ **Refer to the "Non-trading portfolios" section within "Risk, treasury and capital management" section of our Annual Report 2012 for more information on interest rate risk in the banking book**

Interest rate sensitivity – banking book[1]

CHF million	31.3.13				
	−200 bps	**−100 bps**	**+1 bp**	**+100 bps**	**+200 bps**
CHF	**20.1**	**33.8**	**(0.8)**	**(84.5)**	**(167.5)**
EUR	**11.3**	**(1.5)**	**(0.6)**	**(28.3)**	**(55.2)**
GBP	**17.9**	**8.5**	**(0.1)**	**(11.0)**	**(21.7)**
USD	**(287.1)**	**(156.6)**	**4.9**	**455.2**	**876.4**
Other	**(22.9)**	**(16.5)**	**0.3**	**26.6**	**53.0**
Total impact on interest rate-sensitive banking book positions	**(260.7)**	**(132.3)**	**3.6**	**358.0**	**685.1**

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**

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 the 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.

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)
31.3.13		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	**8,446**	**7,192**	**3,012**	**1,956**	***817***	**1,732**	**1,533**	**3,702**
Sovereign, agencies and central bank	3,182	2,972	137	48		235	114	2,810
Local governments	51	51	10	10		6	6	36
Banks	1,532	1,532	803	803		603	603	127
Other[2]	3,680	2,636	2,063	1,096		888	811	730
Italy	**4,042**	**2,867**	**1,681**	**1,082**	***893***	**1,423**	**846**	**939**
Sovereign, agencies and central bank	1,257	681	29	29		874	298	354
Local governments	165	165				145	145	20
Banks	695	695	478	478		191	191	26
Other[2]	1,926	1,327	1,174	575		213	212	539
Spain	**3,717**	**2,913**	**2,433**	**1,809**	***86***	**410**	**230**	**874**
Sovereign, agencies and central bank	71	71	17	17				54
Local governments	12	12				11	11	1
Banks	1,839	1,839	1,686[3]	1,686		149	149	4
Other[2]	1,795	991	730	106		251	71	815
Austria	**2,212**	**2,090**	**179**	**179**	***51***	**1,044**	**922**	**990**
Sovereign, agencies and central bank	1,559	1,437	12	12		889	768	657
Local governments	1	1						1
Banks	430	430	15	15		146	146	268
Other[2]	223	223	151	151		8	8	64
Ireland[4]	**1,310**	**1,310**	**414**	**414**	***8***	**689**	**689**	**207**
Sovereign, agencies and central bank	0	0				0	0	
Local governments								
Banks	519	519	390	390		65	65	65
Other[2]	790	790	24	24		624	624	142
Belgium	**1,072**	**1,072**	**191**	**191**	***33***	**441**	**441**	**440**
Sovereign, agencies and central bank	611	611	4	4		271	271	335
Local governments	0	0						0
Banks	218	218	78	78		108	108	32
Other[2]	243	243	108	108		62	62	72
Portugal	**167**	**45**	**143**	**22**	***21***	**6**	**6**	**18**
Sovereign, agencies and central bank								
Local governments	1	1						1
Banks	25	25	21	21		4	4	0
Other[2]	141	19	122	0		2	2	17
Greece	**71**	**71**	**0**	**0**		**12**	**12**	**58**
Sovereign, agencies and central bank	40	40	0	0				40
Local governments								
Banks	12	12	0	0		12	12	
Other[2]	19	19	0	0		0	0	18
Other	**187**	**187**	**125**	**125**	***21***	**61**	**61**	**2**

1 Not deducted from the "Net of hedges" exposures 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.

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

31.3.13	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	1,152	86	2	0	0	0	(1,128)	(92)	299	(275)	25	(32)
Italy	47,998	2,681	359	13	207	5	(46,511)	(2,797)	7,706	(6,219)	454	(570)
Ireland	6,548	90	14	0	0	0	(6,393)	(50)	1,812	(1,657)	121	(81)
Portugal	6,902	317	195	11	7	0	(6,759)	(359)	1,687	(1,544)	101	(143)
Spain	28,347	1,045	417	51	154	36	(27,714)	(1,022)	6,379	(5,745)	361	(339)
Total	90,947	4,219	987	74	368	41	(88,504)	(4,321)	17,882	(15,439)	1,063	(1,166)

Exposure to selected eurozone countries

We continue to monitor and manage our exposure to peripheral European countries closely. Our direct exposure to Greece, Italy, Ireland, Portugal and Spain remains limited, but we remain vigilant regarding the potential broader implications of the recent developments in the eurozone.

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 on 31 March 2013. This represents an internal risk view of gross and net exposures split by sovereign, agencies and central bank, local government, banks and other (including corporates, insurance companies and funds). The exposures to Andorra, Cyprus, Estonia, Malta, Monaco, Montenegro, San Marino, Slovakia, and Slovenia are grouped in "Other". Our net exposure to Cyprus amounted to CHF 29 million as of 31 March 2013, of which CHF 13 million was exposure to banks.

➔ **Refer to the "Country risk" section within the "Risk, treasury and capital management" section of our Annual Report 2012 for information on our country risk framework and related exposure measures**

Operational risk

Excellence in risk control and in processes is critical to the delivery of strong sustainable business performance in the ever-changing dynamics of today's economic environment. Over the past year, we have further enhanced our approach to operational risk identification, aggregation and remediation, using a framework 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.

Refining the operational risk framework remains a key strategic goal for 2013. We are focusing on further developing an integrated front-to-back representation of our activities, core controls and risk exposure across functions, as well as enhancing the underlying analytical techniques throughout the organization. Global campaigns to advance the skills of operational risk managers and controllers and to strengthen our risk and control culture support these initiatives. Independent management control testing will be enhanced over the course of the year across key operational risk taxonomy categories with a further expansion of system-supported processes to ensure the continued increase of efficiency. In the first quarter of 2013, efforts commenced to extend the use of scenario analysis at all levels and to operationalize the use of risk appetite statements both as an element of global risk assessments and as an input to strategic business decisions. There was also significant progress made in the implementation of the new regulatory remediation process to ensure consistent and standardized oversight of all regulatory remediation activities.

Remediation of the existing portfolio of Group Significant Operational Risk Issues, which are the operational risk issues considered to be of strategic concern to the firm and owned by members of the Group Executive Board, continued with the first issues already closed or proposed for closure.

In terms of the advanced measurement approach (AMA) model used for the calculation of operational risk regulatory capital, the annual scenario review process for the model was finalized and proposed model parameter changes were submitted to FINMA for review in January 2013. FINMA has approved the changes which were implemented for the first quarter of 2013 reporting. During 2013, an enhanced capital allocation methodology will be introduced to increase the risk sensitivity of allocated capital and achieve a forward-looking view.

Risk profile excluding Corporate Center – Non-core and Legacy Portfolio

This section provides an overview of banking products exposures and market risk for the Group excluding positions within Non-core and Legacy Portfolio as of 31 March 2013.

Our Swiss corporate and retail portfolios continued to perform well. We are, however, closely monitoring macro-economic developments in our home market, particularly given potential implications from any worsening of the situation in the eurozone. For our businesses outside Switzerland, the levels and mix of credit exposure arising from lending was broadly unchanged over the quarter. Corporate lending within the Investment Bank continued to be predominantly investment grade. Our level of loan underwriting activity was steady, continuing to give rise to concentrated exposures to lower-rated credits, albeit of a temporary nature. Distribution of loans through syndication and securitization continued to be sound. Wealth management lending portfolios increased modestly, in line with our strategy to grow these businesses.

Banking products

Gross banking products exposures across our business divisions and the Corporate Center – Core Functions decreased by CHF 3 billion to CHF 422 billion over the first quarter 2013. This decrease includes the transfer of certain lending facilities in March 2013 of CHF 13 billion in loans, guarantees and loan commitments from the Investment Bank to Corporate Center Non-core.

Swiss residential mortgage loans

Our largest loan portfolio continues to be 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 Retail & Corporate but also include mortgage loans originating from Wealth Management. The majority of these mortgage loans, CHF 123 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) of this portfolio was 55% at the end of the first quarter of 2013, unchanged from the end of the prior quarter. The average LTV for newly originated loans in the quarter was 62%, compared with 63% in 2012. Approximately 30% of the Swiss residential mortgage loan portfolio relates to properties rented out by the borrower. The average LTV of this portfolio was 58% at the end of the first quarter of 2013, unchanged from the end of the prior quarter. The average LTV for newly originated loans in the quarter was 59% compared with 56% in 2012. 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%.

Wealth Management

Gross banking products exposures arising in Wealth Management increased by CHF 6 billion to CHF 98 billion, due to increased levels of lending. CHF 93 billion of this amount related to loans, over 99% of which is secured, mainly by cash, securities and residential property.

Wealth Management Americas

Gross banking products exposures in Wealth Management Americas increased by CHF 2 billion to CHF 49 billion. CHF 33 billion of this amount related to loans, over 99% of which is secured, mainly by securities and residential property.

Investment Bank

Gross banking products exposures arising in the Investment Bank decreased by CHF 10 billion to CHF 65 billion. This decrease was mainly due to the transfer of certain lending facilities in March 2013 of CHF 13 billion in loans, guarantees and loan commitments from the Investment Bank to Corporate Center – Non-core.

The table "Investment Bank: banking products" provides a breakdown of this exposure, which comprises loans, guarantees and loan commitments, both gross and net of allowances, provisions, and single-name credit hedges.

The effect of portfolio hedges, such as index credit default swaps (CDS), and CHF 405 million of loss protection from the subordinated tranches of structured credit protection have not been reflected in this view.

At the end of the first quarter of 2013, and based on internal ratings, 57% of the Investment Bank's net banking products exposure was classified as investment grade compared with 59% at the end of the prior quarter. The vast majority of the exposure had estimated loss given defaults of less than 50%.

Global Asset Management

Gross banking products exposure within Global Asset Management was less than CHF 1 billion at the end of the quarter and mainly related to interbank business.

Retail & Corporate

Gross banking products exposure within Retail & Corporate was largely unchanged at CHF 159 billion. CHF 138 billion of this amount related to loans, 92% of which was secured by collateral, mainly residential and commercial property. Based on our internal ratings, 56% of the unsecured amount was rated investment grade, 61% related to cash-flow-based lending to corporate counterparties and 22% related to lending to public authorities.

➔ **Refer to the "Composition of credit risk – Group" section within the "Risk, treasury and capital management" section of our Annual Report 2012 for information on our Swiss residential mortgage loans**

Corporate Center – Core Functions

Gross banking products exposure within Corporate Center – Core Functions arises in connection with treasury activities and predominantly consists of balances with central banks.

Market risk

Management VaR for the Group, excluding Corporate Center – Non-core and Legacy Portfolio was CHF 11 million at the end of the first quarter of 2013.

Allowances and provisions for credit losses[1]

CHF million, except where indicated	IFRS exposure, gross		Impaired exposure		Specific allowances and provisions for credit losses[2]		Estimated liquidation proceeds of collateral		Impairment ratio (%)	
	31.3.13	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12
Group, excluding CC – Non-core and Legacy Portfolio										
Balances with central banks	**62,564**	63,997	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Due from banks	**19,882**	20,362	**45**	45	**20**	20	**0**	0	**0.2**	0.2
Loans[3]	**277,770**	266,512	**1,025**	1,053	**529**	532	**243**	264	**0.4**	0.4
Guarantees[3]	**14,828**	15,765	**72**	74	**50**	56	**5**	6	**0.5**	0.5
Loan commitments[3]	**46,931**	58,032	**17**	28	**11**	8	**0**	0	**0.0**	0.0
Banking products	**421,974**	424,668	**1,159**	1,200	**611**	617	**248**	270	**0.3**	0.3
Wealth Management										
Balances with central banks	**378**	413							**0.0**	0.0
Due from banks	**1,047**	1,039							**0.0**	0.0
Loans	**93,181**	86,581	**64**	55	**46**	38	**19**	20	**0.1**	0.1
Guarantees	**2,297**	2,326							**0.0**	0.0
Loan commitments	**1,413**	1,574							**0.0**	0.0
Banking products	**98,317**	91,932	**64**	55	**46**	38	**19**	20	**0.1**	0.1
Wealth Management Americas										
Balances with central banks	**13,046**	11,260							**0.0**	0.0
Due from banks	**1,460**	2,291							**0.0**	0.0
Loans	**32,720**	31,250	**16**	15	**16**	15			**0.0**	0.0
Guarantees	**412**	406							**0.0**	0.0
Loan commitments	**1,240**	1,214							**0.0**	0.0
Banking products	**48,878**	46,421	**16**	15	**16**	15	**0**	0	**0.0**	0.0
Investment Bank										
Balances with central banks	**462**	381	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Due from banks	**12,308**	12,967	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Loans[3]	**12,684**	10,961	**20**	28	**7**	15	**0**	0	**0.2**	0.3
Guarantees[3]	**2,589**	2,978	**45**	47	**44**	48	**0**		**1.7**	1.6
Loan commitments[3]	**37,346**	48,447	**6**	22	**0**	0	**0**		**0.0**	0.0
Banking products	**65,389**	75,735	**72**	97	**51**	63	**0**	0	**0.1**	0.1
Global Asset Management										
Balances with central banks	**0**	0							**0.0**	0.0
Due from banks	**656**	337							**0.0**	0.0
Loans	**295**	91							**0.0**	0.0
Guarantees	**0**	0							**0.0**	0.0
Loan commitments	**0**	0							**0.0**	0.0
Banking products	**950**	428	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Retail & Corporate										
Balances with central banks	**2,305**	2,173							**0.0**	0.0
Due from banks	**2,605**	2,713	**45**	45	**20**	20			**1.7**	1.6
Loans	**138,052**	137,344	**925**	955	**460**	464	**224**	244	**0.7**	0.7
Guarantees	**9,513**	10,042	**27**	27	**6**	8	**5**	6	**0.3**	0.3
Loan commitments	**6,930**	6,787	**11**	7	**11**	8	**0**	0	**0.2**	0.1
Banking products	**159,405**	159,059	**1,008**	1,033	**498**	500	**229**	251	**0.6**	0.6
Corporate Center – Core Functions										
Balances with central banks	**46,373**	49,770							**0.0**	0.0
Due from banks	**1,807**	1,015							**0.0**	0.0
Loans	**838**	286		0	**0**	0		0	**0.0**	0.0
Guarantees	**16**	12							**0.0**	0.0
Loan commitments	**2**	10							**0.0**	0.0
Banking products	**49,035**	51,093	**0**	0	**0**	0	**0**	0	**0.0**	0.0

1 Excludes allowances for securities borrowed. 2 Excludes CHF 100 million (31.12.12: CHF 114 million) in collective loan loss allowances. 3 In March 2013, certain lending facilities in the Investment Bank were transferred to Corporate Center – Non-core, resulting in a decrease to Loans of CHF 1.7 billion, to Guarantees of CHF 0.4 billion and to Loan commitments of CHF 11.4 billion, with a corresponding increase of CHF 13.5 billion in Corporate Center – Non-core.

Composition of Wealth Management loan portfolio, gross

CHF million, except where indicated	31.3.13		31.12.12	
	CHF million	**%**	CHF million	%
Secured by residential property	**31,574**	**33.9**	30,829	35.6
Secured by commercial / industrial property	**2,010**	**2.2**	1,972	2.3
Secured by cash	**12,412**	**13.3**	12,235	14.1
Secured by securities	**39,408**	**42.3**	34,973	40.4
Secured by guarantees and other collateral	**7,248**	**7.8**	6,265	7.2
Unsecured loans	**529**	**0.6**	307	0.4
Total loans, gross	**93,181**	**100.0**	86,581	100.0
Total loans, net of allowances and credit hedges	**93,132**		86,540	

Composition of Wealth Management Americas loan portfolio, gross

CHF million, except where indicated	31.3.13		31.12.12	
	CHF million	**%**	CHF million	%
Secured by residential property	**4,180**	**12.8**	3,461	11.1
Secured by commercial / industrial property				
Secured by cash	**737**	**2.3**	698	2.2
Secured by securities	**26,186**	**80.0**	25,543	81.7
Secured by guarantees and other collateral	**1,400**	**4.3**	1,319	4.2
Unsecured loans[1]	**218**	**0.7**	228	0.7
Total loans, gross	**32,720**	**100.0**	31,250	100.0
Total loans, net of allowances and credit hedges	**32,702**		31,233	

1 Includes credit card exposures.

Investment Bank: banking products[1]

	Banking products	
CHF million	**31.3.13**	31.12.12
Total exposure, before deduction of allowances, provisions and hedges[2]	**55,812**	68,434
Less: allowances, provisions	**(36)**	(42)
Less: credit protection bought (credit default swaps, notional)	**(13,663)**	(19,540)
Net exposure after allowances, provisions and hedges[2]	**42,113**	48,851

1 Banking products: risk view, excludes balances with central banks, due from banks and internal risk adjustments. 2 In March 2013, certain lending facilities in the Investment Bank were transferred to Corporate Center – Non-core, resulting in a decrease in Total exposure, before allowances, provisions and hedges of CHF 13.6 billion, and in Net exposure after allowances, provisions and hedges of CHF 8.6 billion.

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

CHF million, except where indicated			31.3.13						31.12.12	
				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–	**23,956**	**8,605**	**11,991**	**2,031**	**1,329**	**36**	28,873	36
Sub-investment grade			**18,157**	**10,384**	**6,673**	**734**	**365**	**23**	19,978	25
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***12,721***	***8,084***	***3,936***	***534***	***166***	***21***	*13,410*	*21*
of which: 10–12	*B2 to Caa*	*B to CCC*	***5,295***	***2,189***	***2,707***	***200***	***199***	***27***	*6,397*	*32*
of which:13 and defaulted	*Ca and lower*	*CC and lower*	***141***	***111***	***30***	***0***	***0***	***12***	*171*	*17*
Net banking products exposure, after application of credit hedges[1,2]			**42,113**	**18,989**	**18,664**	**2,765**	**1,694**	**30**	48,851	32

1 Banking products: risk view, excludes balances with central banks, due from banks and internal risk adjustments. 2 In March 2013, certain lending facilities in the Investment Bank were transferred to Corporate Center – Non-core, resulting in a decrease in Total exposure, and in Net exposure after allowances, provisions and hedges of CHF 8.6 billion.

Composition of Retail & Corporate loan portfolio, gross

CHF million, except where indicated	31.3.13		31.12.12	
	CHF million	%	CHF million	%
Secured by residential property	99,005	71.7	98,681	71.8
Secured by commercial / industrial property	20,054	14.5	19,861	14.5
Secured by cash	227	0.2	173	0.1
Secured by securities	1,439	1.0	1,414	1.0
Secured by guarantees and other collateral	6,416	4.6	5,875	4.3
Unsecured loans	10,910	7.9	11,340	8.3
Total loans, gross	138,052	100.0	137,344	100.0
Total loans, net of allowances and credit hedges	137,496		136,770	

Group, excluding CC – Non-core and Legacy Portfolio: management value-at-risk (1-day, 95% confidence, 5 years of historical data) by risk type

	For the quarter ended 31.3.13				For the quarter ended 31.12.12[2]			
CHF million, except where indicated	Min.	Max.	Average	31.3.13	Min.	Max.	Average	31.12.12
Equities	6	16	8	7				
Interest rates	10	15	11	12				
Credit spreads	14	26	19	16				
Foreign exchange	2	9	5	5				
Energy, metals and commodities	2	5	3	2				
Diversification effect	–[1]	–[1]	(31)	(32)	–[1]	–[1]		
Total management VaR, Group, excluding CC – Non-core and Legacy Portfolio	10	33	16	11				

1 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect. 2 As the non-core businesses were transferred from the Investment Bank to the Corporate Center during the first quarter of 2013, there are no prior quarter comparatives available.

Corporate Center – Non-core and Legacy Portfolio

Within Non-core, good progress was made in disposing of liquid cash positions and reducing operational complexity via a reduction in the number of outstanding over-the-counter derivative transactions by means of negotiated bilateral settlement with specific counterparties. This contributed to a CHF 45 billion reduction in balance sheet assets and a CHF 6 billion reduction in BIS Basel III risk-weighted assets. The composition of the Legacy Portfolio was largely unchanged over the quarter. Legacy Portfolio RWA decreased by CHF 2 billion and balance sheet assets decreased slightly.

An overview of the composition of Non-core and Legacy Portfolio is presented below. The groupings of positions by category and their ordering are not necessarily representative of the magnitude of the risks associated with them. The balance sheet metrics of funded assets and positive replacement values (PRV) do not necessarily represent the risk measures used to manage and control these positions. These two measures are shown below to provide additional transparency on progress in the execution of our strategy to exit these positions. PRV may be affected by market factors outside of the control of UBS, notably interest rates movements.

Non-core

Beginning in the first quarter of 2013, the non-core businesses formerly in the Investment Bank were transferred to and are managed and reported in Non-core. 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 diversified and mostly liquid or well-collateralized positions predominantly originated within the Investment Bank's rates and credit businesses. The majority of Non-core positions consist of OTC derivatives which are reported as replacement values on UBS's balance sheet. Non-core RWA totaled CHF 59 billion at the end of the quarter, of which CHF 38 billion was credit risk RWA, CHF 14 billion market risk RWA and CHF 8 billion operational risk RWA. In contrast to the Legacy Portfolio, credit risk from counterparty exposures in Non-core is well diversified by currency, geography and single name exposures are limited. Over 95% of gross positive replacement values (PRV) was collateralized. Overall market risk is hedged to the extent possible and primarily relates to liquid risk factors. In terms of valuation methodology, funded assets and PRV classified as level 3 totaled CHF 5 billion.

Legacy Portfolio

The Legacy Portfolio was created in the fourth quarter of 2011 and comprises positions previously originated in the Investment Bank as well as our option to purchase the equity of the SNB StabFund. Legacy Portfolio RWA totaled CHF 36 billion at the end of the quarter, of which CHF 31 billion was credit risk RWA, CHF 1 billion market risk RWA and CHF 4 billion operational risk RWA. The majority of Legacy Portfolio positions are relatively concentrated and illiquid. In terms of valuation methodology, funded assets and PRV classified as level 3 totaled CHF 6 billion.

Composition of Non-core

CHF billion, except where indicated

Exposure category		Description	Changes in 1Q13	RWA[1]		Funded assets[2]		PRVs[3]	
				31.3.13	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12
Credit	**Loans and distressed trading**	Corporate lending, distressed credit trading, asset based lending, syndicated loans, structured financing and structured repo exposures. Over 50% of exposures are over-collateralized.	Increase in funded assets due to transfer of certain loans from the Investment Bank to Non-core, partly offset by the disposal of distressed credit trading assets.	**18.9**	20.3	**7.3**	6.4	**0.1**	0.7
	Cash and CDS	Primarily CDS; approximately 50% of the gross notional is due to mature before the end of 2016.	Reduction in funded assets due to the sale of liquid cash positions.			**2.6**	4.2	**9.4**	7.4
	Structured credit	Tranches of structured credit products, liquid index tranches, credit linked notes, special purpose vehicles and bond repackaged notes with granular risk characteristics and average remaining maturity of 4 to 5 years. This portfolio is managed under a correlation trading strategy.	Reduction in PRV mainly due to unwinds, trade compression (aggregating multiple derivative trades into revised simpler contracts) and trades maturing in the CDS and bespoke CDO[4] portfolio.			**1.1**	1.0	**14.7**	16.7
Rates	**Sovereign and cash trading**	Government bonds and related cash products with relatively high liquidity.	Reduction mainly due to the sale of liquid cash positions.	**28.6**	29.3	**3.7**	11.8	**0.0**	0.0
	Linear OTC	Primarily vanilla interest rate, inflation, basis, flow commodities and cross currency swaps for all major G10 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 funded assets mainly due to lower collateral requirements. Interest rate movements contributed to the decrease in PRV.			**22.8**	24.5	**199.7**	222.8
	Non-linear OTC	Vanilla and structured options. Over 95% of gross PRVs is collateralized. Non-linear exposures are typically longer dated than linear exposures.	Reduction in funded assets mainly due to restructuring and unwinding activity in the European and US options portfolios. Interest rate movements contributed to the decrease in PRV.			**4.8**	5.7	**66.7**	72.1
Other		Exposures to precious metal deposits and CVA hedging.	Reduction mainly due to lower precious metal balances.	**3.7**	4.5	**10.1**	13.5	**0.9**	2.0
Operational risk		Operational risk RWA allocated to Non-core.	Reduction reflects revised allocation of operational risk RWA.	**7.8**	10.4	–	–	–	–
Total				**59.0**	64.5	**52.4**	67.1	**291.4**	321.7

1 Fully applied and phase-in BIS Basel III RWA. Numbers provided as of 31.12.12 are pro-forma. 2 Funded assets include long cash positions, reverse repos covering short positions, lending and distressed credit, OTC hedges and associated collateral receivables. 3 Positive replacement values (gross exposure excluding the impact of any counterparty netting). 4 Collateralized debt obligations.

Composition of Legacy Portfolio

CHF billion, except where indicated

Exposure category	Description	Changes in 1Q13	RWA[1]		Funded assets[2]		PRVs[3]	
			31.3.13	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12
Collateralized debt obligations (CDO)	Includes ABS, RMBS, CDO, CMBS and CLO[4] bonds as well as single name CDS trades referencing these asset classes.	Decrease in PRV mainly due to the termination of certain referencing trades. RWA reduced >60% since 30.9.11.	**10.2**	9.8	**3.4**	3.4	**1.2**	2.1
Reference-linked notes (RLN)[5]	Primarily UBS-issued RLN hedging the exposure where UBS purchase protection from RLN SPV[6] via CDS referencing the notes issues.	Increase in PRV mainly due to market movements. RWA reduced >50% since 30.9.11. The adjustment reserve for the US and Non-US RLN was CHF 123 million on 31.3.13.	**5.8**	5.7	**2.3**	2.3	**0.6**	0.2
Muni swaps and options	Swaps and options on US state and local governments.	Market Risk RWA decreased by CHF 1.8 billion due to a refined allocation of the RWA benefit resulting from the Basel III exclusion of CVA and related CVA hedges from the regulatory VaR calculation.	**2.4**	4.6	**(0.2)**	(0.1)	**4.8**	5.0
Monolines[5]	Primarily credit default swap (CDS protection) purchased from monoline insurers to hedge specific positions. This exposure is materially hedged via single name credit default swaps.	Total fair value of CDS protection was stable at CHF 0.5 billion (of which CHF 0.2 billion from monolines rated BBB and above) after cumulative CVA of CHF 0.2 billion.	**4.6**	4.0	–	–	**0.5**	0.5
Auction rate securities (ARS)	Primarily student loan ARS. Over 99% of student loan ARS exposures were rated BB– and above on 31.3.13 with over 89% of the collateral backed by Federal Family Education Loan Program guaranteed collateral.	Exposure increased by CHF 0.1 billion to CHF 7.2 billion, mainly due to foreign exchange movements. Student loan ARS remained flat at CHF 3.8 billion. RWA reduced >80% since 30.9.11.	**3.4**	3.2	**7.2**	7.1	–	–
Real estate assets	Primarily CDS on ABS and CMBX[7] derivatives positions and CMBS cash bonds.	Trading book securitization RWA is based on the greater of UBS's overall net long or net short positions. This quarter the applicable net position for UBS has changed, resulting in reduced RWA for this specific portfolio. RWA reduced >70% since 30.9.11.	**1.5**	2.4	**0.1**	0.2	**1.9**	2.0
Loan to BlackRock fund[5]	Loan to SPV[6] managed by BlackRock Financial Management Inc. The loan's LTV ratio was below 70% on 31.3.13.	The outstanding loan balance (including amounts held in escrow) decreased by CHF 0.1 billion to CHF 3.2 billion reflecting repayment of principal.	**0.8**	0.8	**3.2**	3.3	–	–
SNB StabFund option[5]	Represents the value of UBS's option to purchase the equity of the SNB StabFund. The option value is directly deducted from equity.	The value of the option increased to CHF 2,425 million from CHF 2,103 million, mainly due to higher market valuation of the fund's assets. The option valuation includes a model reserve of CHF 138 million on 31.3.13.	–	–	–	–	**2.4**	2.1
Other	Includes a number of smaller positions, none of which generated RWA of more than CHF 1 billion on 31.3.13.	Continuing risk reductions of small individual positions.	**3.0**	3.7	**5.6**	5.8	**5.4**	6.0
Operational risk	Operational risk RWA allocated to the Legacy Portfolio.	Slight increase in RWA reflects revised allocation of operational risk RWA.	**4.2**	3.8	–	–	–	–
Total			**35.9**	38.0	**21.6**	22.0	**16.8**	17.9

1 Fully applied and phase-in BIS Basel III RWA. Numbers provided as of 31.12.12 are pro-forma. 2 Funded assets include long and short cash positions, lending and distressed credit, OTC hedges and collateral. 3 Positive replacement values (gross exposure excluding the impact of any counterparty netting). 4 ABS – asset-backed securities; RMBS – residential mortgage-backed securities; CMBS – commercial mortgage-backed securities; CLO – collateralized loan obligations. 5 Refer to our 2012 Annual Report for more information on our exposures to reference-linked notes, monoline insurers, the BlackRock loan and the SNB StabFund option. 6 Special purpose vehicle. 7 Index of CMBS securities. 8 Mortgage-backed securities.

Balance sheet

As of 31 March 2013, our balance sheet stood at CHF 1,214 billion, a decrease of CHF 46 billion from 31 December 2012. Funded assets, which represent total assets excluding positive replacement values, were reduced by CHF 9 billion to CHF 832 billion, primarily due to a reduction in trading portfolio assets, and to a lesser extent reduced financial investments available-for-sale and collateral trading activities, partially offset by an increase in lending assets. Excluding currency effects, funded assets were reduced by CHF 21 billion, mainly in Corporate Center – Non-core and Legacy Portfolio.

Assets

Product category view

Positive replacement values (PRVs) decreased by CHF 37 billion, mainly in Non-core and Legacy Portfolio. Interest rate contract PRVs fell by CHF 25 billion, proportionally in line with a decline in respective notional volumes, and foreign exchange contract PRVs decreased by CHF 12 billion. Trading portfolio assets were reduced by CHF 16 billion due to lower holdings of government, mortgage-backed, investment fund and corporate debt instruments as well as reduced precious metal positions. These reductions occurred mainly within Non-core and Legacy Portfolio, reflecting the implementation of our strategy. Financial investments available-for-sale decreased by CHF 4 billion mainly due to mortgage-backed security sales in Wealth Management Americas which resulted from a rebalancing of the risk profile of this investment portfolio. Collateral trading assets, which include reverse repurchase agreements and cash collateral on securities borrowed, declined by CHF 3 billion. These decreases were partly offset by a CHF 14 billion increase in lending assets, or CHF 10 billion excluding currency effects, primarily resulting from an increase in Lombard lending in Wealth Management and to a lesser extent from an increase in the Investment Bank related to a large private transaction. Other assets increased by CHF 2 billion, primarily due to an increase in prime brokerage receivables.

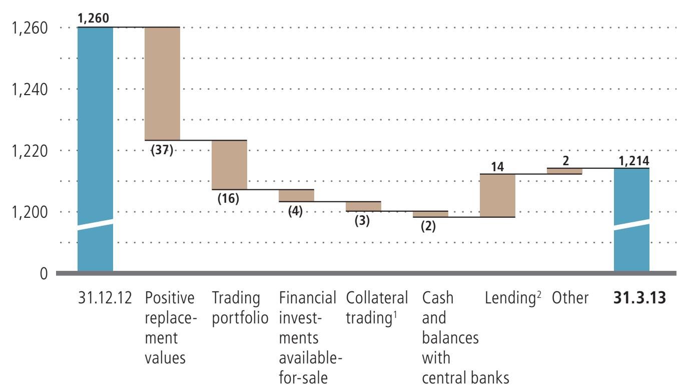
➔ **Refer to the "Balance sheet" and Notes 10 through 16 in the "Financial information" section of this report for more information**

Divisional view

Most of the total asset reduction occurred within Non-core and Legacy Portfolio, reflecting the implementation of our strategy. Total Non-core and Legacy Portfolio assets decreased by CHF 46 billion to CHF 382 billion and funded assets decreased by CHF 15 billion to CHF 74 billion, mainly due to the abovementioned reductions in trading portfolio assets. Corporate Center – Core Functions assets declined CHF 9 billion to CHF 234 billion, primarily due to a decrease in positive replacement values. The size of our multi-currency portfolio of unencumbered, high-quality, short-term assets remained stable. Investment Bank total assets were relatively stable at CHF 263 billion and funded assets were flat at CHF 193 billion as a reduction in collateral trading activities

Assets: development during the first quarter of 2013

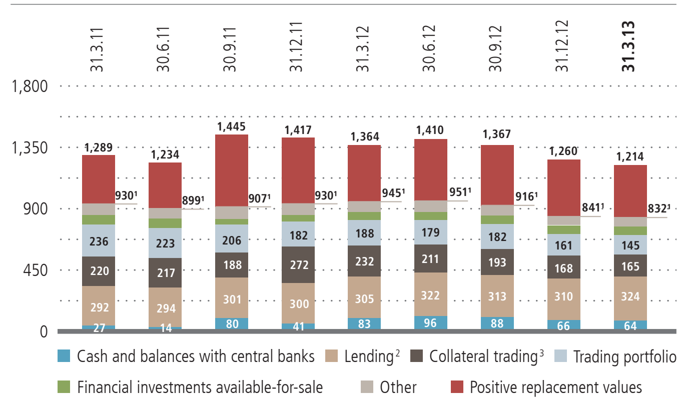
CHF billion



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.

was offset by increases in both lending activities and prime brokerage receivables. Wealth Management assets increased by CHF 6 billion to CHF 111 billion, primarily due to increased Lombard lending. Wealth Management Americas total assets were largely unchanged at CHF 64 billion, as a CHF 3 billion reduction in financial investments available-for-sale investments was offset by higher lending assets and higher cash and balances with central banks. Retail & Corporate and Global Asset Management total assets were virtually unchanged at CHF 146 billion and CHF 14 billion, respectively.

➔ **Refer to the "Recent developments" section of this report for more information on financial reporting structure changes in the Investment Bank and Corporate Center**

Liabilities

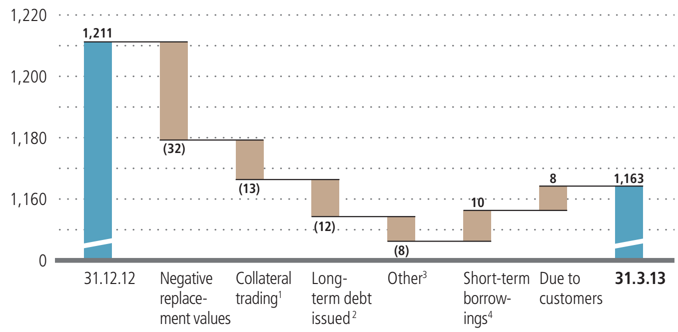
Total liabilities decreased by CHF 47 billion to CHF 1,163 billion, primarily as negative replacement values fell by CHF 32 billion, largely in line with the decline in positive replacement values. Collateral trading liabilities decreased by CHF 13 billion, primarily reflecting reduced funding requirements. Long-term debt outstanding, which consists of financial liabilities designated at fair value and long-term debt issued, decreased by CHF 12 billion, primarily reflecting the execution of debt tender offers with respect to 14 senior unsecured note issuances, resulting in a reduction of CHF 5 billion of debt outstanding. Additionally, we redeemed a 3-year covered bond and a 5-year senior unsecured bond during the quarter. Trading portfolio liabilities were reduced by CHF 6 billion due to lower net trading activity including reduced short sales of debt instruments. Other liabilities decreased by CHF 2 billion as an increase in prime brokerage payables was more than offset by a reduction in cash collateral payables on derivative instruments. These decreases were partly offset by a CHF 10 billion increase in short-term borrowings, which consist of short-term debt issued and interbank borrowing, mainly due to higher net commercial paper and certificate of deposit issuances. In addition, customer deposits rose by CHF 8 billion to CHF 382 billion, mainly due to increased current account balances in Wealth Management.

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

➔ **Refer to the "Balance sheet" and Notes 10 through 17 in the "Financial information" section of this report for more information**

Liabilities: development during the first quarter of 2013

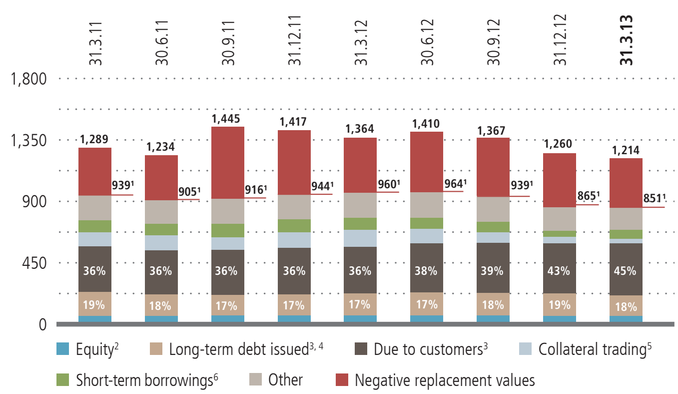
CHF billion



1 Consists of repurchase agreements and cash collateral on securities lent. 2 Consists of long-term debt issued and financial liabilities designated at fair value. 3 Includes trading portfolio liabilities. 4 Consists of short-term debt issued and due to banks.

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, equity attributable to preferred note holders 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.

Equity

Equity attributable to UBS shareholders increased by CHF 1,290 million from CHF 45,949 million to CHF 47,239 million.

Total comprehensive income attributable to UBS shareholders was CHF 1,503 million, reflecting the net profit attributable to UBS shareholders of CHF 988 million and other comprehensive income (OCI) attributable to UBS shareholders of CHF 514 million (net of tax). First quarter OCI included foreign currency translation gains of CHF 528 million and net gains on defined benefit plans of CHF 253 million, partly offset by a negative OCI movement related to cash flow hedges of CHF 270 million.

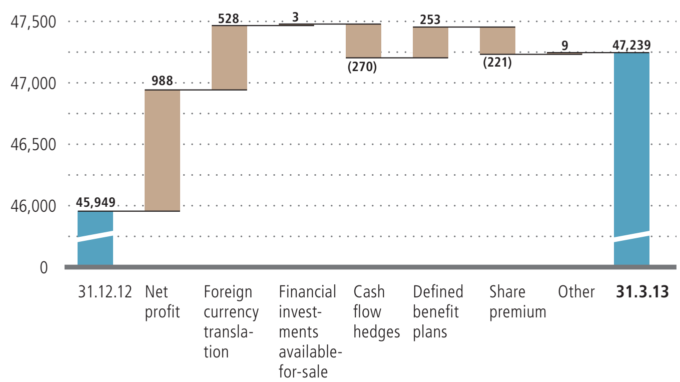
Share premium declined by CHF 221 million, mainly reflecting a decrease of CHF 367 million related to employee share and share option plans, partly offset by treasury share gains of CHF 148 million.

➔ Refer to the "Statement of changes in equity" in the "Financial information" section, and to "Comprehensive income attributable to UBS shareholders: 1Q13 vs 4Q12" in the "Group results" section of this report for more information

➔ Refer to "Note 1 Basis of accounting" in the "Financial Information" section of this report for more information on the impact to equity from the adoption of IFRS 10

Equity attributable to UBS shareholders: development during the first quarter of 2013

CHF million



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.

➔ Refer to the table "Swiss SRB leverage ratio" in the "Capital management" section of this report for our average month-end balance sheet size for the quarter

Liquidity and funding management

We continued to maintain a sound liquidity position and a diversified portfolio of funding sources, and experienced further deposit inflows from wealth management and retail and corporate clients.

Liquidity

We continuously monitor our liquidity position and asset/liability profile. This involves modeling cash-flow maturity profiles under both contractual and behavioral expectations and projecting our liquidity exposures under various stress scenarios. The results are then factored into our overall contingency plans. The underlying assumptions used for our analysis include high investor risk aversion, dislocation of the money markets and a substantial reduction of market liquidity for all but a few select asset classes. The severity of the assumptions underlying our current stress scenario analysis generally reflects, and in some cases exceeds, our experience during the 2007 to 2009 financial crisis.

We continue to maintain a substantial multi-currency portfolio of unencumbered, high-quality, short-term assets, and seek to preserve a prudent liquidity and funding profile, a balanced asset/liability profile and robust contingency planning processes at all times.

Liquidity regulation

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 147 billion and additional contingent funding sources of CHF 65 billion at the end of the first quarter of 2013. In aggregate, these sources of available liquidity represented 26% of our funded balance sheet assets.

Currently, banks employ a wide range of interpretations to calculate the Basel III LCR and net stable funding ratio (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 March 2013, our estimated pro-forma regulatory Basel III LCR was 107%, 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

Liquidity coverage ratio (LCR)[1]

CHF billion, except where indicated	**31.3.13**
Cash outflows[2]	261.8
Cash inflows[2]	124.7
Net cash outflows	137.1
Liquidity asset buffer[3]	146.8
Regulatory LCR (%)	107
Additional contingent funding sources[4]	65.4
Management LCR (%)	**155**

1 Pro-forma based on current supervisory guidance from FINMA. 2 Out- and inflows up to 30 days under severe general market and firm-specific stress. 3 Assets eligible in Basel III LCR framework including dedicated Group liquidity reserve, excess cash at major central banks, unencumbered collateral pledged to central banks. 4 Additional contingent funding sources including dedicated local liquidity reserves and additional unutilized borrowing capacity.

Net stable funding ratio (NSFR)[1]

CHF billion, except where indicated	**31.3.13**
Available stable funding[2]	355.6
Required stable funding[3]	344.0
NSFR (%)	**103**

1 Pro-forma based on current supervisory guidance from FINMA. 2 Consists mainly of client deposits from our wealth management businesses, long-term debt issued and capital. 3 Residential mortgages and other loans are the main consumers of stable funding.

such as dedicated local liquidity reserves and additional unutilized borrowing capacity. At the end of the first quarter of 2013, the management LCR was 155%. On 31 March 2013, our estimated pro-forma NSFR was 103%, based on current regulatory guidance. The calculation of our pro-forma Basel III liquidity ratios is based on current supervisory guidance from FINMA. Basel III Liquidity rules and FINMA framework are not finalized. Ratio calculations will be refined as regulatory interpretations evolve and as new models and the associated systems are enhanced.

As of 31 March 2013, UBS was in compliance with Swiss Financial Market Supervisory Authority (FINMA) liquidity requirements.

Funding

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 covered bond program (Schweizer 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.

The composition of our funding sources continued the trend towards a higher proportion of customer deposits which increased by CHF 8 billion to CHF 382 billion, or 52% of our total funding sources compared with 50% in the prior quarter. Deposits from our wealth management businesses and from Retail & Corporate contributed 97%, or CHF 371 billion, of the total customer deposits (shown in the "UBS asset funding" graph) compared with 98% in the prior quarter. Our short-term interbank deposits (due to banks) and outstanding short-term debt, as a percentage of total funding sources, increased from 7.4% to 8.8%, partly offsetting the reduction in outstanding long-term debt.

Our outstanding long-term debt, including financial liabilities at fair value, declined by CHF 12 billion during the quarter to CHF 152 billion. 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. In the first quarter of 2013 we executed two 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 repurchased CHF 5.1 billion of debt outstanding. Additionally, we had two redemptions during the quarter: a EUR 1.5 billion 2.375% 3-year covered bond and a EUR 2.5 billion 4.875% 5-year senior unsecured bond. Furthermore, we redeemed CHF 0.3 billion of the Swiss Pfandbriefe loans. These decreases were partly offset by the issuance of one covered bond of USD 1.25 billion with a maturity of three years. Additionally, we raised term funds through medium-term note issuances and private placements. As of 31 March 2013, long-term debt represented 20.6% of our funding sources as shown in the "UBS: funding by product and currency" table, down from 22.0% at the end of the prior quarter.

On 17 April 2013, Fitch affirmed UBS's long-term rating of "A" (stable outlook) and upgraded UBS's "Viability Rating" to "a" from "a-". This followed an assessment of the impact of our decision to accelerate the implementation of our strategy announced in October 2012.

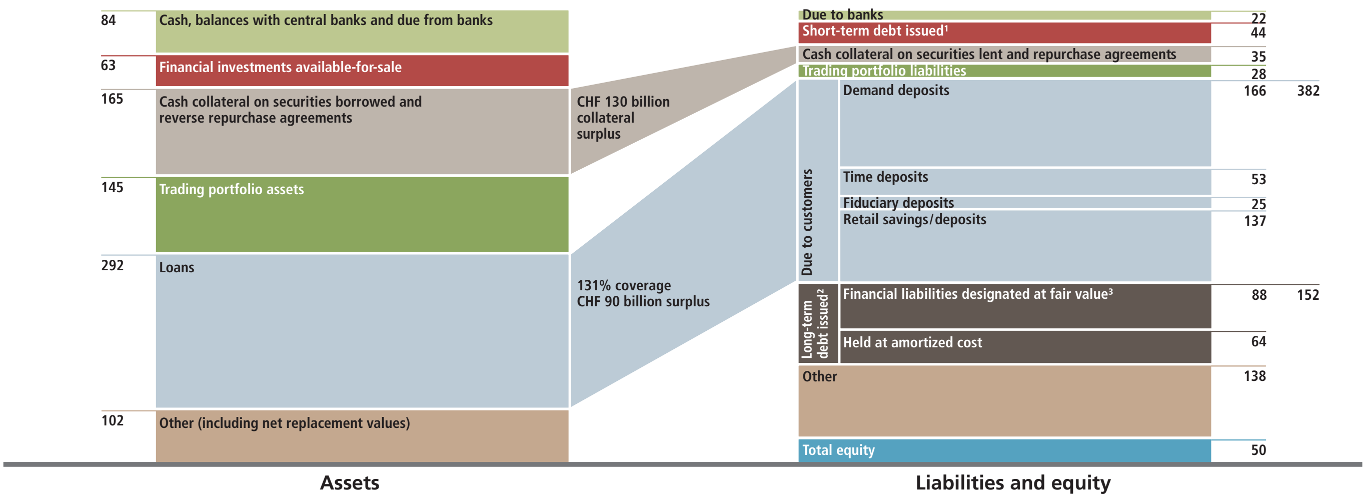
The secured financing (repurchase agreements and securities lent against cash collateral received) percentage of our funding sources decreased to 4.7% from 6.4%, as shown in the "UBS: funding by product and currency" table. At the end of the first quarter, we borrowed CHF 130 billion less cash on a collateralized basis than we lent, higher than the previous quarter-end balance of CHF 121 billion. The decrease in secured funding and lending was mainly related to the ongoing deleveraging of our balance sheet.

As of 31 March 2013, our coverage ratio of customer deposits to our outstanding loan balance was 131% compared with 133% in the prior quarter.

UBS asset funding

CHF billion, except where indicated

As of 31.3.13



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.

UBS: funding by product and currency

	All currencies		CHF		EUR		USD		Others	
In %[1]	**31.3.13**	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12	**31.3.13**	31.12.12
Securities lending	**1.1**	1.2	**0.3**	0.4	**0.3**	0.2	**0.4**	0.5	**0.2**	0.2
Repurchase agreements	**3.6**	5.2	**0.0**	0.1	**0.9**	1.1	**2.1**	3.3	**0.6**	0.6
Due to banks	**2.9**	3.1	**0.5**	0.5	**0.3**	0.2	**0.8**	0.7	**1.3**	1.6
Short-term debt issued	**5.9**	4.3	**0.3**	0.3	**0.7**	0.8	**4.3**	2.7	**0.7**	0.6
Retail savings / deposits	**18.6**	18.0	**12.3**	11.8	**0.8**	0.8	**5.4**	5.4	**0.0**	0.0
Demand deposits	**22.5**	21.8	**7.9**	8.0	**4.4**	4.1	**6.6**	6.4	**3.6**	3.2
Fiduciary deposits	**3.4**	3.3	**0.0**	0.1	**0.6**	0.8	**2.4**	2.0	**0.4**	0.5
Time deposits	**7.2**	6.9	**0.2**	0.2	**0.4**	0.5	**3.8**	3.7	**2.7**	2.5
Long-term debt issued	**20.6**	22.0	**2.7**	2.7	**6.5**	7.3	**8.8**	9.0	**2.7**	2.9
Cash collateral payables on derivative instruments	**8.9**	9.5	**0.4**	0.3	**4.6**	5.0	**3.0**	3.2	**0.9**	0.9
Prime brokerage payables	**5.2**	4.8	**0.1**	0.1	**0.7**	0.5	**3.6**	3.3	**0.9**	0.8
Total	**100.0**	100.0	**24.6**	24.6	**20.1**	21.4	**41.2**	40.1	**14.0**	13.9

1 As a percent of total funding sources of CHF 738 billion and CHF 748 billion on the balance sheet as of 31 March 2013 and 31 December 2012, respectively.

Capital management

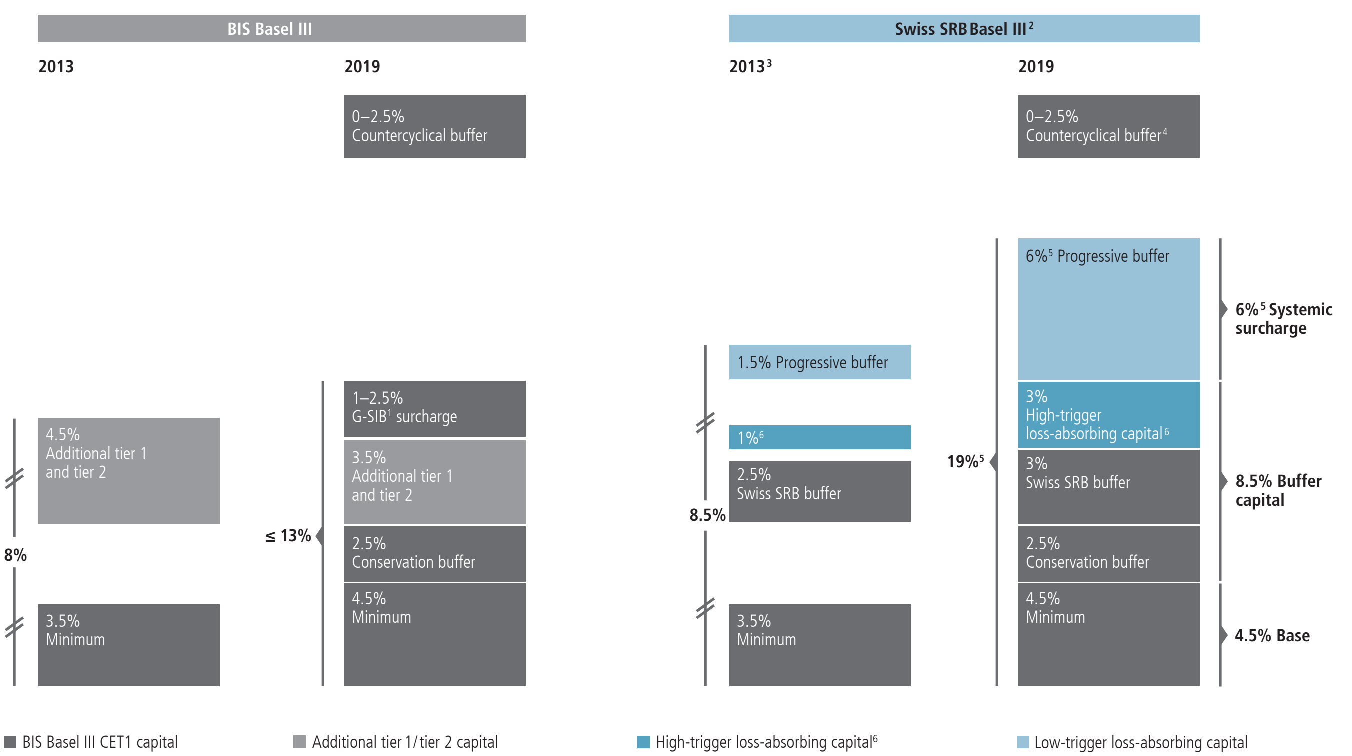
The BIS Basel III framework came into effect in Switzerland on 1 January 2013. Our phase-in BIS Basel III common equity tier 1 (CET1) ratio was 15.3% as of 31 March 2013, unchanged from the end of the previous quarter. Our phase-in BIS Basel III CET1 capital increased marginally by CHF 0.2 billion to CHF 40.2 billion at the end of the first quarter of 2013. Our phase-in BIS Basel III risk-weighted assets increased by CHF 0.7 billion to CHF 262.5 billion. On a fully applied basis, our BIS Basel III CET 1 ratio increased 0.3 percentage points to 10.1% and our fully applied BIS Basel III risk-weighted assets were CHF 258.7 billion.

BIS Basel III and Swiss systemically relevant banks (SRB) Basel III requirements

The Basel III global regulatory rules were introduced by the Basel Committee on Banking Supervision in the years 2010 and 2011, mainly in response to the 2007 to 2009 financial crisis. In Switzerland, the BIS Basel III framework came into effect on 1 January 2013 and will become fully effective on 1 January 2019. The main deferred effects on capital are the deduction of deferred tax assets recognized for tax loss carry-forwards and the inclusion of the effects of IAS 19R relating to pension liabilities. These effects are being phased in between 2014 and 2018 for the calculation of common equity. Furthermore, Basel 2.5 hybrid and tier 2 capital instruments will be phased out between 2013 to 2022.

➔ **Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of our Annual Report 2012 for more information on IAS 19 (revised) *Employee Benefits***

BIS Basel III and Swiss SRB Basel III minimum capital requirements



1 Global systemically important banks (G-SIBs) according to the Financial Stability Board. 2 Referred to as Swiss "too-big-to-fail" (TBTF) in our Annual Report 2012. 3 In September 2013, a countercyclical buffer of 1% of BIS Basel III RWA for mortgage loans on residential property in Switzerland will be activated. 4 Applies when activated by the Swiss Federal Council for Swiss RWA or when triggered by other regulators as applicable. 5 We expect our requirement for the progressive buffer on a fully applied basis to fall to 4.5% from 6.0% 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. We expect this to reduce our total capital requirement on a fully applied basis to 17.5% by 2019. 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. 6 Can be substituted by Swiss SRB Basel III CET1 capital.

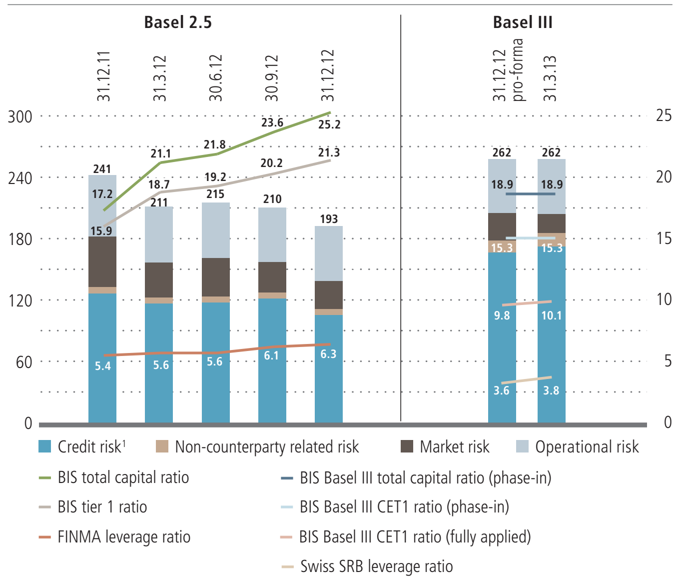
In addition to being required to comply with the BIS Basel III rules, as implemented by the revised Swiss Capital Adequacy Ordinance issued by the Swiss Federal Council and required by FINMA regulation, systemically relevant banks (SRB) in Switzerland (currently UBS and Credit Suisse) are required to comply with Swiss SRB-specific rules. The Swiss SRB Basel III transition rules are in line with the BIS Basel III transition rules, except for differences in the recognition of phase-out capital.

Our BIS Basel III risk-weighted assets (RWA) are published according to the BIS Basel III framework. For supervisory purposes, our RWA are required to comply with the rules of the Swiss Capital Adequacy Ordinance. The Swiss RWA surcharges under Basel 2.5 are no longer applicable under the Basel III rules and the determination of RWA under the BIS Basel III framework and Swiss SRB Basel III is now aligned.

We provide information on RWA and capital, both on a phase-in and fully applied basis. The capital 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 capital instruments are phased out. RWA on a fully applied basis reflect mainly the effect of the RWA phase-out on pension fund assets previously recognized under IAS 19.

All Basel III numbers for the fourth quarter of 2012 provided in this report are on a pro-forma basis. The numbers were either disclosed in our fourth quarter 2012 report and/or Annual Report 2012, or introduced as comparatives in the first quarter of 2013 report to provide more detailed disclosure. Some of the models applied when calculating 31 December 2012 pro-forma information required regulatory approval and included estimates (discussed with our primary regulator) of the effect of these new capital charges. Estimates may have been refined with prospective effect during first quarter of 2013, as models and the associated systems were enhanced.

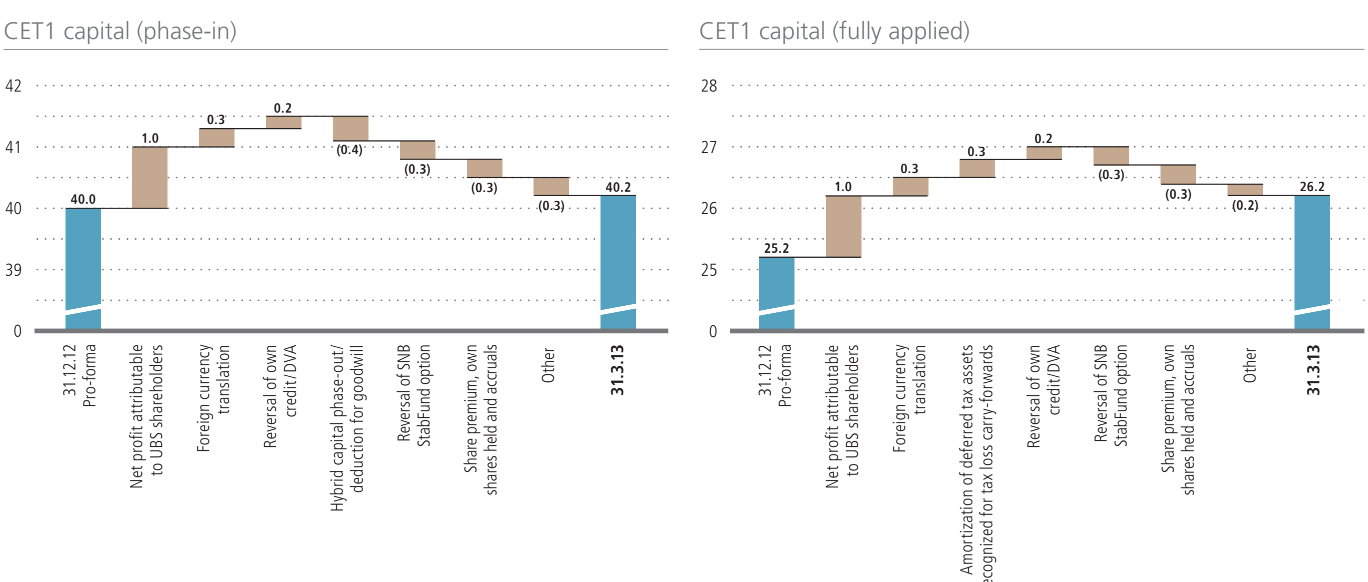
Basel 2.5 and Basel III ratios and RWA



1 Increase in credit risk RWA between Basel 2.5 and BIS Basel III was mainly due to the revised treatment for low-rated securitization exposures and new model-based capital charges.

BIS Basel III CET1 capital movement

CHF billion



In February 2013, following 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.

➔ **Refer to the "Basel III / "too-big-to-fail" at a glance" section of our Annual Report 2012 for more information**

BIS Basel III capital ratios

On 31 March 2013, our phase-in BIS Basel III common equity tier 1 (CET1) capital ratio was 15.3% and our BIS Basel III total capital ratio was 18.9%, both unchanged from the end of the previous quarter. Our BIS Basel III CET1 capital ratio on a fully applied basis increased 0.3 percentage points to 10.1% during the quarter and our BIS Basel III total capital ratio on a fully applied basis increased 0.4 percentage points to 11.8%, mainly due to the first quarter 2013 net profit and nearly unchanged RWA. We are committed to achieving our BIS Basel III CET1 fully applied target ratio of 11.5% by the end of 2013.

➔ **Refer to the "Our strategy" section of our Annual Report 2012 for more information**

BIS Basel III eligible capital

BIS Basel III common equity tier 1 capital

Our phase-in BIS Basel III common equity tier 1 (CET1) capital increased marginally by CHF 0.2 billion to CHF 40.2 billion during the first quarter of 2013. This increase was primarily due to the first quarter net profit of CHF 1.0 billion and positive foreign currency effects of CHF 0.3 billion. This was offset by the effects of the phase-out of Basel 2.5 hybrid capital instruments of CHF 0.4 billion and other capital deductions of CHF 0.9 billion, mainly driven by negative share-based compensation-related components, and an increase in the deduction of the fair value of the call option to acquire the SNB StabFund's equity. On a fully applied basis, BIS Basel III CET1 capital increased by CHF 1.0 billion to CHF 26.2 billion compared with the last quarter. The detailed CET1 movement on a phase-in and fully applied basis is shown in the "BIS Basel III CET1 capital movement" graph on the previous page.

Our phase-in BIS Basel III tier 1 capital at the end of 31 March 2013, was the same as BIS Basel III CET1 capital of CHF 40.2 billion, and includes additional tier 1 capital (AT1) in the form of Basel 2.5 hybrid capital instruments which offsets the required deductions for goodwill and intangible assets. These hybrid capital instruments are not eligible under BIS Basel III and are excluded from fully applied tier 1 capital, which was at CHF 26.2 billion, as shown in the "Reconciliation IFRS equity to BIS Basel III capital" table on the next page. As announced on 5 February 2013, a hybrid capital instrument with a nominal value of EUR 995 million was redeemed in April 2013 and as a result our BIS Basel III tier 1 capital will reduce by an incremental CHF 0.8 billion in addition to the 2013 phase-out of CHF 0.4 billion hybrid capital instruments, as mentioned above.

BIS Basel III tier 2 capital

Our phase-in BIS Basel III tier 2 capital decreased by CHF 0.3 billion to CHF 9.3 billion as of 31 March 2013 mainly due to the phase-out of Basel 2.5 tier 2 capital instruments that are not eligible under BIS Basel III rules, the amortization of the deferred contingent contribution capital plan (DCCP), partially offset by positive currency effects. Fully applied BIS Basel III tier 2 capital remained unchanged at CHF 4.2 billion as of 31 March 2013, as the DCCP amortization was offset by positive currency effects.

BIS Basel III total capital

Our phase-in BIS Basel III total capital decreased by CHF 0.1 billion to CHF 49.5 billion as of 31 March 2013, due to the phasing out of tier 2 capital instruments. Our fully applied BIS Basel III total capital increased by CHF 1.0 billion to CHF 30.4 billion during the first quarter of 2013.

BIS Basel III risk-weighted assets

Our phase-in BIS Basel III RWA increased by CHF 0.7 billion to CHF 262.5 billion at the end of the first quarter. On a fully applied basis, BIS Basel III RWA increased by CHF 0.6 billion to CHF 258.7 billion. The main contributors to the phase-in BIS Basel III RWA increase were a CHF 6.7 billion increase in credit risk RWA, a CHF 0.7 billion increase in non-counterparty related risk RWA and a CHF 1.0 billion increase in operational risk RWA, partly offset by a decrease of CHF 7.7 billion in market risk RWA.

The increase in phase-in BIS Basel III credit risk RWA of CHF 6.7 billion was predominantly due to an increase in drawn exposures as well as increased RWA for securitizations as a result of rating downgrades and higher hedge-related exposures. The introduction of the mortgage multiplier for banks using an internal ratings-based (IRB) approach for calculating the RWA for Swiss residential mortgages also contributed to the increase. Credit risk RWA also includes the portfolio level advanced credit valuation adjustment (A-CVA) charge under BIS Basel III. The A-CVA decreased by CHF 0.5 billion compared with the previous quarter

BIS Basel III capital information

CHF million, except where indicated	Phase-in		Fully applied	
		Pro-forma		Pro-forma
	31.3.13	31.12.12	**31.3.13**	31.12.12
Tier 1 capital	**40,235**	40,032	**26,176**	25,182
of which: common equity tier 1 capital	***40,235***	*40,032*	***26,176***	*25,182*
Tier 2 capital	**9,260**	9,589	**4,225**	4,205
of which: high trigger loss-absorbing capital	***394***	*504*	***394***	*504*
of which: low trigger loss-absorbing capital	***3,768***	*3,656*	***3,768***	*3,656*
of which: phase-out capital and other tier 2	***5,098***	*5,429*	***63***	*45*
Total capital	**49,495**	49,620	**30,401**	29,387
Common equity tier 1 capital ratio (%)	**15.3**	15.3	**10.1**	9.8
Tier 1 capital ratio (%)	**15.3**	15.3	**10.1**	9.8
Total capital ratio (%)	**18.9**	18.9	**11.8**	11.4
BIS Basel III risk-weighted assets	**262,454**	261,800	**258,701**	258,113

Reconciliation IFRS equity to BIS Basel III capital

	Phase-in		Fully applied	
		Pro-forma		Pro-forma
CHF million	**31.3.13**	31.12.12	**31.3.13**	31.12.12
Total IFRS equity	**50,452**	49,100	**50,452**	49,100
Effect of the implementation of IAS 19R, phase-in, net of tax	**3,697**	3,948	**0**	0
Equity attributable to preferred note holders and non-controlling interests	**(3,214)**	(3,152)	**(3,214)**	(3,152)
Treasury shares at cost / Equity classified as obligation to purchase own shares	**1,099**	1,108	**1,099**	1,108
Unrealized (gains) / losses from cash flow hedges, net of tax	**(2,714)**	(2,983)	**(2,714)**	(2,983)
Own credit related to financial liabilities designated at fair value and replacement values, net of tax	**21**	(142)	**21**	(142)
Proposed distribution of capital contribution reserves	**(562)**	(562)	**(562)**	(562)
Unrealized gains related to financial investments available-for-sale, net of tax	**(161)**	(183)	**(161)**	(183)
Other[1]	**(901)**	(728)	**(901)**	(728)
Common equity tier 1 capital before deductions	**47,718**	46,406	**44,020**	42,458
Less: treasury shares / deduction for own shares[2]	**(1,681)**	(1,603)	**(1,681)**	(1,603)
Less: goodwill and intangible assets net of tax, less hybrid capital, as applicable	**(3,061)**	(2,450)	**(6,999)**	(6,766)
Less: deferred tax assets recognized for tax loss carry-forwards, less deferred tax liabilities, as applicable	**0**	0	**(5,971)**	(6,586)
Less: pension assets IAS 19R, pre-tax	**0**	0	**(454)**	0
Less: fair value of the call option to acquire SNB StabFund's equity, pre-tax	**(2,425)**	(2,103)	**(2,425)**	(2,103)
Less: other deduction items, net of tax[3]	**(314)**	(218)	**(314)**	(218)
Common equity tier 1 capital	**40,235**	40,032	**26,176**	25,182
Hybrid capital	**3,937**	4,316	**0**	0
Goodwill and intangible assets net of tax, offset against hybrid capital	**(3,937)**	(4,316)	**0**	0
Additional tier 1 capital	**0**	0	**0**	0
Tier 1 capital	**40,235**	40,032	**26,176**	25,182
Tier 2 capital	**9,260**	9,589	**4,225**	4,205
Total capital	**49,495**	49,620	**30,401**	29,387

1 Consists of i) the netted impact of the change in the scope of consolidation, and ii) other adjustments including reclassifications, revaluations of participations, the accrued dividend payment for 2013 and the charge for the compensation-related increase in BIS Basel III-compliant loss-absorbing tier 2 capital. 2 Consists of i) the net long position in own shares held for trading purposes, ii) own shares held and accruals for share delivery obligations to employees, as well as iii) accruals for anticipated future grants of share awards to employees. 3 Consists of i) prudential valuation adjustments, ii) expected losses on advanced internal ratings-based portfolio less general provisions (if difference is positive), and iii) expected losses on non-trading equity exposures (simple risk-weight method).

which was driven by a methodology change in the A-CVA VaR model as well as risk reductions partially offset by the unwinding of hedges.

The phase-in BIS Basel III non-counterparty related risk RWA increase of CHF 0.7 billion was mainly due to an increase in deferred tax assets (DTA) on temporary differences, which are risk-weighted under BIS Basel III rules.

The phase-in BIS Basel III operational risk RWA increased by CHF 1.0 billion, mainly driven by the annual scenario-based recalibration of the advanced measurement approach (AMA) model parameters, which were approved by FINMA. The business division operational risk RWA allocations have been updated in line with our current divisional allocation methodology, which uses historical data on cumulative operational risk-related losses.

The phase-in BIS Basel III market risk RWA decrease of CHF 7.7 billion was mainly due to a decrease in the incremental risk charge (IRC) of CHF 1.5 billion as a result of risk reductions, a decrease in regulatory VaR RWA of CHF 2.2 billion, a decrease in stressed VaR RWA of CHF 2.5 billion due to risk reductions and a decrease in the comprehensive risk measure (CRM) of CHF 1.4 billion due to the reduction of correlation trading positions.

The increase in total phase-in BIS Basel III RWA of CHF 0.5 billion in Wealth Management and CHF 1.8 billion in Retail & Corporate was mainly due to the introduction of the aforementioned mortgage multiplier in credit risk RWA. Other changes relate to the annual update of the risk parameters and a new rating tool for private mortgages, which provides better risk differentiation.

➔ **Refer to the "Investment Bank", "Corporate Center"and "Risk management and control" sections for more information about RWA developments**

BIS Basel III RWA by risk type and reporting segment

CHF billion	Phase-in									
						Pro-forma				
	31.3.13					31.12.12				
	Credit risk[1]	Non-counterparty related risk	Market risk	Operational risk	Total	Credit risk[1]	Non-counterparty related risk	Market risk	Operational risk	Total
Wealth Management	12.1	0.3	0.0	6.7	19.1	10.8	0.3	0.0	7.5	**18.6**
Wealth Management Americas	9.0	0.0	1.3	11.6	21.9	9.3	0.0	1.7	12.5	**23.6**
Investment Bank	44.7	0.1	9.2	15.2	69.2	42.9	0.1	6.2	15.6	**64.9**
Global Asset Management	3.1	0.0	0.1	0.9	4.1	2.7	0.0	0.0	1.0	**3.7**
Retail & Corporate	32.6	0.1	0.0	1.0	33.7	30.7	0.1	0.0	1.1	**31.9**
CC – Core Functions[2]	6.2	12.4	(6.1)	7.0	19.6	5.9	11.7	(2.3)	1.3	**16.6**
Total business divisions and CC – Core Functions	*107.8*	*12.9*	*4.5*	*42.3*	*167.6*	*102.3*	*12.2*	*5.7*	*39.0*	***159.2***
CC – Non-core and Legacy Portfolio	68.4	0.0	14.5	12.0	94.9	67.3	0.0	21.0	14.3	**102.5**
Total BIS Basel III risk-weighted assets	176.2	12.9	19.0	54.3	262.5	169.5	12.2	26.7	53.3	**261.8**

CHF billion	Fully applied									
						Pro-forma				
	31.3.13					31.12.12				
	Credit risk[1]	Non-counterparty related risk	Market risk	Operational risk	Total	Credit risk[1]	Non-counterparty related risk	Market risk	Operational risk	Total
Wealth Management	11.7	0.3	0.0	6.7	18.7	10.4	0.3	0.0	7.5	**18.2**
Wealth Management Americas	8.8	0.0	1.3	11.6	21.7	9.0	0.0	1.7	12.5	**23.3**
Investment Bank	44.1	0.1	9.2	15.2	68.6	42.3	0.1	6.2	15.6	**64.3**
Global Asset Management	3.0	0.0	0.1	0.9	4.0	2.6	0.0	0.0	1.0	**3.6**
Retail & Corporate	30.9	0.1	0.0	1.0	32.0	29.0	0.1	0.0	1.1	**30.2**
CC – Core Functions	5.6	12.4	(6.1)	7.0	19.0	5.3	11.7	(2.3)	1.3	**16.1**
Total business divisions and CC – Core Functions	*104.0*	*12.9*	*4.5*	*42.3*	163.8	*98.6*	*12.2*	*5.7*	*39.0*	**155.6**
CC – Non-core and Legacy Portfolio	68.4	0.0	14.5	12.0	94.9	67.3	0.0	21.0	14.3	**102.5**[3]
Total BIS Basel III risk-weighted assets	172.5	12.9	19.0	54.3	258.7	165.9	12.2	26.7	53.3	**258.1**

1 Includes securitization exposures, equity exposures, credit valuation adjustments (advanced-, standardized-, simplified approach) and capital requirements for settlement risk (failed trades). 2 Negative Market risk numbers are due to the diversification effect allocated to CC – Core Functions. 3 Reflects the transfer of approximately CHF 2.6 billion related to Group Treasury activities from CC – Non-core and Legacy Portfolio to CC – Core Functions.

Swiss SRB Basel III capital information

Our phase-in Swiss SRB Basel III CET1 capital ratio remained unchanged at 15.3% as of 31 March 2013. Our phase-in Swiss SRB Basel III CET1 capital increased by CHF 0.2 billion to CHF 40.2 billion and our fully applied Swiss SRB Basel III CET1 capital increased by CHF 1.0 billion to CHF 26.2 billion for the same reasons discussed with respect to the BIS Basel III capital.

Our phase-in Swiss SRB Basel III total capital increased by CHF 0.3 billion to CHF 44.5 billion compared with the previous quarter. Our fully applied Swiss SRB Basel III total capital increased by CHF 1.1 billion to CHF 30.4 billion as of 31 March 2013 primarily due to the increase in fully applied CET1 capital, for the same reasons as discussed under BIS Basel III.

As of 31 March 2013, we satisfy the Swiss SRB Basel III base and buffer capital requirements by our Swiss SRB Basel III CET1 capital. The Swiss SRB Basel III progressive buffer capital requirement is covered by high and low-trigger loss-absorbing capital, as shown in the "Swiss SRB Basel III capital requirements in 2013" table.

The RWA under Swiss SRB Basel III and BIS Basel III are the same.

Swiss SRB leverage ratio

The Swiss SRB leverage ratio for systemically relevant banks in Switzerland (formerly referred to as "FINMA Basel III leverage ratio") came into force on 1 January 2013. The ratio consists of three components: base capital, buffer capital and progressive buffer capital. It is calculated by dividing the relevant capital basis by IFRS assets including off-balance sheet items, based on a capital adequacy scope of consolidation, and adjusted for netting of securities financing transactions and derivatives and other adjust-

Swiss SRB Basel III capital information

CHF million, except where indicated	Phase-in		Fully applied	
		Pro-forma		Pro-forma
	31.3.13	31.12.12	**31.3.13**	31.12.12
Tier 1 capital	**40,235**	40,032	**26,176**	25,182
of which: common equity tier 1 capital	***40,235***	*40,032*	***26,176***	*25,182*
Loss-absorbing capital (LAC)	**4,260**	4,160	**4,260**	4,160
of which: high trigger loss-absorbing capital	***492***	*504*	***492***	*504*
of which: low trigger loss-absorbing capital	***3,768***	*3,656*	***3,768***	*3,656*
Total capital	**44,495**	44,192	**30,436**	29,342
Common equity tier 1 capital ratio (%)	**15.3**	15.3	**10.1**	9.8
Tier 1 capital ratio (%)	**15.3**	15.3	**10.1**	9.8
Total capital ratio (%)	**17.0**	16.9	**11.8**	11.4
Swiss SRB Basel III risk-weighted assets	**262,454**	261,800	**258,701**	258,113

Swiss SRB Basel III capital requirements in 2013

CHF million, except where indicated	Phase-in				
	31.3.13				
	Minimum ratio %	Swiss SRB Basel III minimum capital requirements	Ratio %	Available Swiss SRB Basel III capital	Capital type
Base capital	3.5	9,186	3.5	9,186	CET1
Buffer capital	3.5	9,186	11.8	31,050[1]	CET1
Progressive buffer capital	1.5	3,937	1.6	4,260	LAC
Total	8.5	22,309	17.0	44,495	
Phase-out and other tier 2 capital			1.9	5,098	

1 Swiss SRB Basel III CET1 exceeding the base capital requirement is allocated to the buffer capital.

ments. The leverage ratio requirement is set at a level of 24% of the minimum capital ratio requirement for the base capital, the buffer capital and the progressive buffer capital. Our Swiss SRB leverage ratio increased 0.2 percentage points to 3.8% on 31 March 2013 from 3.6% on 31 December 2012, mainly due to the reduction of our balance sheet assets.

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

Currency management

Market risk arising from management of consolidated capital

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 are recorded through IFRS equity. 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 impact of foreign exchange movements on both the BIS Basel III CET1 capital ratio and the BIS Basel III CET1 capital on a fully applied basis. Limits are in place, both for the sensitivity of the BIS Basel III CET1 capital ratio and the BIS Basel III CET1 capital, to a ±10% change in the Swiss franc against other currencies. As of 31 March 2013, the estimated sensitivities of the fully applied BIS Basel III CET1 capital ratio and fully applied BIS Basel III CET1 capital to a 10% appreciation or depreciation of the Swiss franc against other currencies were 32 basis points and CHF 741 million, respectively.

Swiss SRB leverage ratio

		Pro-forma
CHF million, except where indicated	**Average 1Q13**	Average 4Q12
Total on-balance sheet assets[1]	**1,223,840**	1,270,627
Less: netting of securities financing transactions	**9,325**	20,508
Less: netting of derivative exposures	**300,239**	332,076
Add: current exposure method (CEM add-on) for derivative exposures	**155,526**	184,180
Add: off-balance sheet items	**100,087**	102,000
of which: commitments and guarantees – unconditionally cancellable (10%)	**21,060**	*20,168*
of which: commitments and guarantees – other than unconditionally cancellable (100%)	**79,027**	*81,540*
Add: assets of entities consolidated under IFRS but not in regulatory scope of consolidation	**17,913**	24,630
Less: items deducted from Swiss SRB Basel III common equity tier 1, phase-in (at quarter end)	**12,876**	12,000
Total adjusted exposure[2]	**1,174,926**	1,216,000
Swiss SRB Basel III Common equity tier 1 capital phase-in (at quarter end)	**40,235**	40,032
Swiss SRB Basel III Loss-absorbing capital (at quarter end)	**4,260**	4,160
Swiss SRB Basel III Total capital (at quarter end)	**44,495**	44,192
Swiss SRB leverage ratio (formerly referred to as "FINMA Basel III leverage ratio") (%)	**3.79**	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 "Basel 2.5 Pillar 3" section in our Annual Report 2012 for more information on the regulatory scope of consolidation. 2 Excludes forward starting repos, securities lending indemnifications and CEM add-ons for ETDs (proprietary and agency transactions).

Swiss SRB leverage ratio requirements in 2013

CHF million, except where indicated				**Phase-in**	
				31.3.13	
	Swiss SRB leverage ratio%[1]	Swiss SRB leverage ratio capital requirement	Swiss SRB leverage ratio %	Available Swiss SRB Basel III capital	Capital type
Base capital	0.84	9,869	0.84	9,869	CET1
Buffer capital	0.84	9,869	2.58	30,366[2]	CET1
Progressive buffer capital	0.36	4,230	0.36	4,260	LAC
Total	2.04	23,968	3.79	44,495	

1 Minimum requirements for base capital (24% of 3.5%), buffer capital (24% of 3.5%) and progressive buffer capital (24% of 1.5%). 2 Swiss SRB Basel III CET1 exceeding the base capital requirement is allocated to the buffer capital.

Equity attribution

Our equity attribution framework aims to guide each business toward activities that appropriately balance profit potential, risk and capital usage. The design of the framework, which includes some forward-looking elements, enables us to calculate and assess return on attributed equity in each of our business divisions, and integrates Group-wide capital management activities with those at business division level. From the first quarter of 2013, Corporate Center includes attributed equity related to non-core businesses transferred from the Investment Bank.

On a pro-forma basis (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 and the Investment Bank's attributed equity would have amounted to CHF 8.0 billion.

The average equity attributed to Non-core decreased to CHF 8.7 billion in the first quarter of 2013 from CHF 10.5 billion in the prior quarter on a pro-forma basis treating Non-core as fully transferred from the Investment Bank to the Corporate Center. The average equity attributed to the Investment Bank decreased slightly to CHF 7.9 billion in the first quarter of 2013 from CHF 8.0 billion in the prior quarter on the same pro-forma basis. These decreases in both Non-core and the Investment Bank were mainly due to projected reductions in BIS Basel III RWA, the Swiss SRB leverage ratio denominator and risk-based capital. From 1 January 2013, attributed equity required to underpin the CHF 3.9 billion of goodwill and intangible assets that arose from the PaineWebber acquisition has been transferred to the Corporate Center and reported under Group items, resulting in a decrease in attributed equity to Wealth Management, Wealth Management Americas and Global Asset Management. The average total equity attributed to our business divisions and Corporate Center increased by CHF 0.1 billion to CHF 45.6 billion. Equity attributable to UBS shareholders averaged CHF 46.6 billion, resulting in a difference of CHF 1.0 billion.

➔ **Refer to the "Capital management" section of our Annual Report 2012 for further information on our equity attribution framework**

Average attributed equity

CHF billion	**1Q13**	**4Q12**
Wealth Management [1]	**3.7**	4.3
Wealth Management Americas [1]	**2.9**	5.9
Investment Bank [2]	**7.9**	8.0
Global Asset Management [1]	**1.9**	2.1
Retail & Corporate	**4.4**	4.4
Corporate Center	**24.8**	20.8
of which: Core Functions	***3.1***	*2.9*
of which: Non-core and Legacy Portfolio [2]	***13.9***	*15.9*
of which: Group items [1, 3]	***7.8***	*2.0*
Average equity attributed to the business divisions and Corporate Center	**45.6**	**45.5**
Difference	**1.0**	**1.5**
Average equity attributable to UBS shareholders	**46.6**	**47.0**

1 From 1 January 2013, attributed equity required to underpin the CHF 3.9 billion of goodwill and intangible assets that arose from the PaineWebber acquisition has been transferred from Wealth Management, Wealth Management Americas, and Global Asset Management to Group items, within the Corporate Center. 2 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 would have amounted to CHF 8.0 billion of the CHF 18.5 billion of attributed equity shown for the Investment Bank in the fourth-quarter 2012 report. 3 Group 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% BIS Basel III common equity tier 1 ratio.

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. Total UBS shares issued increased by 1,688,945 shares in the first quarter due to the exercise of employee share options.

Treasury shares held by the Group decreased by 8,796,443 shares on a net basis, mainly due to share deliveries for employee share-based compensation awards.

UBS shares

	31.3.13	31.12.12	Change from 31.12.12
Shares outstanding			
Shares issued	**3,836,939,178**	3,835,250,233	1,688,945
of which: related to employee option plans			*1,688,945*
Treasury shares	**79,083,158**	87,879,601	(8,796,443)
Shares outstanding	**3,757,856,020**	3,747,370,632	10,485,388
Shareholders' equity (CHF million)			
Equity attributable to UBS shareholders	**47,239**	45,949	1,290
Less: goodwill and intangible assets	**6,705**	6,461	244
Tangible shareholders' equity	**40,534**	39,488	1,046
Book value per share (CHF)			
Total book value per share	**12.57**	12.26	0.31
Tangible book value per share	**10.79**	10.54	0.25

Financial information

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	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Interest income	3	**3,484**	3,550	4,130	(2)	(16)
Interest expense	3	**(2,003)**	(2,078)	(2,541)	(4)	(21)
Net interest income	3	**1,481**	1,472	1,589	1	(7)
Credit loss (expense) / recovery		**(15)**	(24)	37	(38)	
Net interest income after credit loss expense		**1,466**	1,448	1,626	1	(10)
Net fee and commission income	4	**4,123**	3,992	3,840	3	7
Net trading income	3	**2,222**	378	976	488	128
Other income	5	**(37)**	390	81		
Total operating income		**7,775**	6,208	6,523	25	19
Personnel expenses	6	**4,100**	4,014	3,378	2	21
General and administrative expenses	7	**1,999**	3,843	1,398	(48)	43
Depreciation and impairment of property and equipment		**208**	169	158	23	32
Amortization and impairment of intangible assets		**20**	19	23	5	(13)
Total operating expenses		**6,327**	8,044	4,956	(21)	28
Operating profit / (loss) before tax		**1,447**	(1,837)	1,567		(8)
Tax expense / (benefit)	9	**458**	66	531	594	(14)
Net profit / (loss)		**989**	(1,903)	1,036		(5)
Net profit / (loss) attributable to preferred note holders		**0**	0	0		
Net profit / (loss) attributable to non-controlling interests		**1**	1	1	0	0
Net profit / (loss) attributable to UBS shareholders		**988**	(1,904)	1,035		(5)

Earnings per share (CHF)

Basic earnings per share	8	**0.26**	(0.51)	0.28		(7)
Diluted earnings per share	8	**0.26**	(0.51)	0.27		(4)

Statement of comprehensive income

	For the quarter ended					
CHF million	31.3.13				31.12.12	31.3.12
	Total	UBS share-holders	Preferred note holders	Non-controlling interests	Total	Total
Net profit / (loss)	**989**	**988**		**1**	(1,903)	1,036
Other comprehensive income						
Other comprehensive income that may be reclassified to the income statement[1]						
Foreign currency translation						
Foreign currency translation movements, before tax	**614**	**557**	**57**		(566)	(831)
Foreign exchange amounts reclassified to the income statement from equity	**(26)**	**(26)**			(7)	7
Income tax relating to foreign currency translation movements	**(3)**	**(3)**			(0)	59
Subtotal foreign currency translation movements, net of tax[2]	**585**	**528**	**57**	**0**	(573)	(765)
Financial investments available-for-sale						
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	**20**	**20**			27	31
Impairment charges reclassified to the income statement from equity	**18**	**18**			11	29
Realized gains reclassified to the income statement from equity	**(64)**	**(64)**			(208)	(60)
Realized losses reclassified to the income statement from equity	**12**	**12**			0	6
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	**16**	**16**			60	(2)
Subtotal net unrealized gains / (losses) on financial investments available-for-sale, net of tax[2]	**3**	**3**			(110)	5
Cash flow hedges						
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	**(21)**	**(21)**			53	(5)
Net (gains) / losses reclassified to the income statement from equity	**(319)**	**(319)**			(373)	(256)
Income tax relating to cash flow hedges	**70**	**70**			64	53
Subtotal changes in fair value of derivative instruments designated as cash flow hedges, net of tax[2]	**(270)**	**(270)**			(256)	(209)
Total other comprehensive income that may be reclassified to the income statement, net of tax[1]	**318**	**261**	**57**	**0**	(939)	(969)
Other comprehensive income that will not be reclassified to the income statement[1]						
Defined benefit plans						
Gains / (losses) on defined benefit plans, before tax	**375**	**375**			489	252
Income tax relating to gains / losses on defined benefit plans	**(122)**	**(122)**			(98)	(6)
Subtotal changes in gains / (losses) on defined benefit plans, net of tax[2]	**253**	**253**			391	247
Total other comprehensive income that will not be reclassified to the income statement, net of tax[1]	**253**	**253**			391	247
Total other comprehensive income	**571**	**514**	**57**	**0**	(548)	(722)
Total comprehensive income	**1,560**	**1,503**	**57**	**1**	(2,451)	313
Total comprehensive income attributable to preferred note holders	**57**				(33)	(64)
Total comprehensive income attributable to non-controlling interests	**1**				6	0
Total comprehensive income attributable to UBS shareholders	**1,503**				(2,423)	377

1 Refer to "Note 1 Basis of accounting" for more information. 2 Other comprehensive income attributable to UBS shareholders related to foreign currency translations was negative CHF 544 million in the fourth quarter of 2012 and negative CHF 701 million in the first quarter of 2012. Other comprehensive income related to financial investments available-for-sale, cash flow hedges and defined benefit plans was wholly attributable to UBS shareholders for all periods presented.

Balance sheet

CHF million	Note	31.3.13	31.12.12	% change from 31.12.12
Assets				
Cash and balances with central banks		63,976	66,383	(4)
Due from banks		20,222	21,220	(5)
Cash collateral on securities borrowed		36,182	37,372	(3)
Reverse repurchase agreements		128,819	130,941	(2)
Trading portfolio assets	10	145,032	160,564	(10)
of which: assets pledged as collateral which may be sold or repledged by counterparties		*39,818*	*44,698*	*(11)*
Positive replacement values	14	381,963	418,957	(9)
Cash collateral receivables on derivative instruments		30,495	30,413	0
Financial assets designated at fair value		12,045	9,106	32
Loans		291,779	279,901	4
Financial investments available-for-sale	11	62,529	66,230	(6)
Accrued income and prepaid expenses		6,675	6,138	9
Investments in associates		887	858	3
Property and equipment		6,117	6,004	2
Goodwill and intangible assets		6,705	6,461	4
Deferred tax assets		7,910	8,143	(3)
Other assets	16	12,509	11,106	13
Total assets		**1,213,844**	1,259,797	(4)
Liabilities				
Due to banks		21,614	23,024	(6)
Cash collateral on securities lent		8,288	9,203	(10)
Repurchase agreements		26,661	38,557	(31)
Trading portfolio liabilities	10	28,228	34,247	(18)
Negative replacement values	14	363,217	395,260	(8)
Cash collateral payables on derivative instruments		65,657	71,148	(8)
Financial liabilities designated at fair value		88,388	91,901	(4)
Due to customers		381,613	373,459	2
Accrued expenses and deferred income		6,877	6,917	(1)
Debt issued		107,386	104,837	2
Provisions	17	3,060	2,536	21
Other liabilities	16	62,402	59,606	5
Total liabilities		**1,163,392**	1,210,697	(4)
Equity				
Share capital		384	384	0
Share premium		33,677	33,898	(1)
Treasury shares		(1,074)	(1,071)	0
Equity classified as obligation to purchase own shares		(25)	(37)	(32)
Retained earnings		22,285	21,297	5
Cumulative net income recognized directly in equity, net of tax		(8,008)	(8,522)	(6)
Equity attributable to UBS shareholders		**47,239**	45,949	3
Equity attributable to preferred note holders		3,170	3,109	2
Equity attributable to non-controlling interests		43	42	2
Total equity		**50,452**	49,100	3
Total liabilities and equity		**1,213,844**	1,259,797	(4)

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 2012 before the adoption of IFRS 10	**383**	**34,614**	**(1,160)**	**(39)**	**23,742**
Effect of adoption of IFRS 10[1]					35
Balance as of 1 January 2012 after the adoption of IFRS 10	**383**	**34,614**	**(1,160)**	**(39)**	**23,777**
Issuance of share capital					
Acquisition of treasury shares			(679)[2]		
Disposition of treasury shares			1,089		
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		14			
Premium on shares issued and warrants exercised		(1)			
Employee share and share option plans		(563)			
Tax (expense) / benefit recognized in share premium		15			
Dividends					
Equity classified as obligation to purchase own shares – movements					
Preferred notes					
New consolidations and other increases / (decreases)		0			
Deconsolidations and other decreases					
Total comprehensive income for the period recognized in equity					1,035
Balance as of 31 March 2012	**383**	**34,079**	**(750)**	**(39)**	**24,812**
Balance as of 1 January 2013	**384**	**33,898**	**(1,071)**	**(37)**	**21,297**
Issuance of share capital	**0**				
Acquisition of treasury shares			**(651)**[2]		
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**
Balance as of 31 March 2013	**384**	**33,677**	**(1,074)**	**(25)**	**22,285**

1 Refer to "Note 1 Basis of Accounting" for more information with regards to the adoption of IFRS 10. 2 For the first three months of 2013, the net disposal of 1.6 million treasury shares (CHF 14 million) which related to market making and hedging activities of the Investment Bank are presented as dispositions. For the first three months of 2012, the net acquisition of 5 million treasury shares (CHF 76 million) are presented as acquisitions.

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	Preferred note holders	Non-controlling interests	Total equity
(9,011)	***(6,447)***	***252***	***2,600***	***(5,415)***	***0***	**48,530**	**0**	**4,406**	**52,935**
(24)	*5*	*(29)*				11	3,150	(4,359)	(1,198)
(9,035)	***(6,443)***	***223***	***2,600***	***(5,415)***	***0***	**48,540**	**3,150**	**46**	**51,737**
						0			0
						(679)			(679)
						1,089			1,089
						14			14
						(1)			(1)
						(563)			(563)
						15			15
						0			0
						0			0
						0			0
						0			0
						0			0
(658)	*(701)*	*5*	*(209)*	*247*		377	(64)	0	313
(9,693)	***(7,143)***	***228***	***2,391***	***(5,169)***	***0***	**48,792**	**3,086**	**47**	**51,925**
(8,522)	***(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)**
514	***528***	***3***	***(270)***	***253***		**1,503**	**57**	**1**	**1,560**
(8,008)	***(6,426)***	***252***	***2,714***	***(4,553)***	***6***	**47,239**	**3,170**	**43**	**50,452**

Statement of cash flows

	For the quarter ended	
CHF million	**31.3.13**	31.3.12
Cash flow from / (used in) operating activities		
Net profit / (loss)	**989**	1,036
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	**208**	158
Amortization and impairment of intangible assets	**20**	23
Credit loss expense / (recovery)	**15**	(37)
Share of net profits of associates	**(12)**	(10)
Deferred tax expense / (benefit)	**327**	498
Net loss / (gain) from investing activities	**(93)**	(21)
Net loss / (gain) from financing activities	**5,354**	3,067
Other net adjustments	**(2,646)**	4,778
Net (increase) / decrease in operating assets and liabilities:		
Net due from / to banks	**(980)**	1,240
Reverse repurchase agreements and cash collateral on securities borrowed	**3,080**	32,739
Trading portfolio, net replacement values and financial assets designated at fair value	**8,732**	5,334
Loans / due to customers	**(3,942)**	2,102
Accrued income, prepaid expenses and other assets	**(1,698)**	(1,342)
Repurchase agreements, cash collateral on securities lent	**(13,088)**	18,669
Net cash collateral on derivative instruments	**(2,410)**	(4,351)
Accrued expenses, deferred income and other liabilities	**3,292**	(2,610)
Income taxes paid, net of refunds	**(83)**	(10)
Net cash flow from / (used in) operating activities	**(2,934)**	61,262
Cash flow from / (used in) investing activities		
Purchase of subsidiaries, associates and intangible assets	**(55)**	(1)
Disposal of subsidiaries, associates and intangible assets[1]	**63**	0
Purchase of property and equipment	**(303)**	(267)
Disposal of property and equipment	**8**	6
Net (investment in) / divestment of financial investments available-for-sale[2]	**4,025**	(7,644)
Net cash flow from / (used in) investing activities	**3,737**	(7,906)
Cash flow from / (used in) financing activities		
Net short-term debt issued / (repaid)	**10,084**	(10,129)
Net movements in treasury shares and own equity derivative activity	**(528)**	(571)
Issuance of long-term debt, including financial liabilities designated at fair value	**5,327**	22,652
Repayment of long-term debt, including financial liabilities designated at fair value	**(19,791)**	(18,126)
Dividends paid to preferred note holders and non-controlling interests	**(1)**	0
Net cash flow from / (used in) financing activities	**(4,909)**	(6,174)

1 Includes dividends received from associates. 2 Includes gross cash inflows from sales and maturities (first quarter 2013: CHF 3,711 million, first quarter 2012: CHF 1,899 million) and gross cash outflows from purchases (first quarter 2013: CHF 637 million; first quarter 2012: CHF 1,773 million) related to the Wealth Management Americas available-for-sale portfolio.

Statement of cash flows (continued)

	For the quarter ended	
CHF million	**31.3.13**	31.3.12
Effects of exchange rate differences	**1,820**	(2,763)
Net increase / (decrease) in cash and cash equivalents	**(2,286)**	44,420
Cash and cash equivalents at the beginning of the period[1]	**99,108**	85,609
Cash and cash equivalents at the end of the period[1]	**96,822**	130,029
Cash and cash equivalents comprise:		
Cash and balances with central banks	**63,976**	82,865
Money market paper[2]	**3,144**	6,041
Due from banks[3]	**29,702**	41,123
Total	**96,822**	130,029

Additional information

Net cash flow from / (used in) operating activities include:		
Cash received as interest	**2,833**	3,726
Cash paid as interest	**1,818**	2,364
Cash received as dividends on equity investments, investment funds and associates[4]	**313**	365

1 Prior period 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 the first quarter of 2012, from CHF 130,037 million to CHF 130,029 million for the closing balance of the first quarter of 2012 and from CHF 99,118 million to CHF 99,108 million for the opening balance of the first quarter of 2013. 2 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 3 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments with bank counterparties. 4 Includes dividends received from associates reported within Cash flow from / (used) in investing activities.

Notes to the interim consolidated financial statements

Note 1 Basis of accounting

The consolidated financial statements of UBS 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 consolidated financial statements are presented in accordance with IAS 34 *Interim Financial Reporting*.

In preparing the interim consolidated financial statements, the same accounting principles and methods of computation have been applied as in the annual financial statements as of 31 December 2012 except for the changes set out below. These interim consolidated financial statements are unaudited and should be read in conjunction with the audited financial statements included in our Annual Report 2012. In the opinion of management, all necessary adjustments have been made for a fair presentation of the financial position, results of operations and cash flows.

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 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.

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 15 Offsetting financial assets and financial liabilities" of these interim consolidated financial statements.

IFRS 10 *Consolidated Financial Statements*

In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*. In October 2012, the IASB issued an amendment to IFRS 10 – Investment Entities – which amended IFRS 10 to provide an exception to consolidation for certain "investment enti-

IFRS 10: Effect on Total comprehensive income

	Effect on the income statement								Effect on comprehensive income			
CHF million	Net interest income	Net fee and commission income	Net trading income	Other income	Net profit	Net profit attributable to preferred note holders	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 currency translation movement, net of tax	Other comprehensive income	Total comprehensive income
As reported 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)
of which: relates to the first quarter of 2012	*(2)*	*(3)*	*15*	*(12)*	*(3)*	*0*	*0*	*(3)*	*(4)*	*10*	*7*	*4*
of which: relates to the second quarter of 2012	*(4)*	*(1)*	*(5)*	*4*	*(6)*	*220*	*(271)*	*45*	*(2)*	*4*	*2*	*(4)*
of which: relates to the third quarter of 2012	*(3)*	*(2)*	*30*	*(22)*	*3*	*0*	*0*	*3*	*9*	*(7)*	*3*	*5*
of which: relates to the fourth quarter of 2012	*(6)*	*(2)*	*6*	*(12)*	*(14)*	*0*	*0*	*(14)*	*8*	*(1)*	*7*	*(7)*
Restated amount for the year 2012	5,978	15,396	3,526	641	(2,255)	220	5	(2,480)	26	(537)	487	(1,767)

IFRS 10: Effect on the balance sheet

CHF million	Balance previously reported at 31 December 2012	Change in reported amounts	Restated balance 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 note holders	*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**

ties". IFRS 10 establishes a single control-based model for assessing whether one entity should consolidate another. IFRS 10 applies to all types of entities and replaces 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.

On 1 January 2013, UBS adopted IFRS 10 as amended in October 2012, 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 subordinated notes issued to these entities instead of the preferred securities which were presented as equity attributable to non-controlling interests. Except for one subordinated note issuance of CHF 1.2 billion which is classified as a liability, UBS presents the subordinated notes as equity attributable to preferred note holders. The October 2012 amendments for investment entities had no impact on UBS's interim consolidated financial statements as UBS Group does not itself meet the definition of an investment entity.

The comparative 2012 periods included in the first quarter report 2013 have been adjusted to reflect the effect of adopting IFRS 10. Under IFRS 10, periods prior to 2012 are not required to be restated in 2013 reports. The effect of adoption is shown in the tables above. There was no material impact on earnings per share.

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*.

UBS adopted IFRS 11 on its mandatory effective date of 1 January 2013. The new standard has no impact on the interim consolidated 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 12 Fair value measurement" of these interim consolidated financial statements.

IFRS 13 became effective for the Group on 1 January 2013 and is to be 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, decreasing operating profit before tax in the first quarter of 2013. In conjunction with the implementation of IFRS 13, the Group has refined its methodologies for estimating the effect of changing unobservable valuation inputs to reasonably possible alternative assumptions. As a result, the comparative figures in Note 12 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 will be reclassified to profit or loss in subsequent periods when specific conditions are met and those that will not be. The conditions requiring reclassification to profit or loss are set out in "Note 1 Significant accounting policies" to the audited financial statements included in our Annual Report 2012. UBS adopted the revised standard on its mandatory effective date of 1 January 2013, resulting in revised presentation in the statement of comprehensive income.

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, 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 interim consolidated financial statements.

Financial reporting structure changes relating to the Investment Bank and the Corporate Center

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. From the first quarter of 2013, these non-core activities and positions formerly in the Investment Bank have been 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, these non-core activities and positions are reported as a separate reportable segment within the Corporate Center called "Non-core and Legacy Portfolio". Prior periods have been restated for this change.

In addition, the repo 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 the first quarter of 2013. Following this transfer, the Asset Liability Management unit oversees all financing, portfolio, and structural risk management activities for the Group. With effect from the first quarter of 2013, 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 periods have been restated for these changes.

Note 2 Segment reporting

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center Core Functions[1]	Corporate Center Non-core and Legacy Portfolio	UBS
For the three months ended 31 March 2013								
Net interest income	508	202	256	(6)	531	47	(56)	1,481
Non-interest income	1,418	1,416	2,529	523	388	(526)	561	6,309
Income[2]	1,926	1,618	2,785	517	919	(479)	506	7,790
Credit loss (expense)/recovery	(12)	0	(1)	0	0	0	(2)	(15)
Total operating income	1,913	1,618	2,783	517	919	(479)	504	7,775
Personnel expenses	839	1,120	1,265	211	378	146	141	4,100
General and administrative expenses	345	219	457	107	197	94	580	1,999
Services (to)/from other business divisions	19	4	21	(4)	(37)	0	(4)	0
Depreciation and impairment of property and equipment	46	28	59	11	34	(1)	31	208
Amortization and impairment of intangible assets	1	13	3	2	0	0	1	20
Total operating expenses	1,250	1,384	1,806	327	572	239	749	6,327
Operating profit/(loss) before tax	**664**	**234**	**977**	**190**	**347**	**(719)**	**(245)**	**1,447**
Tax expense/(benefit)								**458**
Net profit/(loss)								**989**
As of 31 March 2013								
Total assets[3]	**110,580**	**63,616**	**263,044**	**14,037**	**146,041**	**234,306**	**382,220**	**1,213,844**

1 Certain cost allocations to the business divisions are based on periodically agreed standard rates charged to the business divisions on a monthly basis. This could lead to a difference between Corporate Center costs actually incurred and charges to the business divisions. 2 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. 3 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 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. Similarly, certain assets are reported in the business divisions, whereas the corresponding costs are entirely or partially allocated to the Corporate Center.

Note 2 Segment reporting[1]

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center		UBS
						Core Functions[2]	Non-core and Legacy Portfolio	
For the three months ended 31 March 2012								
Net interest income	478	199	375	(5)	539	44	(40)	1,589
Non-interest income	1,292	1,226	1,923	483	379	(1,135)	728	4,897
Income[3]	1,770	1,425	2,298	477	918	(1,091)	688	6,486
Credit loss (expense) / recovery	(1)	0	(1)	0	18	0	22	37
Total operating income	1,769	1,425	2,297	477	936	(1,091)	710	6,523
Personnel expenses	439	1,019	1,313	206	156	78	166	3,378
General and administrative expenses	276	180	490	92	214	19	127	1,398
Services (to) / from other business divisions	93	(2)	(64)	0	(138)	6	106	0
Depreciation and impairment of property and equipment	36	24	46	9	33	1	9	158
Amortization and impairment of intangible assets	2	12	3	2	0	0	4	23
Total operating expenses	846	1,233	1,788	309	265	104	412	4,956
Operating profit / (loss) before tax	**923**	**192**	**509**	**169**	**671**	**(1,196)**	**298**	**1,567**
Tax expense / (benefit)								**531**
Net profit / (loss)								**1,036**
As of 31 December 2012								
Total assets[4]	**104,620**	**63,492**	**261,511**	**12,916**	**145,320**	**243,313**	**428,625**	**1,259,797**

1 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 Certain cost allocations to the business divisions are based on periodically agreed standard rates charged to the business divisions on a monthly basis. This could lead to a difference between Corporate Center costs actually incurred and charges to the business divisions. 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 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 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 3 Net interest and trading income

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Net interest and trading income					
Net interest income	**1,481**	1,472	1,589	1	(7)
Net trading income	**2,222**	378	976	488	128
Total net interest and trading income	**3,703**	1,849	2,565	100	44
Wealth Management	**727**	669	688	9	6
Wealth Management Americas	**307**	328	323	(6)	(5)
Investment Bank	**1,833**	796	1,328	130	38
of which: Corporate Client Solutions	***498***	*191*	*93*	*161*	*435*
of which: Investor Client Services	***1,335***	*605*	*1,235*	*121*	*8*
Global Asset Management	**6**	6	5	0	20
Retail & Corporate	**609**	634	603	(4)	1
Corporate Center	**223**	(583)	(381)		
of which: Core Functions	***(276)***	*(404)*	*(1,037)*	*(32)*	*(73)*
of which: own credit on financial liabilities designated at fair value[1]	***(181)***	*(414)*	*(1,164)*	*(56)*	*(84)*
of which: Non-core and Legacy Portfolio	***499***	*(179)*	*657*		*(24)*
Total net interest and trading income	**3,703**	1,849	2,565	100	44
Net interest income					
Interest income					
Interest earned on loans and advances	**2,297**	2,189	2,349	5	(2)
Interest earned on securities borrowed and reverse repurchase agreements	**238**	288	400	(17)	(41)
Interest and dividend income from trading portfolio	**797**	888	1,181	(10)	(33)
Interest income on financial assets designated at fair value	**94**	92	99	2	(5)
Interest and dividend income from financial investments available-for-sale	**59**	93	102	(37)	(42)
Total	**3,484**	3,550	4,130	(2)	(16)
Interest expense					
Interest on amounts due to banks and customers	**262**	192	447	36	(41)
Interest on securities lent and repurchase agreements	**217**	231	313	(6)	(31)
Interest expense from trading portfolio[2]	**491**	392	536	25	(8)
Interest on financial liabilities designated at fair value	**335**	370	487	(9)	(31)
Interest on debt issued	**697**	892	758	(22)	(8)
Total	**2,003**	2,078	2,541	(4)	(21)
Net interest income	**1,481**	1,472	1,589	1	(7)
Net trading income					
Investment Bank Corporate Client Solutions	**372**	105	72	254	417
Investment Bank Investor Client Services	**1,205**	522	880	131	37
Other business divisions and Corporate Center	**645**	(250)	23		
Net trading income	**2,222**	378	976	488	128
of which: net gains / (losses) from financial liabilities designated at fair value[1, 3]	***(1,144)***	*(1,441)*	*(3,781)*	*(21)*	*(70)*

1 For more information on own credit refer to "Note 12 Fair value measurement". 2 Includes expense related to dividend payment obligations on trading liabilities. 3 Fair value changes of hedges related to financial liabilities designated at fair value are also reported in Net trading income.

Note 4 Net fee and commission income

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Equity underwriting fees	**205**	223	216	(8)	(5)
Debt underwriting fees	**190**	182	183	4	4
Total underwriting fees	**395**	405	398	(2)	(1)
M&A and corporate finance fees	**119**	197	173	(40)	(31)
Brokerage fees	**1,094**	937	1,041	17	5
Investment fund fees	**1,031**	954	894	8	15
Portfolio management and advisory fees	**1,556**	1,530	1,404	2	11
Insurance-related and other fees	**123**	130	102	(5)	21
Total securities trading and investment activity fees	**4,318**	4,153	4,012	4	8
Credit-related fees and commissions	**99**	111	98	(11)	1
Commission income from other services	**198**	200	201	(1)	(1)
Total fee and commission income	**4,616**	4,464	4,312	3	7
Brokerage fees paid	**236**	217	230	9	3
Other	**256**	255	242	0	6
Total fee and commission expense	**492**	472	472	4	4
Net fee and commission income	**4,123**	3,992	3,840	3	7
of which: net brokerage fees	***858***	*720*	*811*	*19*	*6*

Note 5 Other income

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Associates and subsidiaries					
Net gains / (losses) from disposals of subsidiaries[1]	**82**	7	(17)		
Net gains / (losses) from disposals of investments in associates	**0**	0	0		
Share of net profits of associates	**12**	15	10	(20)	20
Total	**94**	22	(6)	327	
Financial investments available-for-sale					
Net gains / (losses) from disposals	**52**	198	54	(74)	(4)
Impairment charges	**(18)**	(11)	(29)	64	(38)
Total	**34**	187	25	(82)	36
Net income from properties[2]	**9**	9	9	0	0
Net gains / (losses) from investment properties[3]	**1**	0	2		(50)
Other[4]	**(173)**	173	52		
Total other income	**(37)**	390	81		

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. 4 Includes net gains / losses from disposals of loans and receivables and own-used property. The first quarter of 2013 included a loss of CHF 119 million on the buyback of debt in a public tender offer. The fourth quarter of 2012 included gains of CHF 112 million on sales of Swiss real estate.

Note 6 Personnel expenses

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Salaries and variable compensation	**2,689**	2,628	2,813	2	(4)
Contractors	**43**	56	47	(23)	(9)
Social security	**218**	221	199	(1)	10
Pension and other post-employment benefit plans	**216**	205	(524)[1]	5	
Wealth Management Americas: Financial advisor compensation[2]	**776**	739	679	5	14
Other personnel expenses	**159**	164	164	(3)	(3)
Total personnel expenses[3]	**4,100**	4,014	3,378	2	21

1 Includes a credit of CHF 730 million related to certain changes to the Swiss UBS pension plan. Refer to "Note 30 Pension and other post-employment benefit plans" in our Annual Report 2012 for more information. 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. 3 Includes restructuring charges. Refer to "Note 19 Changes in organization" for more information.

Note 7 General and administrative expenses

	For the quarter ended			% change from	
CHF million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Occupancy	**261**	277	261	(6)	0
Rent and maintenance of IT and other equipment	**115**	123	119	(7)	(3)
Communication and market data services	**152**	154	158	(1)	(4)
Administration	**128**	264	134	(52)	(4)
Marketing and public relations	**112**	165	83	(32)	35
Travel and entertainment	**101**	124	105	(19)	(4)
Professional fees	**206**	278	187	(26)	10
Outsourcing of IT and other services	**302**	370	298	(18)	1
Provisions for litigation, regulatory and similar matters[1, 2]	**378**	2,081	48	(82)	688
Other[3]	**243**	9	5		
Total general and administrative expenses	**1,999**	3,843	1,398	(48)	43

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 3 million, CHF 4 million and CHF 4 million for the quarters ended 31 March 2013, 31 December 2012 and 31 March 2012, respectively. The fourth quarter of 2012 included charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. 2 Refer to "Note 17 Provisions and contingent liabilities" for more information. 3 Includes restructuring charges. Refer to "Note 19 Changes in organization" for more information.

Note 8 Earnings per share (EPS) and shares outstanding

	As of or for the quarter ended			% change from	
	31.3.13	31.12.12	31.3.12	4Q12	1Q12
Basic earnings (CHF million)					
Net profit attributable to UBS shareholders	**988**	(1,904)	1,035		(5)
Diluted earnings (CHF million)					
Net profit attributable to UBS shareholders	**988**	(1,904)	1,035		(5)
Less: (profit)/loss on UBS equity derivative contracts	**(1)**	(1)	(1)	0	0
Net profit attributable to UBS shareholders for diluted EPS	**987**	(1,905)	1,034		(5)
Weighted average shares outstanding					
Weighted average shares outstanding for basic EPS	**3,754,790,008**	3,748,149,482	3,754,637,548	0	0
Effect of dilutive potential shares resulting from notional shares, in-the-money options and warrants outstanding	**85,707,866**	258,743	64,587,405		33
Weighted average shares outstanding for diluted EPS	**3,840,497,874**	3,748,408,225	3,819,224,953	2	1
Earnings per share (CHF)					
Basic	**0.26**	(0.51)	0.28		(7)
Diluted	**0.26**	(0.51)	0.27		(4)
Shares outstanding					
Shares issued	**3,836,939,178**	3,835,250,233	3,833,019,423	0	0
Treasury shares	**79,083,158**	87,879,601	57,028,735	(10)	39
Shares outstanding	**3,757,856,020**	3,747,370,632	3,775,990,688	0	0
Exchangeable shares	**418,526**	418,526	435,339	0	(4)
Shares outstanding for EPS	**3,758,274,546**	3,747,789,158	3,776,426,027	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:

Potentially dilutive instruments			
Number of shares	**31.3.13**	31.12.12	31.3.12
Employee share-based compensation awards	**134,285,814**	233,256,208	159,435,522
Other equity derivative contracts	**11,004,435**	15,456,289	29,982,689
SNB warrants[1]	**100,000,000**	100,000,000	100,000,000
Total	**245,290,249**	348,712,497	289,418,211

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.

Note 9 Income taxes

We recognized a net income tax expense of CHF 458 million for the first quarter of 2013. This primarily reflects a deferred tax expense of CHF 319 million in respect of the amortization of deferred tax assets previously recognized in relation to tax losses carried forward, to offset taxable profits for the quarter for Switzerland and the US. The remainder reflects other tax expenses of CHF 139 million, primarily in relation to taxable profits in other locations.

Note 10 Trading portfolio

CHF million	**31.3.13**	31.12.12
Trading portfolio assets by product type		
Debt instruments		
Government bills / bonds	**17,949**	28,737
Corporate bonds, municipal bonds, including bonds issued by financial institutions	**21,632**	23,887
Loans	**6,134**	6,129
Investment fund units	**10,558**	12,895
Asset-backed securities	**4,430**	8,556
of which: mortgage-backed securities	***2,526***	*6,760*
Total debt instruments	**60,702**	80,205
Equity instruments	**53,773**	48,035
Financial assets for unit-linked investment contracts	**15,534**	15,230
Financial assets held for trading	**130,009**	143,471
Precious metals and other physical commodities	**15,023**	17,093
Total trading portfolio assets	**145,032**	160,564
Trading portfolio liabilities by product type		
Debt instruments		
Government bills / bonds	**9,047**	14,741
Corporate bonds, municipal bonds, including bonds issued by financial institutions	**4,799**	5,479
Investment fund units	**551**	383
Asset-backed securities	**6**	22
of which: mortgage-backed securities	***5***	*22*
Total debt instruments	**14,403**	20,626
Equity instruments	**13,825**	13,621
Total trading portfolio liabilities	**28,228**	34,247

Note 11 Financial investments available-for-sale

CHF million	**31.3.13**	31.12.12
Financial investments available-for-sale by product type		
Debt instruments		
Government bills / bonds	**45,733**	47,031
Corporate bonds, municipal bonds, including bonds issued by financial institutions	**10,528**	10,940
Investment fund units	**413**	375
Asset-backed securities	**5,270**	7,313
of which: mortgage-backed securities	***5,270***	*7,313*
Total debt instruments	**61,943**	65,659
Shares	**567**	547
Private equity investments	**18**	24
Total equity instruments	**586**	572
Total financial investments available-for-sale	**62,529**	66,230

Note 12 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) Deferred day-1 profit or loss

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 information, where 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 upon 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

Where applicable, 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 information on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price times the number of units of the instrument held.

Where the market for a financial or non-financial instrument is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve a degree of estimation, 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 in forming a price. The risk inherent in a particular valuation technique is considered in the determination of an instrument'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 in an instrument 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 the unit of account. However, where appropriate, 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. Refer to Note 12i for more information.

b) Valuation governance

UBS's fair value measurement and model governance framework includes numerous controls and 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 informa-

Note 12 Fair value measurement (continued)

tion and to provide justification and rationale for their fair value estimates.

Independent price verification of financial and non-financial instruments measured at fair value is undertaken by the finance control function. The objective of the independent-price-verification process is to corroborate the business's estimates of fair value against available market information and other relevant data. 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. 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 techniques. Fair value measurements are compared with observed prices and market levels, if possible for the specific instrument being valued. This calibration analysis is performed to assess the ability of the model and its inputs, which are frequently based upon a combination of data that is observable and parameters which are difficult to observe, to value a specific product in its principal market. An independent model review group evaluates UBS's valuation models on a regular basis, or if established 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 align with independent market information and accounting standards.

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, investment property for which available price information requires some degree of modification from directly available prices and all derivatives transacted in the OTC market. UBS uses widely recognized valuation techniques for determining fair values 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 flow, 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 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 estimating the expected future cash flows 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 close-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 information is not available, inputs may be derived by reference to similar assets in like and 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 upon similar products with observable price levels and knowledge of current market conditions and valuation approaches. No weight is placed on transaction prices where the transactions are not orderly (i.e., distressed or forced).

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 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. The discount curves used by the Group incorporate the funding and credit characteristics of the instruments to which they are applied.

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-to-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-to-offer spreads used in calculation of the valuation adjustment are obtained from market and broker 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 information 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. Please refer to Note 12i for more information.

Counterparty credit risk

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, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments. This amount represents the estimated fair value of protection required to hedge the counterparty credit risk of such instruments. CVA is determined for each counterparty, considering all exposures to that counterparty and is dependent on 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.

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 that lead to their classification within the fair value hierarchy.

Note 12 Fair value measurement (continued)

Determination of fair values from quoted market prices or valuation techniques[1]

	31.3.13				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]	**83.6**	**40.7**	**5.7**	**130.0**	91.4	46.4	5.7	143.5
of which:								
Government bills / bonds	***12.3***	***5.6***	***0.1***	***17.9***	*22.2*	*6.4*	*0.1*	*28.7*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	***1.6***	***18.4***	***1.6***	***21.6***	*0.8*	*21.4*	*1.6*	*23.9*
Loans	***0.0***	***3.8***	***2.3***	***6.1***	*0.0*	*4.1*	*2.0*	*6.1*
Investment fund units	***3.7***	***6.8***	***0.1***	***10.6***	*2.6*	*10.2*	*0.1*	*12.9*
Asset-backed securities	***0.0***	***3.1***	***1.4***	***4.4***	*3.6*	*3.4*	*1.5*	*8.6*
Equity instruments	***51.0***	***2.6***	***0.2***	***53.8***	*47.6*	*0.3*	*0.1*	*48.0*
Financial assets for unit-linked investment contracts	***14.9***	***0.5***	***0.1***	***15.5***	*14.5*	*0.4*	*0.3*	*15.2*
Positive replacement values	**3.3**	**369.3**	**9.4**	**382.0**	2.9	408.0	8.1	419.0
of which:								
Interest rate contracts	***0.0***	***242.8***	***0.4***	***243.1***	*0.0*	*267.3*	*0.4*	*267.8*
Credit derivative contracts	***0.0***	***28.7***	***4.3***	***33.0***	*0.0*	*33.2*	*3.6*	*36.9*
Foreign exchange contracts	***0.3***	***81.0***	***1.1***	***82.4***	*0.3*	*92.7*	*1.2*	*94.3*
Equity / index contracts	***2.5***	***13.1***	***3.5***	***19.1***	*2.2*	*10.9*	*2.9*	*15.9*
Commodities contracts	***0.0***	***3.6***	***0.0***	***3.6***	*0.1*	*3.8*	*0.0*	*3.8*
Financial assets designated at fair value	**0.1**	**3.9**	**8.1**	**12.0**	0.1	4.1	4.9	9.1
of which:								
Loans (including structured loans)	***0.0***	***1.3***	***3.5***	***4.7***	*0.0*	*1.4*	*1.4*	*2.8*
Structured reverse repurchase and securities borrowing agreements	***0.0***	***2.2***	***4.3***	***6.5***	*0.0*	*2.2*	*3.3*	*5.5*
Other	***0.1***	***0.5***	***0.3***	***0.8***	*0.1*	*0.5*	*0.2*	*0.8*
Financial investments available-for-sale	**46.8**	**14.9**	**0.8**	**62.5**	48.5	16.9	0.7	66.2
of which:								
Government bills / bonds	***44.8***	***0.9***	***0.0***	***45.7***	*46.4*	*0.6*	*0.0*	*47.0*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	***1.8***	***8.6***	***0.1***	***10.5***	*2.1*	*8.8*	*0.1*	*10.9*
Investment fund units	***0.1***	***0.0***	***0.3***	***0.4***	*0.0*	*0.1*	*0.2*	*0.4*
Asset-backed securities	***0.0***	***5.3***	***0.0***	***5.3***	*0.0*	*7.3*	*0.0*	*7.3*
Equity instruments	***0.1***	***0.0***	***0.4***	***0.6***	*0.1*	*0.0*	*0.4*	*0.6*
Non-financial assets								
Investment properties at fair value	**0.0**	**0.0**	**0.1**	**0.1**	0.0	0.0	0.1	0.1
Precious metals and other physical commodities	**15.1**	**0.0**	**0.0**	**15.1**	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	**148.7**	**428.9**	**24.2**	**601.8**	160.0	475.4	19.6	655.1

Note 12 Fair value measurement (continued)

Determination of fair values from quoted market prices or valuation techniques[1] (continued)

	31.3.13				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	**23.3**	**4.7**	**0.2**	**28.2**	28.6	5.4	0.2	34.2
of which:								
Government bills / bonds	***8.7***	***0.4***	***0.0***	***9.0***	*14.1*	*0.6*	*0.0*	*14.7*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	***0.6***	***4.0***	***0.1***	***4.8***	*0.9*	*4.5*	*0.1*	*5.5*
Investment fund units	***0.3***	***0.2***	***0.0***	***0.6***	*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	***13.7***	***0.1***	***0.1***	***13.8***	*13.5*	*0.1*	*0.0*	*13.6*
Negative replacement values	**2.4**	**354.4**	**6.4**	**363.2**	2.9	385.9	6.5	395.3
of which:								
Interest rate contracts	***0.0***	***215.2***	***0.7***	***216.0***	*0.0*	*241.1*	*0.4*	*241.5*
Credit derivative contracts	***0.0***	***28.3***	***3.0***	***31.3***	*0.0*	*31.1*	*3.3*	*34.4*
Foreign exchange contracts	***0.3***	***89.8***	***1.0***	***91.1***	*0.3*	*96.8*	*1.5*	*98.5*
Equity / index contracts	***1.6***	***17.1***	***1.6***	***20.3***	*2.2*	*12.9*	*1.3*	*16.4*
Commodities contracts	***0.0***	***3.9***	***0.0***	***3.9***	*0.1*	*3.9*	*0.0*	*4.0*
Financial liabilities designated at fair value	**0.0**	**74.5**	**13.9**	**88.4**	0.0	77.2	14.7	91.9
of which:								
Non-structured fixed rate bonds	***0.0***	***3.9***	***0.5***	***4.4***	*0.0*	*4.2*	*0.8*	*5.0*
Structured debt instruments issued	***0.0***	***57.7***	***8.7***	***66.4***	*0.0*	*57.4*	*10.0*	*67.4*
Structured over-the-counter debt instruments	***0.0***	***12.8***	***2.7***	***15.5***	*0.0*	*15.5*	*2.2*	*17.7*
Structured repurchase agreements	***0.0***	***0.0***	***2.0***	***2.0***	*0.0*	*0.0*	*1.7*	*1.7*
Loan commitments	***0.0***	***0.1***	***0.0***	***0.2***	*0.0*	*0.2*	*0.0*	*0.2*
Other liabilities – amounts due under unit-linked investment contracts	**0.0**	**15.9**	**0.0**	**15.9**	0.0	15.3	0.0	15.3
Total liabilities	**25.7**	**449.5**	**20.5**	**495.8**	31.5	483.8	21.4	536.7

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 March 2013, net bifurcated embedded derivative liabilities held at fair value, totaling CHF 0.0 billion (of which CHF 0.1 billion were net level 2 assets and CHF 0.1 billion net level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 December 2012, net bifurcated embedded derivative liabilities held at fair value, totaling CHF 0.1 billion (of which CHF 0.1 billion were net level 2 assets and CHF 0.2 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.

Financial assets and liabilities held for trading, financial assets designated at fair value and financial investments available-for-sale

Government bills / bonds

Government bills / bonds include fixed rate, floating rate and inflation-linked bills / 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, where appropriate, 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 agency bonds

Corporate bonds include senior, junior and subordinated debt issued by corporate entities. Agency bonds are issued by government backed agencies. While most instruments are standard fixed or floating rate securities, some may have more complex coupon or embedded option features. Corporate and agency bonds are generally valued using prices obtained directly from the market. In cases where no directly comparable price is available, instruments

Note 12 Fair value measurement (continued)

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 information 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. Agency 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 upon 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 information 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 information 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 information 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 and 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 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 actively traded and therefore a variety of valuation techniques are used to measure fair value. For more liquid securities, trade or quote information may be obtained periodically for the instrument held and the valuation process will use this trade price information, 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 information 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 estimated are then converted into the securities' projected performance under such conditions based upon 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 information, house price appreciation, foreclosure costs, rental income levels, void periods and employment levels. RMBS, CMBS and ABS are generally classified as Level 2. However, if significant inputs are unobservable, or if market or fundamental information 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 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 and 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 for 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

Structured repurchase agreements designated at fair value are measured using discounted cash-flow techniques. The discount rate applied is based upon 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 classified as Level 3.

Replacement values

Collateralized and uncollateralized instruments

The curves used for discounting 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 upon 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 12d the fair value of uncollateralized derivatives is adjusted through CVA and DVA processes to reflect an estimation of the effect of counterparty credit and UBS own credit risk within 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 into 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 correlation. 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 to 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 are classified as Level 3. These options are valued using volatility and correlation levels derived from non-market sources.

Note 12 Fair value measurement (continued)

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 imply a suitable proxy for that portion of the term.

Credit derivative contracts
Credit derivative contracts based on a single credit name include 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 upon 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 upon 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 information, 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, etc.) 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.

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 5 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 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. These OTC FX option contracts are valued by reference to inputs derived from non-market based sources (such as historic data or consensus pricing services), or by extrapolation.

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.

Equity / index contracts

Equity / index contracts comprise 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 information available for the instrument maturity and are valued by some form of extrapolation of available data, use of historic dividend information, 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 upon 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; historic dividend, correlation or volatility information, 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. As there are no active markets in which to observe bespoke index volatility levels or correlations between commodities, a significant portion of commodity derivative contracts are classified as Level 3.

Investment properties

Investment properties consist of various real estate holdings. Valuations are based on recognized valuation techniques, including relative value of market comparables, where available. As properties have unique location and physical characteristics, valuations generally incorporate significant unobservable estimates to reflect those factors. Thus, investment property is classified as Level 3.

Note 12 Fair value measurement (continued)

Financial liabilities designated at fair value

Structured 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.

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 the MTN 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 paper and the levels at which UBS MTN 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 MTN.

The effects of own credit adjustments related to financial liabilities designated at fair value (predominantly issued structured products) as of 31 March 2013, 31 December 2012 and 31 March 2011, 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 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.

Other Liabilities – amounts due under unit-linked contracts

Refer to Financial assets for unit-linked investments above. The associated 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 referenced to instruments which are and are therefore classified as Level 2.

Own credit on financial liabilities designated at fair value

	As of or for the quarter ended		
CHF million	**31.3.13**	31.12.12	31.3.12
Gain / (loss) for the period ended[1]	**(181)**	(414)	(1,164)
Life-to-date gain / (loss)	**(482)**	(292)	705

1 The breakdown of credit spread only information is no longer provided as the most appropriate measure of the effect of own credit is considered to include both pricing and volume effects.

f) Transfers between Level 1 and Level 2 in the fair value hierarchy

Assets totaling approximately CHF 1.5 billion, mainly equity instruments in the trading portfolio, and liabilities totaling approximately CHF 0.3 billion were transferred from Level 2 to Level 1 during the first quarter of 2013.

Assets and liabilities, mainly equity and equity-related instruments, totaling approximately CHF 1.3 billion and CHF 0.8 billion, respectively, were transferred from Level 1 to Level 2 during the first quarter of 2013, generally due to diminished levels of trading activity.

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 in Level 1 or Level 2 of 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 quarterly reporting period.

Material changes in Level 3 instruments

As of 31 March 2013, financial instruments measured with valuation techniques using significant non-market observable inputs (Level 3) were mainly comprised of:

- Structured debt instruments issued (equity-, credit- and rates-linked);
- Credit derivative contracts;
- Reverse repurchase and securities borrowing agreements;
- Structured loans; and
- Equity index contracts.

Significant movements in Level 3 instruments during the quarter ended 31 March 2013 were as follows:

Financial assets held for trading

Financial assets held for trading totaled CHF 5.7 billion, unchanged from 31 December 2012. Purchases of CHF 2.2 billion, which mainly comprised commercial mortgage loans and commercial loans, were partly offset by sales of CHF 1.6 billion, which also mainly comprised commercial mortgage loans and commercial loans. Transfers into and out of Level 3 during the period amounted to CHF 0.7 billion and CHF 0.9 billion, respectively. Transfers into Level 3 mainly comprised corporate bonds, asset backed securities and commercial loans due to reduced observability of credit spread inputs. Transfers out of Level 3 also mainly comprised corporate bonds, asset backed securities and commercial loans, due to an improvement in the availability of observable reference credit spread and discount margin data.

Financial assets designated at fair value

Financial assets designated at fair value increased from CHF 4.9 billion to CHF 8.1 billion during the quarter, mainly due to issuances of CHF 2.6 billion, primarily resulting from a large private transaction in the Investment Bank. These increases were partly offset by settlements of structured reverse repurchase and securities borrowing agreements totaling CHF 0.6 billion.

Positive replacement values

Positive replacement values increased from CHF 8.1 billion to CHF 9.4 billion during the quarter. Issuances and settlements amounted to CHF 1.1 billion and CHF 0.8 billion, respectively, primarily related to credit derivative contracts. Transfers into and out of Level 3 amounted to CHF 1.0 billion and CHF 0.1 billion, respectively, which primarily comprised credit derivative 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.

Negative replacement values

Negative replacement values decreased from CHF 6.5 billion to CHF 6.4 billion. Issuances and settlements amounted to CHF 1.2 billion and CHF 1.8 billion, respectively. Issuances mainly comprised credit and interest rate derivative contracts, and settlements primarily comprised credit and foreign exchange derivative contracts. Transfers into and out of Level 3 amounted to CHF 0.9 billion and CHF 0.4 billion, respectively, which primarily comprised credit derivative 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 13.9 billion during the quarter. Settlements of CHF 4.3 billion, which primarily comprised structured debt instruments (credit-, rates- and equity-linked) and non structured fixed

Note 12 Fair value measurement (continued)

Movements of level 3 instruments

CHF billion	Balance as of 31 December 2012	Total gains / losses included in the income statement: Net trading income	of which: related to level 3 instruments held at the end of the reporting period	Other	of which: related to level 3 instruments held at the end of the reporting period
Financial assets held for trading[1]	**5.7**	**(0.3)**	**(0.3)**	**0.0**	**0.0**
of which:					
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*1.6*	*0.0*	*0.0*	*0.0*	*0.0*
Loans	*2.0*	*(0.4)*	*(0.4)*	*0.0*	*0.0*
Asset-backed securities	*1.5*	*0.0*	*0.0*	*0.0*	*0.0*
Other	*0.6*	*0.0*	*0.0*	*0.0*	*0.0*
Financial assets designated at fair value	**4.9**	**0.9**	**1.1**	**0.0**	**0.0**
of which:					
Loans (including structured loans)	*1.4*	*(0.2)*	*(0.2)*	*0.0*	*0.0*
Structured reverse repurchase and securities borrowing agreements	*3.3*	*1.0*	*1.3*	*0.0*	*0.0*
Other	*0.2*	*0.0*	*0.0*	*0.0*	*0.0*
Positive replacement values	**8.1**	**0.1**	**0.3**	**0.0**	**0.0**
of which:					
Credit derivative contracts	*3.6*	*(0.3)*	*(0.3)*	*0.0*	*0.0*
Foreign exchange contracts	*1.2*	*0.0*	*0.0*	*0.0*	*0.0*
Equity / index contracts	*2.9*	*0.5*	*0.5*	*0.0*	*0.0*
Other	*0.4*	*(0.1)*	*0.1*	*0.0*	*0.0*
Negative replacement values	**6.5**	**(0.1)**	**0.2**	**0.0**	**0.0**
of which:					
Credit derivative contracts	*3.3*	*(0.2)*	*(0.2)*	*0.0*	*0.0*
Foreign exchange contracts	*1.5*	*0.0*	*0.0*	*0.0*	*0.0*
Equity / index contracts	*1.3*	*0.2*	*0.4*	*0.0*	*0.0*
Other	*0.4*	*(0.1)*	*0.0*	*0.0*	*0.0*
Financial liabilities designated at fair value	**14.7**	**0.5**	**0.4**	**0.2**	**0.2**
of which:					
Non-structured fixed rate bonds	*0.8*	*0.0*	*0.0*	*0.0*	*0.0*
Structured debt instruments issued	*10.0*	*0.2*	*0.1*	*0.2*	*0.2*
Structured over-the-counter debt instruments	*2.2*	*0.2*	*0.2*	*0.0*	*0.0*
Structured repurchase agreements	*1.7*	*0.1*	*0.1*	*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 2013 were CHF 24.2 billion (31 December 2012: CHF 19.6 billion). Total Level 3 liabilities as of 31 March 2013 were CHF 20.5 billion (31 December 2012: CHF 21.4 billion).

Purchases	Sales	Issuances	Settlements	Transfers into level 3	Transfers out of level 3	Foreign currency translation	Balance as of 31 March 2013[2]
2.2	**(1.6)**	**0.0**	**0.0**	**0.7**	**(0.9)**	**0.0**	**5.7**
0.3	(0.2)	0.0	0.0	0.2	(0.3)	0.0	1.6
1.9	(1.0)	0.0	0.0	0.2	(0.2)	0.0	2.3
0.1	(0.3)	0.0	0.0	0.2	(0.2)	0.0	1.4
0.0	0.0	0.0	0.0	0.1	(0.2)	0.0	0.4
0.0	**0.0**	**2.6**	**(0.6)**	**0.1**	**0.0**	**0.1**	**8.1**
0.0	0.0	2.1	0.0	0.1	0.0	0.1	3.5
0.0	0.0	0.5	(0.6)	0.0	0.0	0.1	4.3
0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3
0.0	**0.0**	**1.1**	**(0.8)**	**1.0**	**(0.1)**	**0.0**	**9.4**
0.0	0.0	1.1	(0.7)	0.8	(0.1)	0.0	4.3
0.0	0.0	0.0	0.0	0.1	0.0	(0.1)	1.1
0.0	0.0	0.0	0.0	0.0	0.0	0.1	3.5
0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.4
0.0	**0.0**	**1.2**	**(1.8)**	**0.9**	**(0.4)**	**0.0**	**6.4**
0.0	0.0	0.6	(1.2)	0.8	(0.2)	0.0	3.0
0.0	0.0	0.0	(0.4)	0.0	0.0	0.0	1.0
0.0	0.0	0.1	(0.1)	0.0	0.0	0.0	1.6
0.0	0.0	0.5	0.0	0.1	(0.1)	0.0	0.8
0.0	**0.0**	**2.5**	**(4.3)**	**1.3**	**(1.0)**	**0.0**	**13.9**
0.0	0.0	0.4	(0.5)	0.0	(0.1)	0.0	0.5
0.0	0.0	1.7	(3.5)	1.0	(0.8)	(0.1)	8.7
0.0	0.0	0.3	(0.3)	0.3	(0.1)	0.0	2.7
0.0	0.0	0.2	0.0	0.0	0.0	0.0	2.0

Note 12 Fair value measurement (continued)

rate bonds, were partly offset by issuances of CHF 2.5 billion, also mainly structured debt instruments (credit- and equity-linked) and non-structured fixed rate bonds. Financial liabilities designated at fair value transferred into and out of Level 3 amounted to CHF 1.3 billion and CHF 1.0 billion, respectively. Transfers into Level 3 primarily comprised structured debt instruments (rates- and credit-linked) and structured OTC debt instruments, as a reduction in observable volatility inputs and rates and credit correlation affected the embedded options in these structures.

Transfers out of Level 3 consisted of structured debt instruments (credit- and equity-linked), due to volatility inputs becoming observable and improved observability for credit spread and equity volatility inputs.

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 represent 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.

Significant unobservable inputs in Level 3 positions

The following 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).

Within government bonds, the lower end of the price range at 8 points is caused by defaulted emerging market sovereign positions that are valued using a range of 8–55 points. The government bond portfolio is split between these positions and the remainder which price at par or greater.

For corporate and municipals bonds, the range of 0–173 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 within this input range is approximately 95 points, with a majority of positions concentrated around this price.

For asset backed securities, the bond price range of 0–130 points represents the range of prices for reference securities. An instrument priced at 0 is not expected to pay any principal or interest while an instrument priced at 130 points is expected to be repaid in full, as well as pay a yield marginally higher than the market yield. More than 75% of the portfolio related to this range is priced at 80 points or above.

For credit derivatives, the bond price range of 1–100 points disclosed within credit derivatives represents the range of prices used for a reference instruments that typically are 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, the fair value is measured by comparison with observable pricing data from 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 concentrated at both the very low end and the very high end of the disclosed range.

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 credit name. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either U.S. 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 credit-worthiness. The ranges of 21–616 basis points in loans and 0–573 basis points in credit derivatives corresponds to 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. The majority of the fair value of the credit derivatives portfolio reflects the lower end of this range. For loans the portfolio is concentrated at both the very low end and very high end of this range.

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%–35% 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 35% 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 ability to refinance, hence pre-pay, and the quality or characteristics of the underlying loan collateral pools. The majority of the portfolio is at the beneficial end of the range.

For credit derivatives, the range of 0%–20% 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, the range of 0%–10% represents 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 default rate.

The ranges of 0%–14% for asset backed securities and 0%–5% for credit derivatives, represent the expected default percentage across the individual instruments' underlying collateral pools. For asset-backed securities, the majority of the portfolio is at the beneficial end of the range.

Loss severity/recovery rate: The projected loss severity/recovery rate reflects the estimated loss that will be realized given expected defaults and is applied to projected defaults during collateral analysis. Increases in loss severity levels will result in lower cash flows into the structure upon the disposal of defaulted assets. In general, a significant decrease (increase) in the unobservable input in isolation would result in significantly higher (lower) fair value. Loss recovery is the reverse of loss severity and is calculated by subtracting the loss severity from the par value of an asset.

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 25–100% for asset backed securities represents the different quality and nature of collateral within the asset backed portfolio. A loss severity of 100% implies the collateral is or will be worthless after foreclosure and recovery costs are taken into account. The majority of the portfolio sits at the beneficial end of the range. For credit derivatives, the loss severity range of 35–100%, and the recovery rate range of 0–95%, are broadly similar to those for asset backed securities.

Note 12 Fair value measurement (continued)

Valuation techniques and inputs used in the fair value measurement of level 3 assets and liabilities

	Fair value as of 31.3.13				Range of inputs		
	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							
Government bills / bonds	0.1	0.0	Relative value to market comparable	Bond price equivalent	8	115	points
Corporate bonds, municipal bonds, including bonds issued by financial institutions	1.7	0.1	Relative value to market comparable	Bond price equivalent	0	173	points
Traded loans, loans designated at fair value and loan commitments	6.0	0.0	Relative value to market comparable	Loan price equivalent	0	101	points
			Discounted expected cash flows	Credit spread	21	616	basis points
			Market comparable and securitization model	Discount margin / spread	0	21	%
			Mortality dependent cash flows	Volatility of mortality	26	81	%
Investment fund units[2]	0.4	0.0	Discounted cash flow projection	Discount rate			
Asset-backed securities	1.4	0.0	Discounted cash flow projection	Constant prepayment rate	0	35	%
				Constant default rate	0	14	%
				Loss severity	25	100	%
				Discount margin / spread	1	15	%
			Relative value to market comparable	Bond price equivalent	0	130	points
Equity instruments[2]	0.6	0.1	Relative value to market comparable	Price			
Structured (reverse) repurchase agreements	4.3	2.0	Discounted expected cash flows	Funding spread	(5)	163	basis points
Financial assets for unit-linked investment contracts[2]	0.1		Relative value to market comparable	Price			
Structured debt instruments		11.4	Structured debt instruments are valued in the same way as derivative instruments below				

Table continues on the next page.

Note 12 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 31.3.13				Range of inputs		
	Assets	Liabilities	Valuation technique(s)	Significant unobservable input(s)[1]	low	high	unit[1]
Replacement values							
Interest rate contracts	*0.4*	*0.7*	Option model	Volatility of interest rates	5	120	%
				Rate to rate correlation	0	96	%
				Intra-curve correlation	49	90	%
Credit derivative contracts	*4.3*	*3.0*	Discounted expected cashflow based on modeled defaults and recoveries	Credit spreads	0	573	basis points
				Upfront price points	(4)	55	%
				Recovery rates	0	95	%
				Credit index correlation	30	90	%
				Credit pair correlation	10	99	%
			Discounted cash flow projection on underlying bond	Constant prepayment rate	0	20	%
				Constant default rate	0	5	%
				Loss severity	35	100	%
				Discount margin / spread	1	10	%
			Relative value to market comparable	Bond price equivalent	1	100	points
				Discount margin / spread	0	39	%
Foreign exchange contracts	*1.1*	*1.0*	Option model	Volatility of foreign exchange	4	25	%
				Rate to FX correlation	(75)	60	%
				FX to FX correlation	(80)	90	%
			Discounted expected cash flow	Constant prepayment rate	0	10	%
Equity / index contracts[3]	*3.5*	*1.6*	Expected cashflow with forward price and Option model	Equity dividend yields	0	12	%
			Option model	Volatility of equity stocks, equity and other indices	2	81	%
				Equity – FX correlation	(48)	85	%
				Equity to equity correlation	25	100	%
Non-financial assets[2,4]	0.2		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 Equity / index contracts includes UBS's option to acquire the equity of the SNB StabFund. The significant unobservable input for the valuation of this option is the net asset value (NAV) of the StabFund where this NAV is itself driven by assets within the fund that are unobservable in their own right. 4 Non-financial assets include investment properties at fair value and other assets which primarily consist of assets held for sale.

Note 12 Fair value measurement (continued)

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 (0–21%), asset backed securities (1–15%) and credit derivatives (1–10% and 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 majority of the portfolio is at the beneficial end of the range. For loans, the average effective DM is 2–3% compared with the disclosed range of 0–21%.

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 0–12% 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 5–120% 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 4–25% reflects differences across various FX rates.
- Volatility of equity stocks, equity and other indices – the range of 2–81% is reflective of the range of underlying stock volatilities.
- Volatility of mortality – the range of 26–81% 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 0–96% 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 49–90%.
- *Credit index correlation* of 30–90% 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 10–99% reflects the difference between credits with low correlation and credits in similar organizational structures.
- *Rate to FX correlation* – reflects the correlation between interest rates and FX rates; the range for the portfolio is (75)–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.
- *FX to FX correlation* is particularly important for complex options that incorporate different FX rates in the projected pay-

off. The range of (80)–90% is due to 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 25–100% 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 (48)–85% is due to 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 (5)–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 underling collateral for funding purposes.

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 within the table above of (4)–55% represents the variety of current market credit spread levels relative to the benchmarks used as a quotation basis. Upfront points of (4)% reflects an instrument that is trading with a tighter credit spread than the underlying quotation instrument while 55 points represents a distressed credit.

Sensitivity information

The following table summarizes those financial assets and financial 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. The sensitivity information below represents an estimation of uncertainty based on reasonably possible alternate 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 financial 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 below. Further, direct inter-relationships between the Level 3 parameters discussed below are not a significant element of the valuation uncertainty.

Sensitivity information 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 information 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. Aggregation without allowing for diversification involves the simple summation of individual results. 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. Therefore, the total sensitivity represents 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 valuation. The Group believes that while there are diversification benefits within the portfolios representing these sensitivity numbers they are not significant to this analysis. The main interdependencies across different products to a single

Note 12 Fair value measurement (continued)

unobservable input parameter have been included in the basis of calculation. The sensitivity information therefore incorporates the effect of offsetting and hedge relationships across product types. As of 31 March 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 1.7 billion and CHF 1.3 billion, respectively (31 December 2012: CHF 1.8 billion and CHF 1.4 billion, respectively). The table below presents the favorable and unfavorable effects for each class of financial assets and financial liabilities for which the potential change in fair value is considered significant.

Sensitivity of fair value measurements to changes in unobservable input assumptions

	31.3.13		31.12.12	
CHF million	Favorable changes[1]	Unfavorable changes[1]	Favorable changes[1]	Unfavorable changes[1]
Government bills / bonds	27	(1)	29	(2)
Corporate bonds, municipal bonds, including bonds issued by financial institutions	142	(125)	102	(70)
Traded loans, loans designated at fair value and loan commitments	276	(71)	204	(40)
Asset-backed securities	73	(42)	74	(48)
Equity instruments	159	(72)	151	(76)
Credit derivative contracts, net	433	(476)	577	(556)
Foreign exchange derivative contracts, net	84	(57)	89	(94)
Equity / index derivative contracts, net[2]	247	(241)	272	(272)
Structured debt instruments issued	166	(153)	219	(151)

1 Of the total favorable change, CHF 182 million as of 31 March 2013 and CHF 163 million as of 31 December 2012 relate to instruments for which valuation changes are recognized in Other comprehensive income (OCI). Of the total unfavorable change, CHF 137 million as of 31 March 2013 and CHF 124 million as of 31 December 2012 relate to instruments for which valuation changes are recognized in OCI. 2 A majority of these net contracts is attributable to UBS's option to acquire the equity of the SNB StabFund. Refer to the "Risk, treasury and capital management" section of the Annual Report 2012 for more information on the option to acquire the SNB StabFund's equity.

i) 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. This initial amount may differ from the fair value obtained using the valuation technique and any such difference is deferred from recognition 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	31.3.13	31.12.12	31.3.12
Balance at the beginning of the period	474	434	433
Deferred profit / (loss) on new transactions	424	159	61
Recognized (profit) / loss in the income statement	(433)	(103)	(73)
Foreign currency translation	19	(16)	(15)
Balance at the end of the period	483	474	406

Note 13 Reclassification of financial assets

In the fourth quarter of 2008 and the first quarter of 2009, financial assets were reclassified out of held-for-trading to loans and receivables. On their reclassification date these assets had fair values of CHF 26 billion and CHF 0.6 billion, respectively.

Held-for-trading assets reclassified to loans and receivables

CHF billion	31.3.13	31.12.12
Carrying value	3.2	3.2
Fair value	3.1	3.1
Pro-forma fair value gain / (loss)	0.0	(0.1)

The table below 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

	31.3.13			
CHF billion	Notional value	Fair value	Carrying value	Ratio of carrying to notional value (%)
US student loan and municipal auction rate securities	1.9	1.7	1.8	94
Monoline-protected assets	0.6	0.6	0.6	92
Leveraged finance	0.3	0.3	0.3	85
US reference-linked notes	0.1	0.1	0.1	69
Other assets	0.5	0.5	0.4	84
Total	**3.5**	**3.1**	**3.2**	**91**

In the first quarter of 2013, the total carrying value of the remaining reclassified financial assets was unchanged as sales of US student loan auction rate securities totaling CHF 0.1 billion were offset by currency movements of CHF 0.1 billion. The net impact on operating profit before tax from the reclassified assets was a gain of CHF 23 million (see table below). If these financial assets had not been reclassified, the impact on first quarter 2013 operating profit before tax would also have been a gain, totaling approximately CHF 0.1 billion.

Contribution of the reclassified assets to the income statement

	For the quarter ended	
CHF million	31.3.13	31.12.12
Net interest income	21	14
Credit loss (expense) / recovery	(2)	15
Other income[1]	4	28
Impact on operating profit before tax	**23**	56

1 Includes net gains / (losses) on the disposal of reclassified financial assets.

Note 14 Derivative instruments[1]

CHF billion	Positive replacement values (31.3.13)	Notional values related to positive replacement values[2] (31.3.13)	Negative replacement values (31.3.13)	Notional values related to negative replacement values[2] (31.3.13)	Other notional values[3] (31.3.13)
Derivative instruments					
Interest rate contracts	243	5,184	216	5,036	17,667
Credit derivative contracts	33	1,024	31	958	267
Foreign exchange contracts	82	3,388	91	3,353	15
Equity / index contracts	19	241	20	283	33
Commodity contracts, including precious metals contracts	4	93	4	72	16
Unsettled purchases of non-derivative financial assets[4]	0	32	0	26	0
Unsettled sales of non-derivative financial assets[4]	0	27	0	29	0
Total derivative instruments, based on IFRS netting[5]	382	9,990	363	9,757	17,997
Replacement value netting, based on capital adequacy rules	(296)		(296)		
Cash collateral netting, based on capital adequacy rules	(43)		(17)		
Total derivative instruments, based on capital adequacy netting[6]	42		50		

	Positive replacement values (31.12.12)	Notional values related to positive replacement values[2] (31.12.12)	Negative replacement values (31.12.12)	Notional values related to negative replacement values[2] (31.12.12)	Other notional values[3] (31.12.12)
Derivative instruments					
Interest rate contracts	268	5,628	242	5,433	17,090
Credit derivative contracts	37	1,098	34	1,047	239
Foreign exchange contracts	94	3,468	99	3,213	14
Equity / index contracts	16	221	16	252	34
Commodity contracts, including precious metals contracts	4	88	4	92	16
Unsettled purchases of non-derivative financial assets[4]	0	20	0	9	0
Unsettled sales of non-derivative financial assets[4]	0	9	0	19	0
Total derivative instruments, based on IFRS netting[5]	419	10,533	395	10,064	17,393
Replacement value netting, based on capital adequacy rules	(327)		(327)		
Cash collateral netting, based on capital adequacy rules	(49)		(17)		
Total derivative instruments, based on capital adequacy netting[6]	42		51		

1 Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from the table; as of 31 March 2013, these derivatives amounted to a PRV of CHF 0.1 billion (31 December 2012: CHF 0.1 billion) (related notional values of CHF 2.4 billion (31 December 2012: CHF 2.4 billion)) and an NRV of CHF 0.1 billion (31 December 2012: CHF 0.2 billion) (related notional values of CHF 14.1 billion (31 December 2012: CHF 13.6 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 Receivables resulting from these derivatives are recognized on our balance sheet under Cash collateral receivables on derivative instruments totaling CHF 2.4 billion as of 31 March 2013 (31 December 2012: CHF 3.3 billion). Payables resulting from these derivatives are recognized on our balance sheet under Cash collateral payables on derivative instruments totaling CHF 4.9 billion as of 31 March 2013 (31 December 2012: CHF 4.0 billion). 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 with a positive replacement value of CHF 4.3 billion as of 31 March 2013 (31 December 2012: CHF 3.4 billion) and a negative replacement value of CHF 4.3 billion as of 31 March 2013 (31 December 2012: CHF 3.4 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.

Note 15 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 against that amount an amount receivable from the other party. These arrangements reduce credit risk exposure relative to what the credit exposure would be if the same counterparties were liable for their gross exposures on the same underlying contracts.

Usually, netting arrangements are constituted by a master netting agreement which specifies the general terms of the agreement between the counterparties, including information on the basis of the netting calculation; types of collateral; the definition of default and other termination events; the calculation of damages (on default) and documentation required. The master netting agreement contains the terms and conditions by which all (or as many as possible) relevant transactions between the counterparties are governed. Multiple individual transactions are subsumed under this general master netting agreement, forming a single legal contract under which the counterparties conduct their relevant mutual business. In addition to the mitigation of credit risk, placing individual transactions under a single master netting agreement that provides for netting of transactions in scope also helps to mitigate settlement risks associated with transacting in multiple jurisdictions or across multiple contracts. These arrangements include derivative clearing agreements (e.g, ISDA Master Netting Agreements or Derivatives Exchange and Clearinghouse rules), global master repurchase agreements and global master securities lending agreements.

From a balance sheet presentational 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 set-off 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 the offsetting on the balance sheet of substantial amounts of the Group's financial assets and financial liabilities, even if these amounts may be subject to enforceable netting arrangements. For derivative contracts, balance sheet offsetting may be permitted only in circumstances in which a market settlement mechanism (e.g., an exchange or clearinghouse) exists which effectively accomplishes net settlement through daily cash margining processes. Bilateral OTC derivatives that are not cleared through a central clearing party and exchange traded derivatives that are not margined on a daily basis such as to accomplish the functional equivalent of net settlement, and those contracts that are governed by the laws of jurisdictions where the right of set-off is subject to uncertainty, are among the most commonly precluded from offsetting on the balance sheet. For repurchase arrangements and securities financings, balance sheet offsetting may be permitted only to the extent that financial assets and financial 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 clearinghouse 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 below do not purport to represent the Group's actual credit exposure.

➔ **Refer to the "Risk, treasury and capital management" section of our Annual Report 2012 for more information on credit risk mitigation**

Note 15 Offsetting financial assets and financial liabilities (continued)

a) Financial assets subject to offsetting, enforceable master netting agreements and similar arrangements

The table below provides a summary of the financial assets which are subject to enforceable master netting agreements and similar arrangements, including amounts not otherwise set-off in the Group's balance sheet, 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 enforceable netting agreements and similar arrangements 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. Related amounts for financial liabilities and collateral received that are not offset in the balance sheet, but are otherwise subject to the same enforceable netting agreements and similar arrangements, are then presented to arrive at a net amount.

	31.3.13							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[4]				
CHF billion	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[3]	**Assets recognized on the balance sheet, net**	Financial liabilities	Collateral received	Assets after consideration of netting potential	**Assets not subject to enforceable netting arrangements**	**Total assets recognized on the balance sheet**
Cash collateral on securities borrowed	36.2	0.0	**36.2**	(3.0)	(32.8)	0.3	**0.0**	**36.2**
Reverse repurchase agreements	151.9	(34.1)	**117.8**	(6.8)	(111.0)	0.0	**11.0**	**128.8**
Positive replacement values	381.5	(13.2)	**368.4**	(296.4)	(51.2)	20.8	**13.6**	**382.0**
Cash collateral receivables on derivative instruments[1]	331.2	(308.5)	**22.8**	(18.2)	(0.5)	4.0	**7.7**	**30.5**
Total assets[2]	**900.8**	**(355.7)**	**545.1**	**(324.4)**	**(195.6)**	**25.2**	**32.3**	**577.5**

	31.12.12							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[4]				
CHF billion	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[3]	**Assets recognized on the balance sheet, net**	Financial liabilities	Collateral received	Assets after consideration of netting potential	**Assets not subject to enforceable netting arrangements**	**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**	(327.4)	(57.3)	17.4	**16.8**	**419.0**
Cash collateral receivables on derivative instruments[1]	369.3	(346.2)	**23.3**	(18.1)	0.0	5.2	**7.1**	**30.4**
Total assets	**978.0**	**(395.6)**	**582.5**	**(357.8)**	**(201.8)**	**22.9**	**35.2**	**617.7**

1 The amount of Cash collateral receivables on derivative instruments recognized on the balance sheet, net, is generally comprised of the cash portion of collateral pledged, reflected on the Negative replacement values line in the table presented in Note 15b. 2 Financial assets designated at fair value which are subject to an enforceable master netting agreement or similar arrangements totaled approximately CHF 5 billion as of 31 March 2013 and are not included in the table. 3 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 in Note 15b. 4 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 15 Offsetting financial assets and financial liabilities (continued)

b) Financial liabilities subject to offsetting, enforceable master netting agreements and similar arrangements

	31.3.13							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[4]				
CHF billion	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[3]	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	**Liabilities not subject to enforceable netting arrangements**	**Total liabilities recognized on the balance sheet**
Cash collateral on securities lent	8.3	0.0	**8.3**	(3.0)	(5.2)	0.0	**0.0**	**8.3**
Repurchase agreements	49.4	(34.1)	**15.3**	(6.8)	(8.6)	0.0	**11.3**	**26.7**
Negative replacement values	357.8	(13.2)	**344.6**	(296.4)	(20.4)	27.9	**18.6**	**363.2**
Cash collateral payables on derivative instruments[1]	368.1	(308.5)	**59.6**	(44.2)	(2.3)	13.0	**6.1**	**65.7**
Total liabilities[2]	**783.6**	**(355.7)**	**427.8**	**(350.4)**	**(36.5)**	**41.0**	**36.0**	**463.8**

	31.12.12							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[4]				
CHF billion	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[3]	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	**Liabilities not subject to enforceable netting arrangements**	**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**	(327.4)	(20.3)	28.5	**19.1**	**395.3**
Cash collateral payables on derivative instruments[1]	409.8	(346.2)	**63.6**	(50.0)	(0.4)	13.2	**7.6**	**71.1**
Total liabilities	**866.0**	**(395.6)**	**470.4**	**(389.7)**	**(38.9)**	**41.7**	**43.8**	**514.2**

1 The amount of Cash collateral payables on derivative instruments recognized on the balance sheet, net, is generally comprised of the cash portion of collateral received reflected on the Positive replacement values line in the table presented in Note 15a. 2 Financial liabilities designated at fair value which are subject to an enforceable master netting agreement or similar arrangements totaled approximately CHF 12 billion as of 31 March 2013 and are not included in the table. 3 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 in Note 15a. 4 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 16 Other assets and liabilities

CHF million	31.3.13	31.12.12
Other assets		
Prime brokerage receivables	8,789	8,072
Settlement and clearing accounts	719	589
Defined benefit pension and post-employment assets	454	0
Properties and other non-current assets held for sale	135	137
VAT and other tax receivables	266	214
Other	2,145	2,094
Total other assets	**12,509**	11,106
Other liabilities		
Prime brokerage payables	38,187	35,620
Amounts due under unit-linked investment contracts	15,948	15,299
Defined benefit pension and post-employment liabilities	1,308	1,284
Third-party interest in consolidated investment funds	993	965
Settlement and clearing accounts	1,568	991
VAT and other tax payables	566	606
Current and deferred tax liabilities	681	586
Other	3,151	4,254[1]
Total other liabilities	**62,402**	59,606

1 Includes liabilities of CHF 1.4 billion arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates.

Note 17 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 2012	53	1,432	511	64	178	244	53	**2,536**
Additions from acquired companies	0	8	0	0	0	0	0	**8**
Increase in provisions recognized in the income statement	10	395	292	0	3	8	14	**722**
Release of provisions recognized in the income statement	(1)	(13)	(39)	0	1	(14)	(1)	**(68)**
Provisions used in conformity with designated purpose	(7)	(62)	(93)	0	(11)	(7)	(0)	**(180)**
Capitalized reinstatement costs	0	0	0	0	(4)	0	0	**(4)**
Reclassifications	0	0	2	(1)	0	0	0	**1**
Foreign currency translation / unwind of discount	1	38	6	(1)	3	(1)	0	**46**
Balance as of 31 March 2013	56	1,797	679	61	170[3]	230	67	**3,060**

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 reinstatement costs for leasehold improvements of CHF 92 million as of 31 March 2013 (31 December 2012: CHF 97 million), provisions for onerous lease contracts of CHF 78 million as of 31 March 2013 (31 December 2012: CHF 81 million).

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 17b. Further information on the nominal principal amount of Loan commitments and guarantees, representing our maximum exposure to credit risk, is disclosed in "Note 18 Financial instruments not recognized on the balance sheet". There are no material contingent liabilities associated with the other classes of provisions.

Note 17 Provisions and contingent liabilities

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.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 17a 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	CC – Core Functions	CC – Non-core and Legacy Portfolio	Total
Balance as of 31 December 2012	130	170	28	7	29	338	732	**1,432**
Additions from acquired companies			8					**8**
Increase in provisions recognized in the income statement	8	12	1	0	0	27	346	**395**
Release of provisions recognized in the income statement	(4)	(6)	(2)	0	(1)	0	0	**(13)**
Provisions used in conformity with designated purpose	(19)	(11)	(0)		(2)	(0)	(30)	**(62)**
Foreign currency translation/unwind of discount	0	6	1	0	0	5	26	**38**
Balance as of 31 March 2013	114	172	35	7	26	370	1,074	**1,797**

1. 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

Note 17 Provisions and contingent liabilities (continued)

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.

2. 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.

3. 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 transactions 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. In April 2013, the trial court dismissed with prejudice one of these suits in which plaintiffs claimed losses of at least USD 331 million.

Our balance sheet at 31 March 2013 reflected a provision with respect to matters described in this item 3 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.

4. 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's petition to appeal that ruling was denied by the Second Circuit and discovery has commenced. Firms that underwrote other non-structured Lehman securities have been named as defendants in the same purported class action and discovery has commenced, 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.

5. 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.

Note 17 Provisions and contingent liabilities (continued)

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. These suits relate 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. A settlement announced in April 2013 by a third-party issuer could, upon court approval and finalization, reduce the original face amount of RMBS at issue in these cases from USD 44 billion to USD 21 billion, and the original face amount of RMBS at issue in cases involving third-party issuers from USD 33 billion to USD 10 billion. UBS cannot make any assurance that this third-party issuer settlement, to which UBS is not required or expected to make a financial contribution, will receive court approval and be finalized.

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 least USD 1.2 billion plus interest. The court denied UBS's motion to dismiss in May 2012. In April 2013, the court's decision with respect to two legal issues that were the subject of UBS's motion to dismiss was affirmed on appeal by the US Court of Appeals for the Second Circuit. 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 re-

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

USD million	2006–2008	2009	2010	2011	2012	through 23 April 2013	Total
Resolved demands							
Actual or agreed loan repurchases / make whole payments by UBS	12	1	0				13
Demands rescinded by counterparty	110	100	19	8			238
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	142	1	267
Demands in dispute							
Demands in litigation			346	732	1,041		2,118
Demands in review by UBS		2	0	9	12	6	29
Demands rebutted by UBS but not yet rescinded by counterparty		3	2	290	244		539
Total	**123**	**205**	**368**	**1,084**	**1,438**	**7**	**3,225**

1 Loans submitted by multiple counterparties are counted only once.

Note 17 Provisions and contingent liabilities (continued)

quire that UBS repurchase the loans or to other relief. The table on the previous page summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 23 April 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 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 at 31 March 2013 reflected a provision of USD 962 million with respect to matters described in this item 5. 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.

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

USD million	
Balance as of 31 December 2012	**658**
Increase in provision recognized in the income statement	**311**
Release of provision recognized in the income statement	**0**
Provision used in conformity with designated purpose	**(7)**
Balance as of 31 March 2013	**962**

6. 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 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.

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 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. UBS's motion to dismiss the complaint is pending.

7. 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 en-

Note 17 Provisions and contingent liabilities (continued)

tities (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.

8. 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 December 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.

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 (the latter settlement is conditional upon Lazio making certain amendments to its pleading in ongoing litigation against third parties). An in-principle agreement has also been reached with the City of Florence and is expected to be formalized shortly. Provisions have been booked in respect of these agreed or prospective settlements.

9. 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.

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.

Since 2011, the SEC has been conducting an investigation concerning the KWL transactions and UBS is cooperating with the SEC.

10. 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 three billion dollars 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 on the grounds that plaintiffs did not have standing to bring the claim. 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 May 2012.

11. 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 27 June 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

Note 17 Provisions and contingent liabilities (continued)

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 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 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, federal and state antitrust laws and the federal racketeering statute. 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. Plaintiffs will have the opportunity to replead certain claims that have been dismissed.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, our balance sheet at 31 March 2013 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.

12. Swiss retrocessions

The Swiss Supreme Court ruled in October 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.

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 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 2013 reflected a provision with respect to matters described in this item 12 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 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.

13. 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

Note 17 Provisions and contingent liabilities (continued)

indemnification claims that UBS estimates amount to approximately USD 1.3 billion (increased from the previously disclosed estimate due to interest calculations and currency movements), 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. 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.

14. 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. On March 26, 2013, the court denied UBS's motion for summary judgment seeking dismissal of all claims against UBS. The case went to trial in April 2013, and the jury returned a unanimous verdict in UBS's favor on all claims.

Note 18 Financial instruments not recognized on the balance sheet

The table below shows the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

	31.3.13			31.12.12		
CHF million	Gross	Sub-participations	Net	Gross	Sub-participations	Net
Guarantees						
Credit guarantees and similar instruments	8,581	(882)	7,699	8,313	(734)	7,579
Performance guarantees and similar instruments	3,617	(757)	2,860	3,673	(829)	2,844
Documentary credits	7,584	(730)	6,855	8,072	(660)	7,412
Total guarantees	19,782	(2,368)	17,414	20,058	(2,223)	17,835
Commitments						
Loan commitments	61,173	(883)	60,290	59,818	(867)	58,950
Underwriting commitments	289	(214)	75	167	(167)	0
Total commitments	61,462	(1,097)	60,365	59,985	(1,034)	58,951
Forward starting transactions[1]						
Reverse repurchase agreements	21,380			18,576		
Securities borrowing agreements	198			249		
Repurchase agreements	14,126			9,993		

1 Cash to be paid in the future by either UBS or the counterparty.

Note 19 Changes in organization

Net restructuring charges by business division and Corporate Center

	For the quarter ended		
CHF million	**31.3.13**	31.12.12	31.3.12
Wealth Management	**26**	17	12
Wealth Management Americas	**10**	2	(2)
Investment Bank	**6**	173	94
Global Asset Management	**4**	15	6
Retail & Corporate	**15**	1	7
Corporate Center	**186**	51	9
of which: Core Functions	***(3)***	*0*	*3*
of which: Non-core and Legacy Portfolio	***188***	*51*	*7*
Total net restructuring charges	**246**	258	126
of which: personnel expenses	***(14)***	*257*	*139*
of which: general and administrative expenses	***225***	*1*	*(13)*
of which: depreciation and impairment of property and equipment	***35***	*0*	*0*

Net restructuring charges by personnel expense category

	For the quarter ended		
CHF million	**31.3.13**	31.12.12	31.3.12
Salaries and variable compensation	**(17)**	312	145
Contractors	**0**	0	0
Social security	**2**	(2)	(4)
Pension and other post-employment benefit plans	**1**	(52)	(3)
Wealth Management Americas: Financial advisor compensation	**0**	0	0
Other personnel expenses	**1**	(1)	0
Total net restructuring charges: personnel expenses	**(14)**	257	139

Note 20 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		
	31.3.13	31.12.12	31.3.12	**31.3.13**	31.12.12	31.3.12
1 USD	**0.95**	0.92	0.90	**0.93**	0.92	0.91
1 EUR	**1.22**	1.21	1.20	**1.23**	1.21	1.20
1 GBP	**1.44**	1.49	1.44	**1.44**	1.50	1.45
100 JPY	**1.01**	1.05	1.09	**1.00**	1.07	1.12

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.

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	**31.3.13**	31.12.12	4Q12
Net interest income	**1,022**	972	5
Net fee and commission income	**1,647**	1,484	11
Net trading income	**2,116**	567	273
Other income from ordinary activities	**273**	537	(49)
of which: dividend income from investments in subsidiaries and other participations	***106***	*8*	
Operating income	**5,058**	3,560	42
Personnel expenses	**2,577**	3,217	(20)
General and administrative expenses	**1,104**	1,596	(31)
Operating expenses	**3,681**	4,813	(24)
Operating profit / (loss)	**1,377**	(1,253)	
Impairment of investments in subsidiaries and other participations	**175**	1,703	(90)
Depreciation of fixed assets	**129**	152	(15)
Allowances, provisions and losses	**78**	1,365	(94)
Profit / (loss) before extraordinary items and taxes	**996**	(4,474)	
Extraordinary income	**474**	64	641
Extraordinary expenses	**(2)**	(3,984)	(100)
Tax (expense) / benefit	**(91)**	(4)	
Profit / (loss) for the period	**1,376**	(8,399)	

Balance sheet UBS AG (Parent Bank)

			% change from
CHF million	**31.3.13**	31.12.12	31.12.12
Assets			
Liquid assets	**46,068**	54,192	(15)
Money market paper	**25,659**	31,066	(17)
Due from banks	**172,739**	167,204	3
Due from customers	**172,173**	160,996	7
Mortgage loans	**150,158**	149,002	1
Trading balances in securities and precious metals	**111,411**	115,906	(4)
Financial investments	**33,448**	30,778	9
Investments in subsidiaries and other participations	**21,520**	21,090	2
Fixed assets	**5,183**	5,054	3
Accrued income and prepaid expenses	**2,721**	2,157	26
Positive replacement values	**35,998**	35,206	2
Other assets	**3,562**	3,037	17
Total assets	**780,642**	775,687	1
Liabilities			
Money market paper issued	**25,245**	21,257	19
Due to banks	**101,281**	102,401	(1)
Trading portfolio liabilities	**23,232**	25,419	(9)
Due to customers on savings and deposit accounts	**96,681**	94,086	3
Other amounts due to customers	**282,780**	269,992	5
Medium-term notes	**1,209**	1,341	(10)
Bonds issued and loans from central mortgage institutions	**91,030**	100,166	(9)
Financial liabilities designated at fair value	**62,573**	64,808	(3)
Accruals and deferred income	**6,612**	6,434	3
Negative replacement values	**43,145**	43,518	(1)
Other liabilities	**8,652**	9,653	(10)
Allowances and provisions	**3,628**	3,435	6
Total liabilities	**746,068**	742,511	0
Equity			
Share capital	**384**	384	0
General statutory reserve	**32,018**	31,997	0
Reserve for own shares	**907**	889	2
Other reserves	**6,533**	6,551	0
Profit / (loss) first quarter 2013	**1,376**		
Profit / (loss) full year 2012	**(6,645)**	(6,645)	0
Equity attributable to shareholders	**34,573**	33,176	4
Total liabilities and equity	**780,642**	775,687	1

Basis of accounting UBS AG (Parent Bank)

The Parent Bank financial statements are prepared in accordance with Swiss federal banking law. 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 2012. Principal differences between the accounting policies for the Group and for the Parent Bank are described in "Note 39 Swiss banking law requirements" to the consolidated financial statements in our Annual Report 2012. 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 2012.

In preparing the interim financial information for the Parent Bank, the same accounting principles and methods of computation were applied as in the annual financial statements as of 31 December 2012. This interim financial information is unaudited and should be read in conjunction with the audited financial statements included in our Annual Report 2012.

Reconciliation Swiss federal banking law equity to BIS Basel III capital UBS AG (Parent Bank)

CHF billion	**31.3.13**
Equity – Swiss federal banking law	34.6
Add: net deferred tax assets	5.1
Add: adoption of IAS 19R, phase-in approach, pre-tax	4.7
Add: equity-based compensation plans, pre-tax	1.7
Add: other adjustments	0.5
Less: net long position of participations in the finance sector	(8.2)
Less: fair value of the call option to acquire SNB StabFund's equity	(2.4)
Less: treasury shares / deduction for own shares	(1.7)
Less: goodwill and intangible assets	(0.7)
Less: Proposed distribution of capital contribution reserves	(0.6)
BIS Basel III Common equity tier 1 capital	32.9
BIS Basel III Total capital	37.8

BIS Basel III capital information UBS AG (Parent Bank)

CHF million, except where indicated	**Phase-in**
	31.3.13
Tier 1 capital	32,861
of which: common equity tier 1 capital	*32,861*
Tier 2 capital	4,943
of which: high trigger loss-absorbing capital	*394*
of which: low trigger loss-absorbing capital	*3,768*
of which: phase-out capital and other tier 2 capital, less deductions	*781*
Total capital	37,804
Common equity tier 1 capital ratio (%)	11.7
Tier 1 capital ratio (%)	11.7
Total capital ratio (%)	13.5
BIS Basel III risk-weighted assets	279,747

Swiss SRB[1] Basel III capital information UBS AG (Parent Bank)

CHF million, except where indicated	Phase-in
	31.3.13
Tier 1 capital	32,861
of which: common equity tier 1 capital	*32,861*
Loss-absorbing capital (LAC)	4,260
of which: high trigger loss-absorbing capital	*492*
of which: low trigger loss-absorbing capital	*3,768*
Total capital	37,121
Common equity tier 1 capital ratio (%)	11.7
Tier 1 capital ratio (%)	11.7
Total capital ratio (%)	13.3
Swiss SRB Basel III risk-weighted assets	279,747

Swiss SRB[1] Basel III capital requirements in 2013

CHF million, except where indicated			Phase-in		
			31.3.13		
	Minimum ratio %	Swiss SRB Basel III minimum capital requirements	Ratio %	Available Swiss SRB Basel III capital	Capital type
Base capital	3.5	9,791	3.5	9,791	CET1
Buffer capital	3.5	9,791	8.2	23,070[2]	CET1
Progressive buffer capital	1.5	4,196	1.5	4,260	LAC
Total	8.5	23,779	13.3	37,121	
Phase-out and other tier 2 capital, less deductions			0.3	781	

1 SRB: systemically relevant banks. 2 Swiss SRB Basel III CET1 exceeding the base capital requirement is allocated to the buffer capital.

Swiss SRB[1] leverage ratio UBS AG (Parent Bank)

CHF million, except where indicated	Average 1Q13
Total on-balance sheet assets[2]	953,308
Less: netting of securities financing transactions	4,452
Less: netting of derivative exposures	266,162
Add: current exposure method (CEM add-on) for derivative exposures	132,860
Add: off-balance sheet items	97,995
of which: commitments and guarantees – unconditionally cancellable (10%)	*15,971*
of which: commitments and guarantees – other than unconditionally cancellable (100%)	*82,024*
Add: assets of entities consolidated under IFRS but not in regulatory scope of consolidation	0
Less: items deducted from Swiss SRB Basel III common equity tier 1, phase-in (at quarter end)	12,119
Total adjusted exposure[3]	901,429
Swiss SRB Basel III Common equity tier 1 capital phase-in (at quarter end)	32,861
Swiss SRB Basel III Loss-absorbing capital (at quarter end)	4,264
Swiss SRB Basel III Total capital (at quarter end)	37,125
Swiss SRB leverage ratio (%)	4.1

1 SRB: systemically relevant banks. 2 Represent assets recognized on the Parent Bank Balance Sheet in accordance with IFRS measurement principles. 3 Excludes forward starting repos, securities lending indemnifications and CEM add-ons for ETDs (proprietary and agency transactions).

Swiss SRB[1] leverage ratio requirements in 2013

CHF million, except where indicated					
		Phase-in			
		31.3.13			
	Swiss SRB minimum leverage ratio %[2]	Swiss SRB leverage ratio capital requirement	Swiss SRB leverage ratio %	Available Swiss SRB Basel III capital	Capital type
Base capital	0.84	7,572	0.84	7,572	CET1
Buffer capital	0.84	7,572	2.81	25,289[3]	CET1
Progressive buffer capital	0.36	3,245	0.47	4,264	LAC
Total	2.04	18,389	4.1	37,125	

1 SRB: systemically relevant banks. 2 Minimum requirements for base capital (24% of 3.5%), buffer capital (24% of 3.5%) and progressive buffer (24% of 1.5%). 3 Swiss SRB Basel III CET1 exceeding the base capital requirement is allocated to the buffer capital.

UBS Limited financial information

Income statement UBS Limited

	For the quarter ended			% change from	
GBP million	**31.3.13**	31.12.12	31.3.12	4Q12	1Q12
Interest income	**77**	96	162	(20)	(52)
Interest expense	**(79)**	(97)	(165)	(19)	(52)
Net interest income	**(2)**	(2)	(3)	0	(33)
Net fee and commission income	**(2)**	(2)	(1)	0	100
Net trading income	**3**	3	3	0	0
Other income	**52**	117	59	(56)	(12)
Total operating income	**52**	117	58	(56)	(10)
Total operating expenses	**(46)**	(52)	(51)	(12)	(10)
Operating profit before tax	**6**	65	7	(91)	(14)
Tax expense / (benefit)	**1**	2	2	(50)	(50)
Net profit	**5**	64	5	(92)	0

Statement of comprehensive income UBS Limited

	For the quarter ended		
GBP million	**31.3.13**	31.12.12	31.3.12
Net profit	**5**	64	5
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	**0**	(25)	5
Total other comprehensive income	**0**	(25)	5
Total comprehensive income	**5**	40	10

Balance sheet UBS Limited

			% change from
GBP million	**31.3.13**	31.12.12	31.12.12
Assets			
Due from banks	**11,232**	10,872	3
Cash collateral on securities borrowed and reverse repurchase agreements	**24,204**	26,832	(10)
Trading portfolio assets	**1,132**	1,131	0
Positive replacement values	**80,718**	85,181	(5)
Cash collateral receivables on derivative instruments	**17,206**	17,709	(3)
Loans	**290**	318	(9)
Other assets	**4,052**	3,948	3
Total assets	**138,834**	145,990	(5)
Liabilities			
Due to banks	**6,298**	6,195	2
Cash collateral on securities lent and repurchase agreements	**22,948**	25,930	(12)
Trading portfolio liabilities	**913**	974	(6)
Negative replacement values	**80,718**	85,181	(5)
Cash collateral payables on derivative instruments	**23,008**	22,946	0
Due to customers	**751**	674	11
Other liabilities	**1,202**	1,099	9
Total liabilities	**135,838**	142,999	(5)
Equity			
Share capital	**194**	194	0
Share premium	**2,656**	2,656	0
Retained earnings	**141**	136	3
Cumulative net income recognized directly in equity, net of tax	**5**	5	(9)
Total equity	**2,995**	2,991	0
Total liabilities and equity	**138,834**	145,990	(5)

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. UBS Limited's ultimate parent is UBS AG (Switzerland).

In preparing the interim financial information, the same accounting principles 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 2012 of UBS Limited, except for the changes set out below. Copies of the Report and Financial Statements of UBS Limited can be obtained from the Registrar of Companies for England and Wales. This interim financial information is unaudited and should be read in conjunction with the audited financial statements of UBS Limited.

This interim financial information is not presented in full compliance 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.

IFRS 10 *Consolidated Financial Statements*

On 1 January 2013, UBS Limited adopted IFRS 10 as amended in October 2012. The new standard has not resulted in UBS Limited consolidating any entities and therefore has no impact on the financial statements.

Refer to "Note 1 Basis of accounting" of the interim consolidated financial statements in the "Financial information" section of this report for more information on IFRS 10.

IFRS 13 *Fair Value Measurement*

IFRS 13 became effective for UBS Limited on 1 January 2013 and is to be applied prospectively from that date. The new standard has no material impact on the interim consolidated financial statements as the UBS Limited fair value measurement policies were already substantially aligned with IFRS 13 principles.

Refer to "Note 1 Basis of accounting" of the interim consolidated financial statements in the "Financial information" section of this report for more information on IFRS 13.

IAS 1 *Presentation of Financial Statements*

In June 2011, the IASB issued the revised IAS 1 *Presentation of Financial Statements.* UBS Limited adopted the revised standard on its mandatory effective date of 1 January 2013, resulting in revised presentation in the statement of comprehensive income.

Refer to "Note 1 Basis of accounting" of the interim consolidated financial statements in the "Financial information" section of this report for more information on the revised IAS 1.

Basel 2.5 capital information UBS Limited[1]

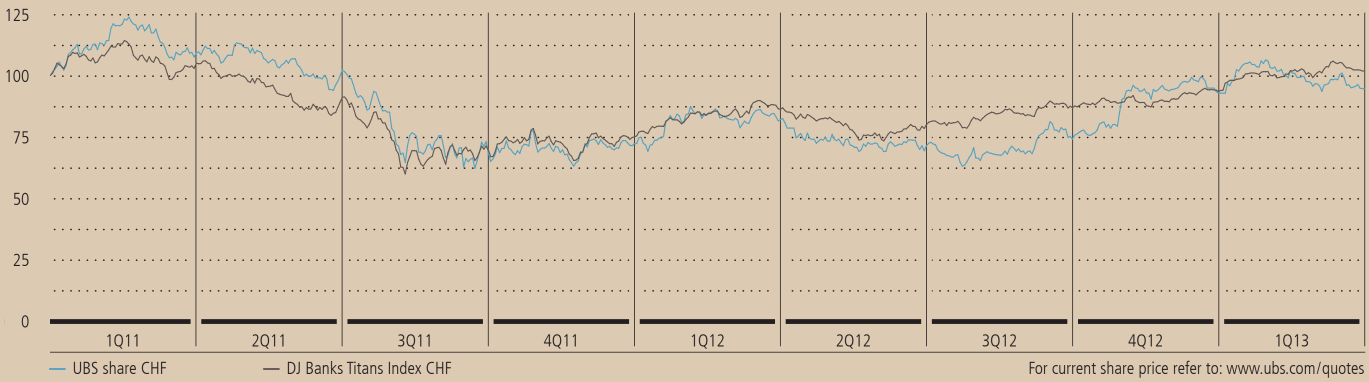
GBP million, except where indicated	**31.3.13**	31.12.12
Core tier 1 capital	**2,908**	2,908
Tier 1 capital	**2,908**	2,908
Total capital	**2,910**	2,910
Risk-weighted assets	**4,381**	3,771
Core tier 1 capital ratio (%)	**66.4**	77.1
Tier 1 capital ratio (%)	**66.4**	77.1
Total capital ratio (%)	**66.4**	77.2

1 Based on the Basel 2.5 framework, in accordance with UK Prudential Regulatory Authority regulations. Basel III based requirements for UBS Limited are anticipated to come into effect on 1 January 2014.

UBS shares

UBS share price chart vs DJ Banks Titans Index

in % *1 January 2011 – 31 March 2013*



For current share price refer to: www.ubs.com/quotes

UBS shares and market capitalization

	As of			% change from	
	31.3.13	31.12.12	31.3.12	31.12.12	31.3.12
Share price (CHF)	14.55	14.27	12.65	2	15
Market capitalization (CHF million)[1]	55,827	54,729	48,488	2	15

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. 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**

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, 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 relate to the setting of LIBOR and other benchmark rates; (7) 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; (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 differences in 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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UBS

Appendix 2 - Annual Report 2012
(original pagination)

UBS

Annual Report 2012

Our *performance* in 2012

Contents

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.

Contacts

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Investor Relations
UBS's Investor Relations team supports institutional, professional and retail investors from our offices in Zurich and New York.

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Media Relations
UBS's Media Relations team supports global media and journalists from offices in Zurich, London, New York and Hong Kong.

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Office of the Company Secretary
The Company Secretary receives queries on compensation and related issues addressed to members of the Board of Directors.

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Shareholder Services
UBS's Shareholder Services team, a unit of the Company Secretary office, is responsible for the registration of the global registered shares.

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Fax +1-201-680 4675

Corporate calendar

Publication of the first quarter 2013 report
Tuesday, 30 April 2013

Annual General Meeting
Thursday, 2 May 2013

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Tuesday, 30 July 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.

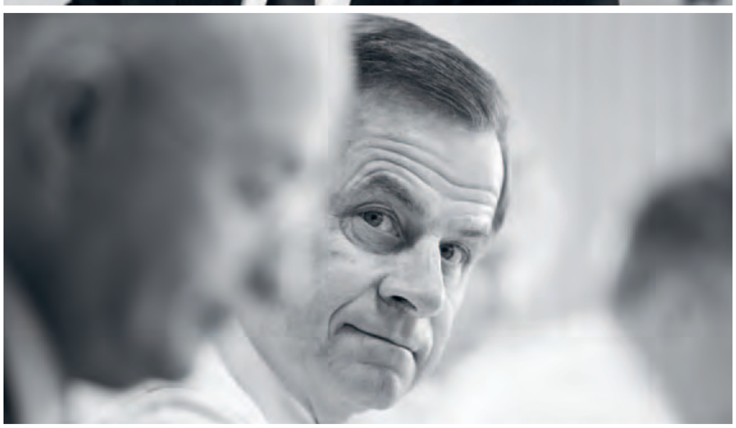
Global Asset Management is a large-scale asset manager with businesses diversified across regions, capabilities and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currencies, hedge funds, 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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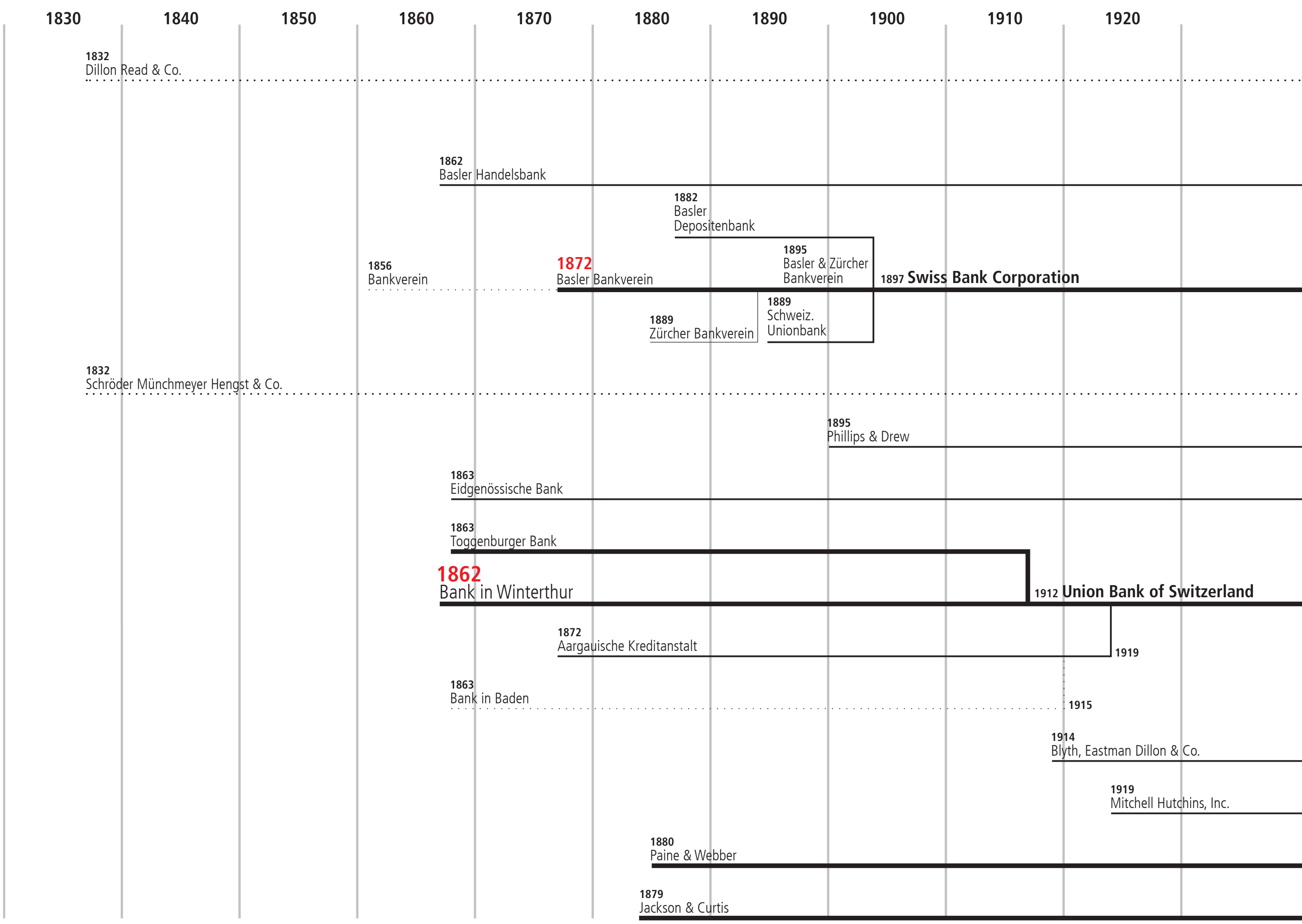
1 **Sergio P. Ermotti** Group CEO 2 **Lukas Gähwiler** CEO UBS Switzerland and CEO Retail & Corporate 3 **Ulrich Körner** Group Chief Operating Officer and CEO UBS Group Europe, Middle East and Africa 4 **Philip J. Lofts** Group Chief Risk Officer 5 **Robert J. McCann** CEO Wealth Management Americas 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



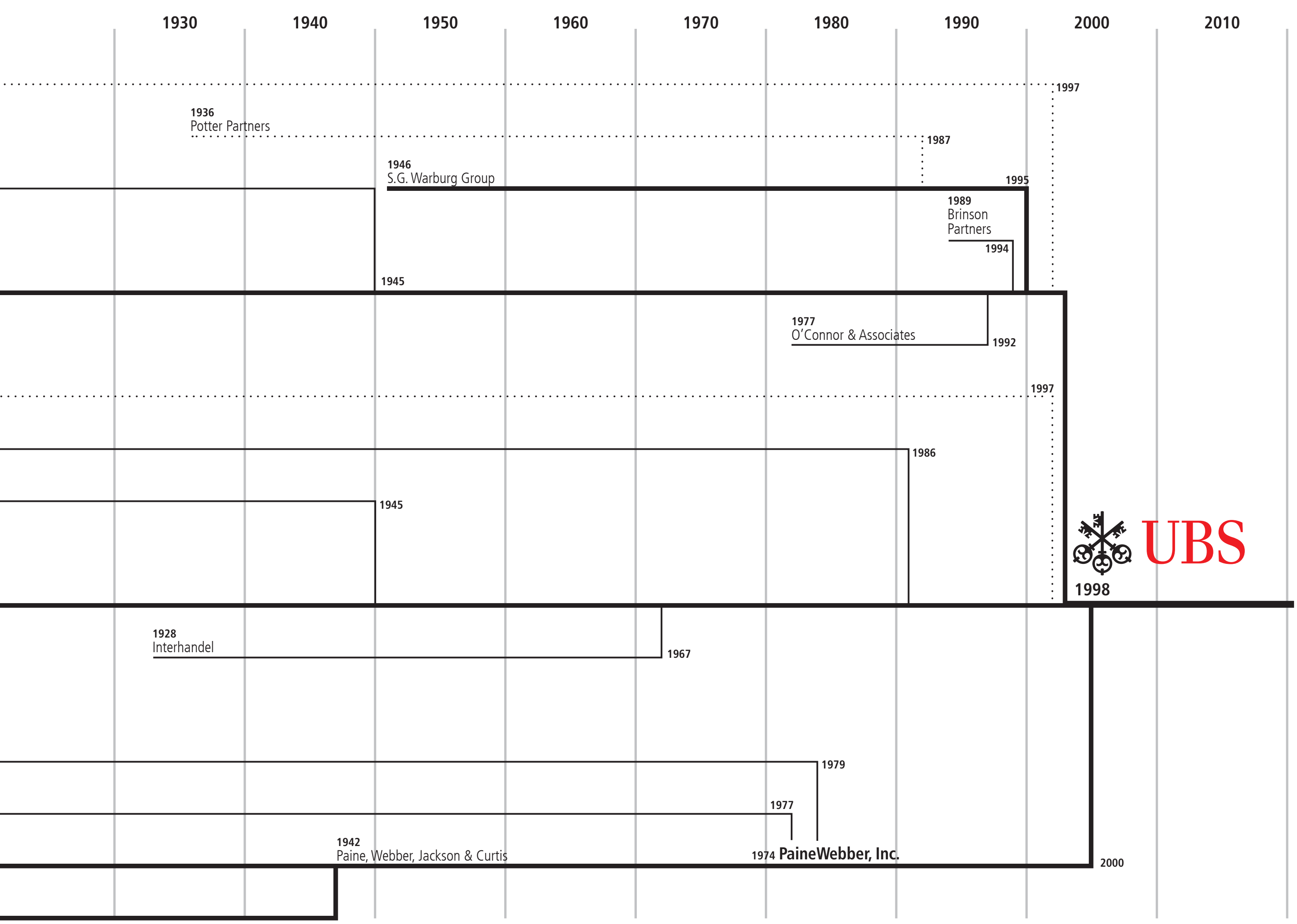
the Bank in Winterthur. SBC marked its centenary in 1972 with celebrations in honor of its founding forebear, the Basler Bankverein. The historical roots of Paine-Webber, acquired by UBS in 2000, go back to 1879, while S.G. Warburg, the central pillar upon which UBS's Investment Bank was built, commenced 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.

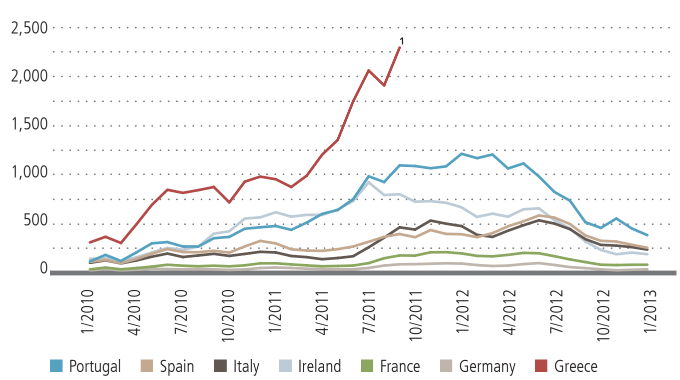
The economic environment in Greece deteriorated during 2012 and at the end of the first quarter, the eurozone finance ministers agreed on a further rescue package, which included a writedown of 53% of the face value of Greek government bonds. This measure proved insufficient to stabilize the economic 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

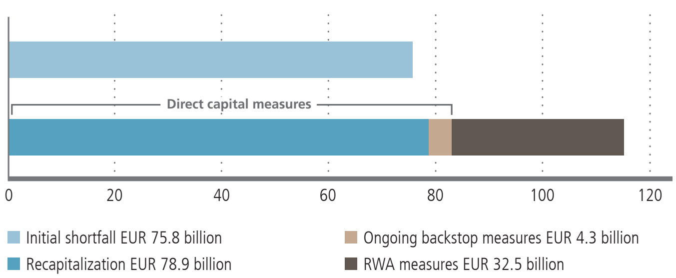
The macroeconomic environment remained extremely challenging for the financial industry. While top-line growth was constrained by stricter regulatory requirements, especially around capital and liquidity standards, the prevailing low-yield environment and flat yield curve put further pressure on net 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 revisions 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 rule-making 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.

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.

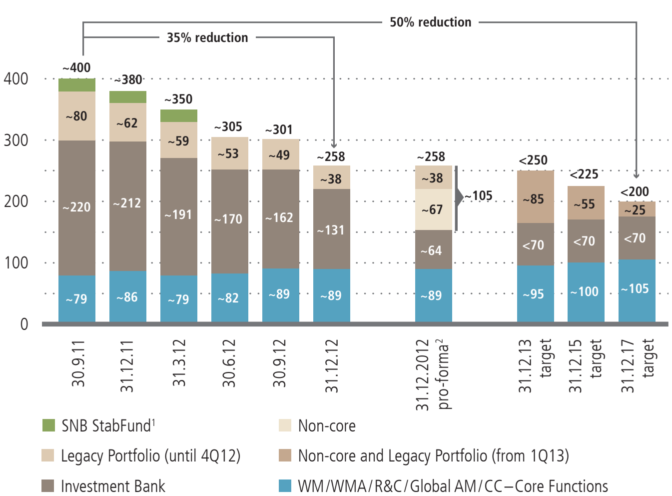
Acceleration of our strategic transformation

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

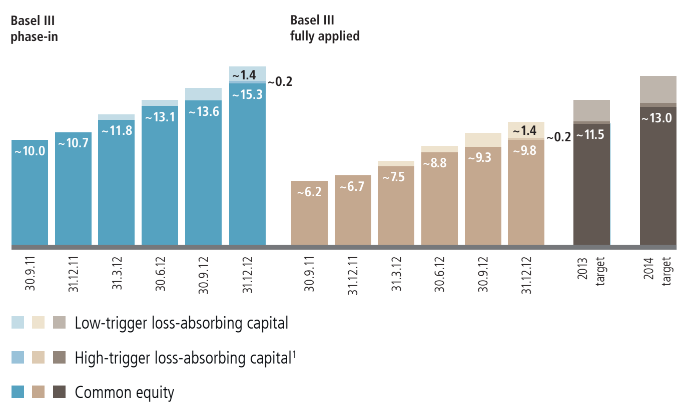
Our position as one the world's best-capitalized banks under Basel III, together with our stable funding and sound liquidity positions, provides us with a solid foundation for our success. We have a proven track record of Basel III RWA reduction, surpassing our 2012 Basel III RWA targets ahead of schedule. 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:

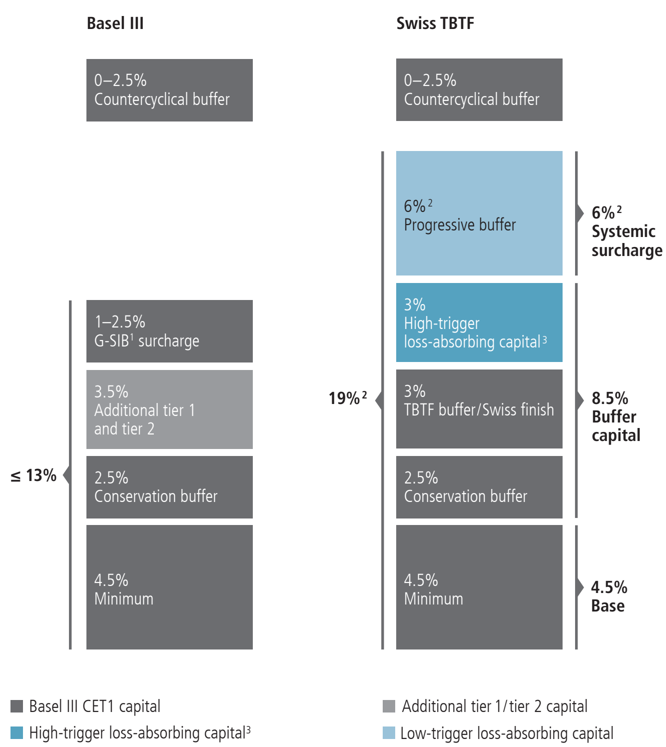
- Increased quality of regulatory capital base
- New capital buffers including capital conservation buffer and countercyclical buffer
- Enhanced risk coverage with stricter market and counterparty credit risk requirements
- Minimum leverage ratio requirement to constrain excess leverage, independent 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

$$\textbf{FINMA Basel III leverage ratio} = \frac{\begin{array}{c}\textbf{Total capital}\\ \text{Phase-in CET1}\\ +\\ \text{loss-absorbing capital}\end{array}}{\begin{array}{c}\textbf{Total exposure}^{1}\\ \text{Total IFRS assets } \textbf{+ adjustments}\end{array}} = \frac{\begin{array}{c}\textbf{CHF 44.2 billion}\\ = \text{CHF 40.0 billion}\\ +\\ \text{CHF 4.2 billion}\end{array}}{\begin{array}{c}\textbf{CHF 1,216 billion}\\ = \text{CHF 1,271 billion}\\ -\\ \text{CHF 55 billion}\end{array}} = \textbf{3.6\%}$$

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.

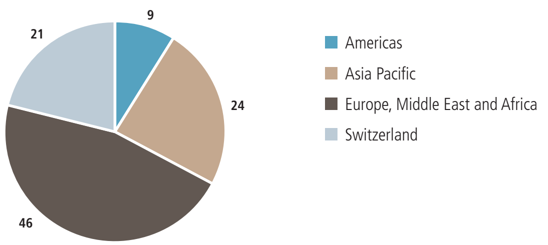
In Europe, we combined our European offshore and onshore businesses to reflect the converging needs of clients in the region. This reorganization enables us to leverage our extensive Swiss product offering, while creating economies of scale and helping us to deal more efficiently with increased regulatory 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**

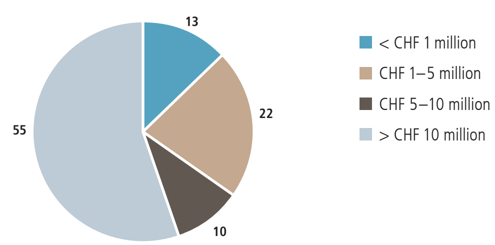
As of 31.12.12



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

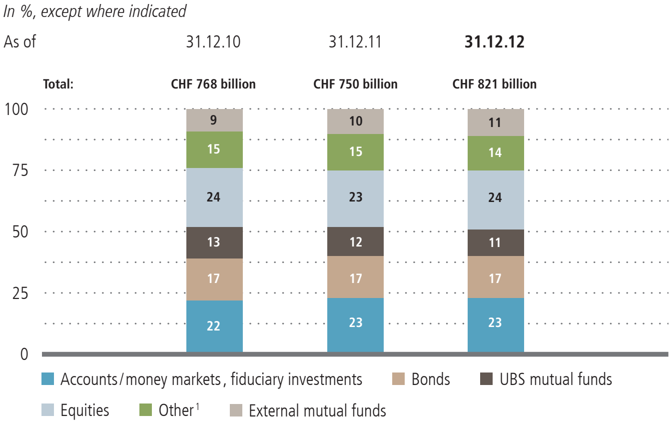
Our major global competitors include Credit Suisse, Julius Bär, HSBC, Deutsche Bank, JP Morgan and Citigroup. In the European domestic markets, we primarily compete with the private banking operations of such large local banks as Barclays in the UK, Deutsche Bank in Germany and Unicredit in Italy. The 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

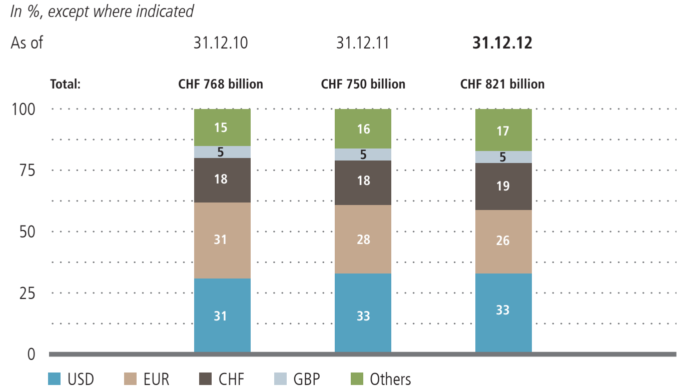
In %, except where indicated



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.

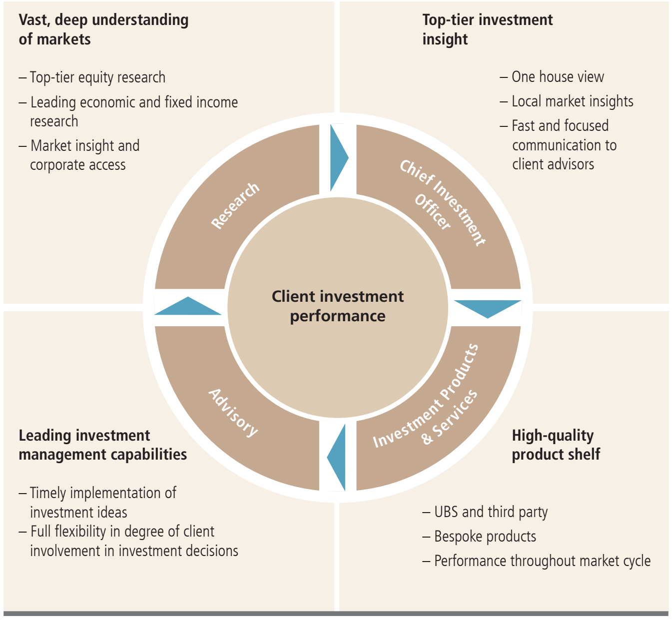
We have also launched a number of initiatives to further improve our product offering, to enhance our solutions and to better align our fund and manager selection process and fee arrangements to the current legal and regulatory environment. These include switching fund and structured product holdings 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

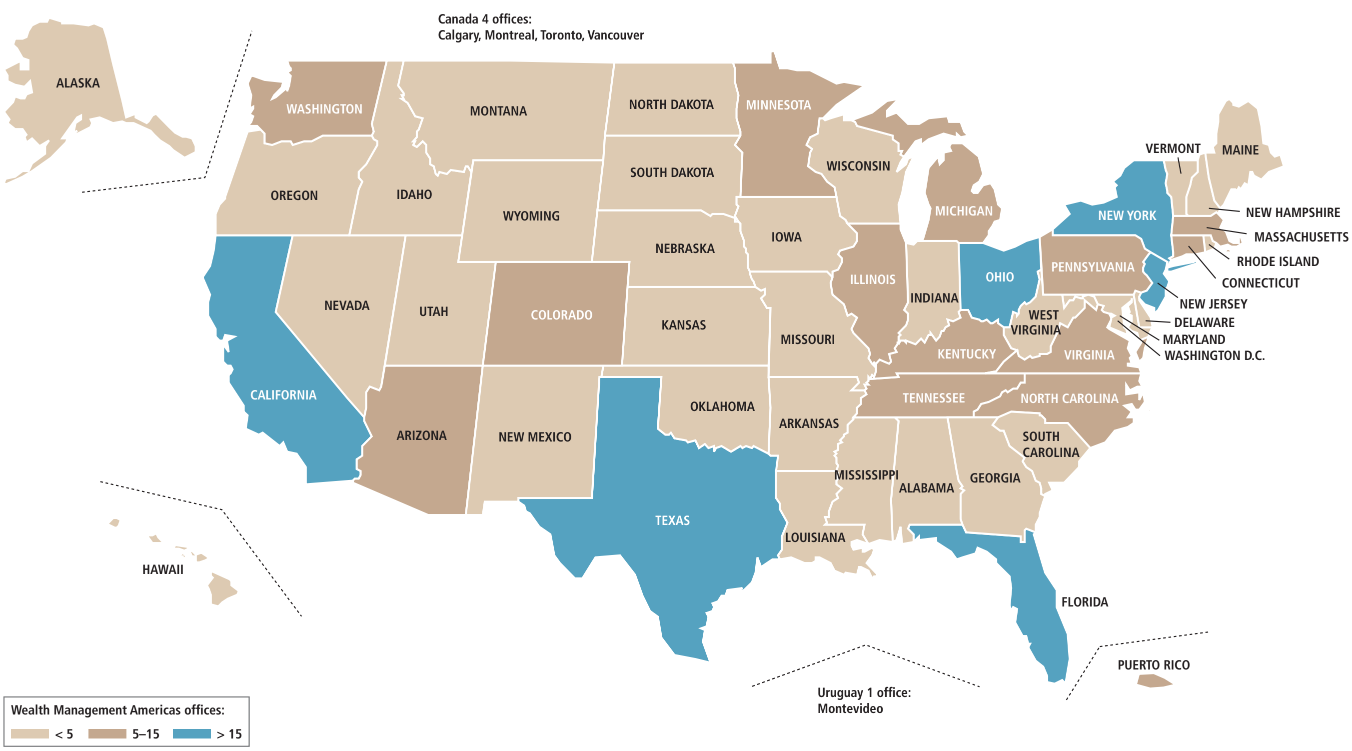
Wealth Management Americas is the leading wealth manager in the Americas in terms of financial advisor productivity and invested assets, and includes the domestic US and Canadian businesses as well as international business booked in the US. On 31 December 2012, the business division had USD 843 billion 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

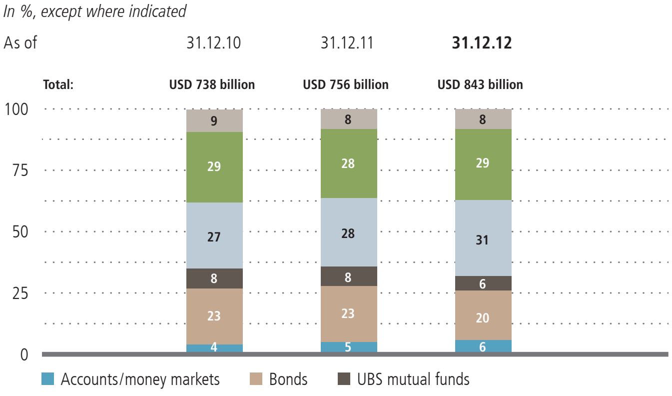
Wealth Management Americas competes with national full-service brokerage firms, domestic and global private banks, regional broker-dealers, independent broker-dealers, registered investment advisors, trust companies and other financial services firms offering wealth management services to US and Canadian 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

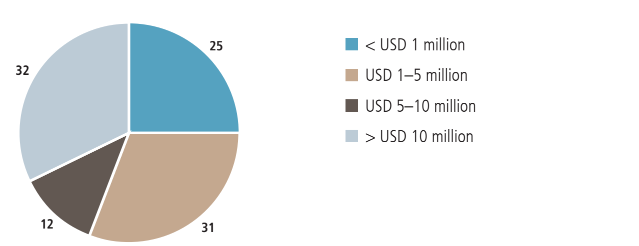


1 Includes structured products, alternative investments and fiduciary investments.

Invested assets by client wealth

In %, except where indicated **Total: USD 843 billion**

As of 31.12.12



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

Investment capabilities are globally coordinated with boutique-like discretion and accountability …

Equities	Fixed income	Global investment solutions	Alternative and quantitative investments	Global real estate	Infrastructure and private equity	Fund services

… with client-focused distribution teams …

Americas	Asia Pacific	Europe	Switzerland
Global sovereign markets[1]			

… all supported by global functions

Financial control[2]	Legal & compliance[2]	Risk control[2]	Human resources[2]	IT[2]	Operations[2]	Communications[2]	COO functions including strategic planning

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.

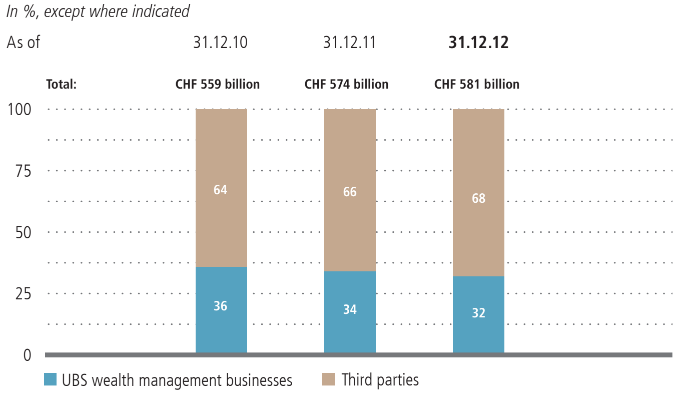
Products and services

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

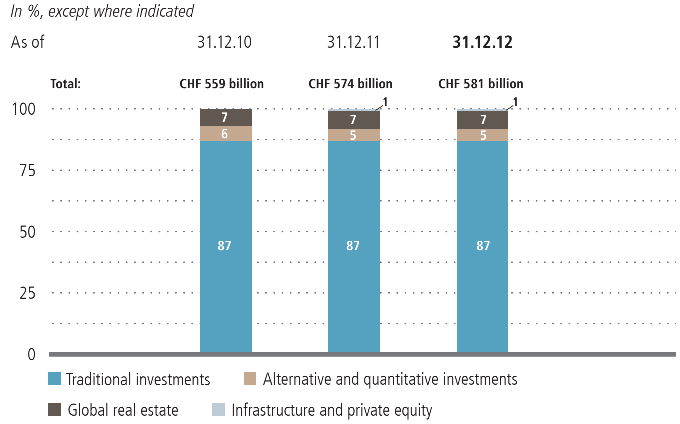
Invested assets by channel

In %, except where indicated



Invested assets by business line

In %, except where indicated



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

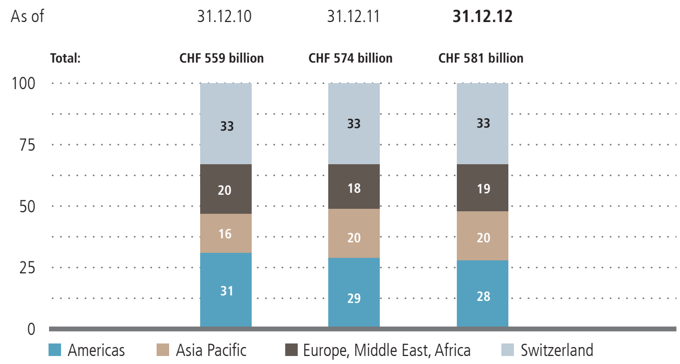
Our capabilities and services are distributed through our regional business structure (Americas, Asia Pacific, Europe and Switzerland) as detailed in the "Business structure" chart. A breakdown of invested assets across these regions is shown in the "Invested assets by region" chart.

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

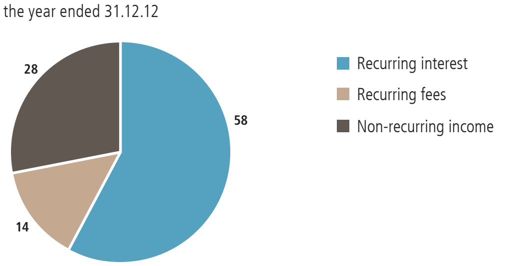
We aspire to be the bank of choice for retail clients in Switzerland by delivering value-added services. Currently, we serve every third Swiss household. Our distributional network comprises nearly 300 branches, 1,250 automated teller machines including self-service terminals, and four customer service 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**

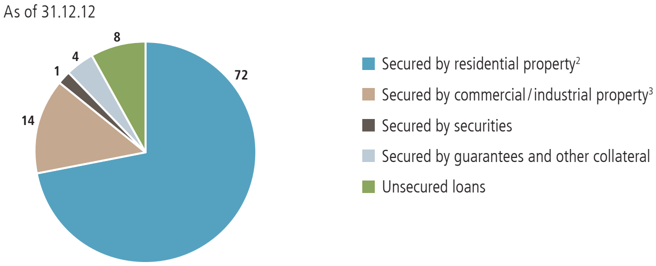
For the year ended 31.12.12



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 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 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]

	For the year ended		
CHF billion	**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.

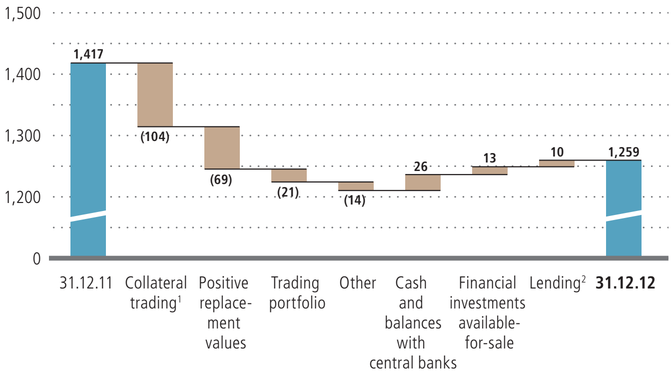
Balance sheet

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

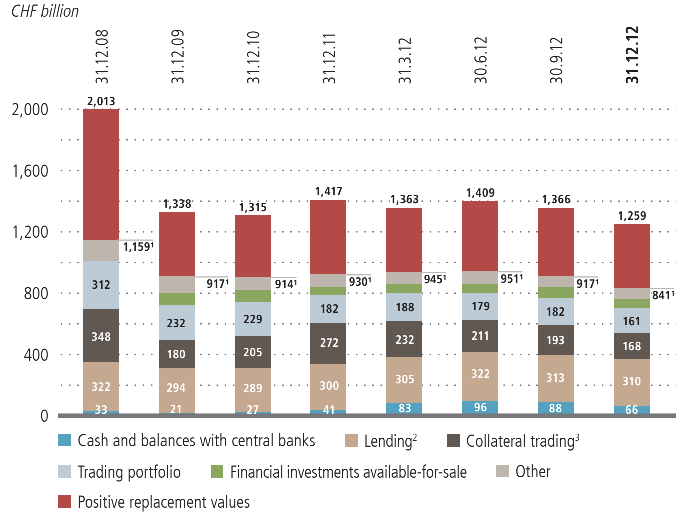
CHF billion



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 Investment 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

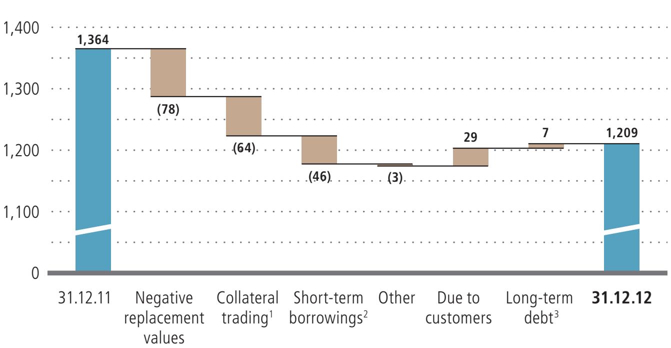
Short-term borrowings (short-term debt issued and due to banks) decreased by CHF 46 billion to CHF 56 billion, primarily due to reduced funding requirements and to a lesser extent the negative interest charge imposed on financial institutions for Swiss franc clearing accounts, effective 21 December 2012. 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

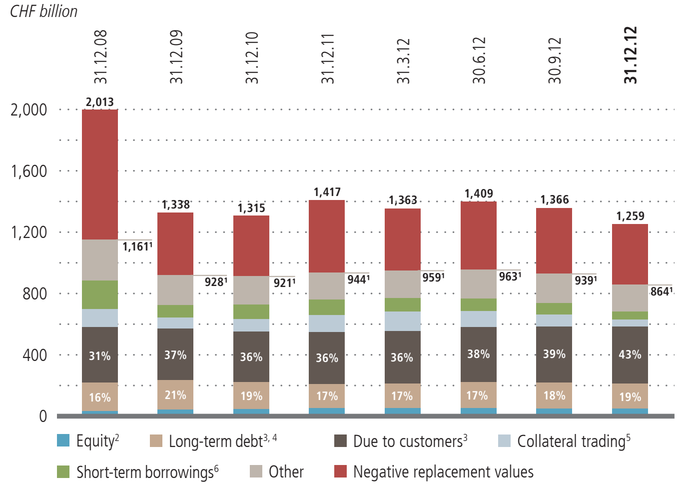
CHF billion



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.

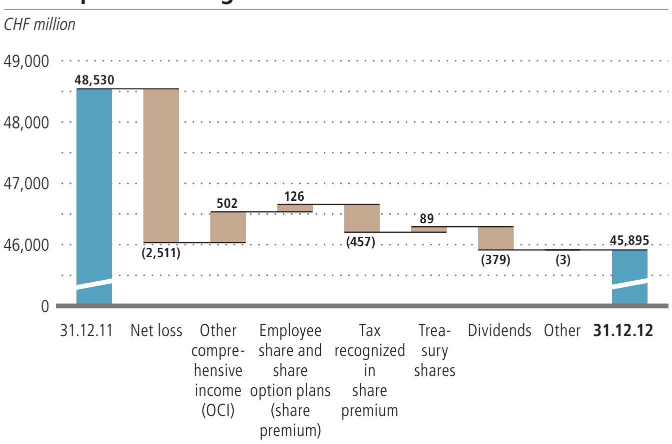
➔ **Refer to the "Statement of changes in equity" in the "Financial information" section, and to "Comprehensive income attributable to UBS shareholders" in this section for more information**

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 abovementioned 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 equity-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 finished 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 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 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.

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-

sion. They may also result in damage to our reputation and to our franchise, which have longer-term financial consequences.

Risk measurement

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

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

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

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.

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 subportfolio levels with regard to sector exposures, country risk and specific product exposures.

Risk mitigation

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

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

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.

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.

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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.

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**

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).

Risk, treasury and capital management

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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 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 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 generally 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.

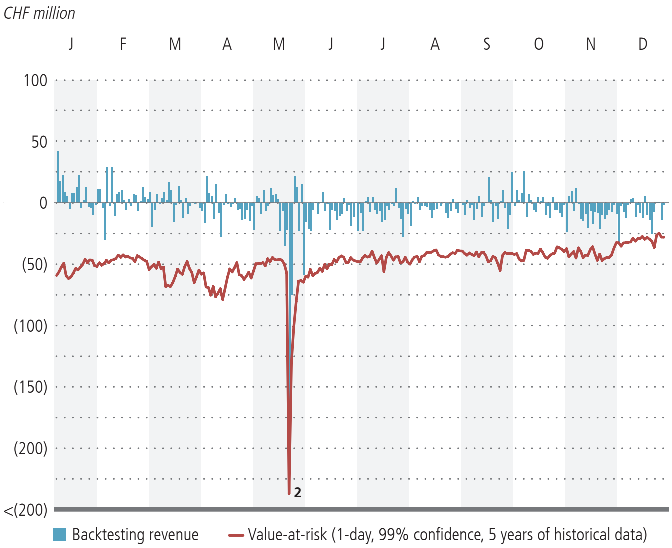
Audited

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)

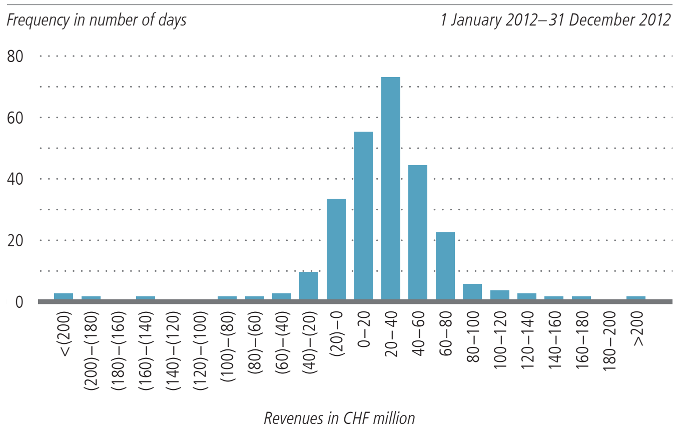
1 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

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.

- 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

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

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.

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

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

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.

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.

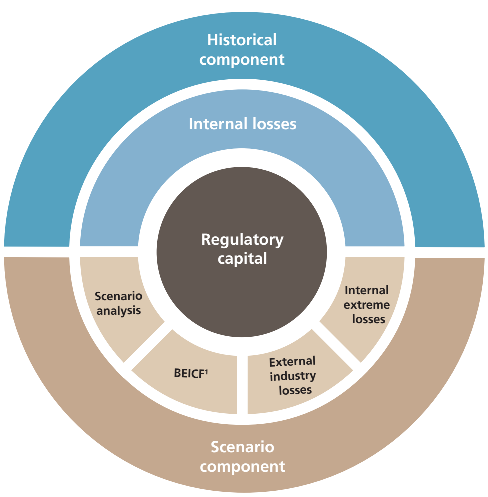
We measure operational risk exposure and calculate operational risk regulatory capital by utilizing the advanced measurement approach (AMA) in accordance with FINMA requirements. For regulated subsidiaries, the basic indicator or standardized approaches are adopted as agreed with local regulators.

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.

- 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

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

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.

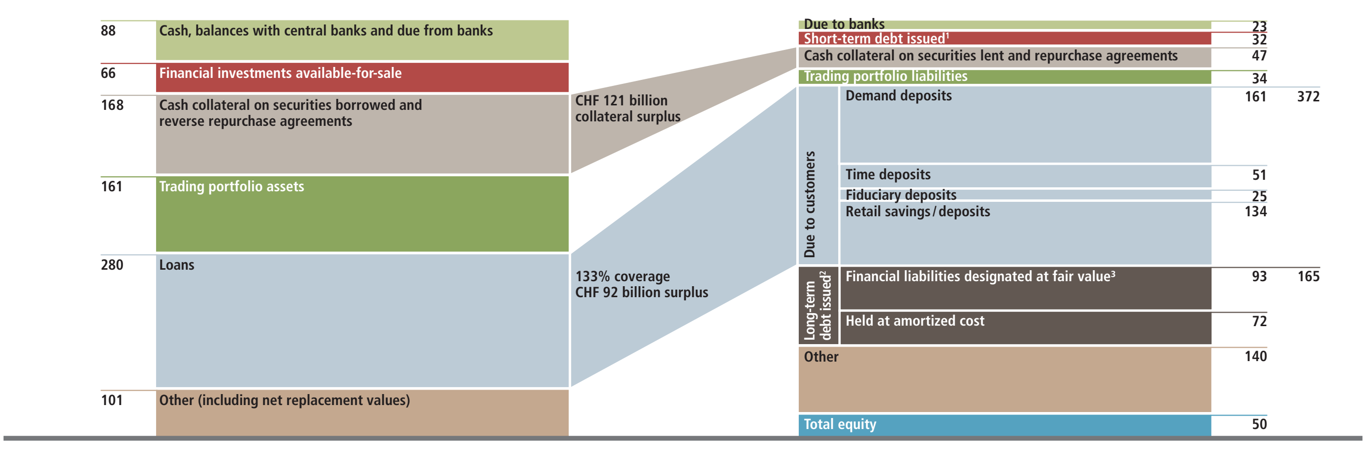
Group Treasury manages operational cash and collateral within established limits and controls defined by Treasury Risk. This permits close control of both our cash position and our stock of high-quality liquid securities and ensures that the firm's general access to whole-

Audited

UBS asset funding

CHF billion, except where indicated

As of 31.12.12



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.

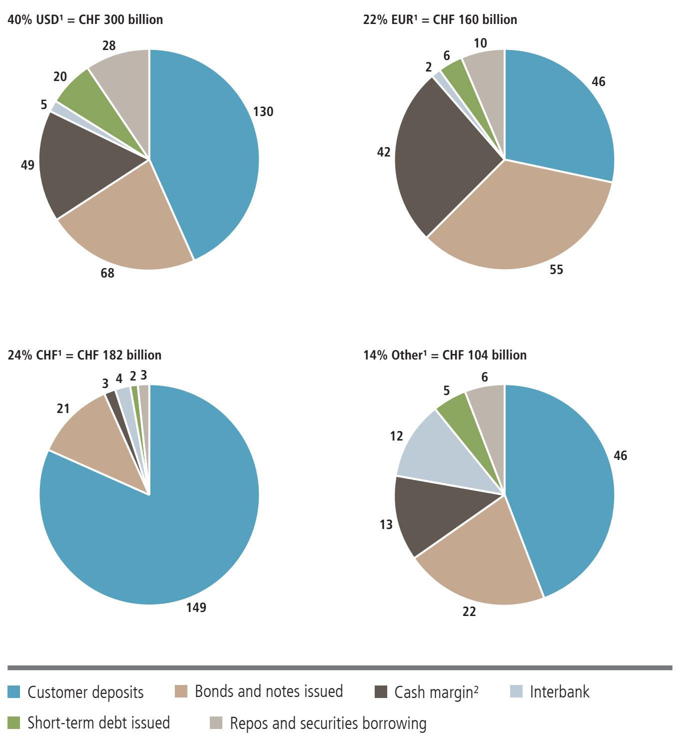
Our short-term interbank deposits (due to banks) and outstanding short-term debt, as a percentage of total funding sources, decreased from 12.4% to 7.5%, mainly reflecting reduced funding requirements as a result of the continued deleveraging of our balance sheet, but also due to the effects of the negative 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

	All currencies		CHF		EUR		USD		Others	
In %[1]	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
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**

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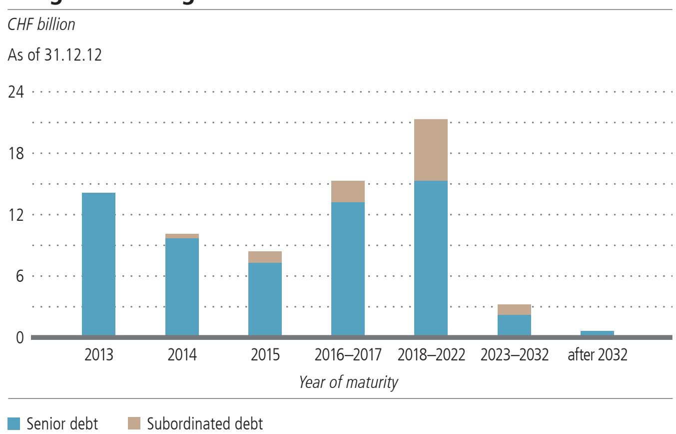
Maturity analysis of financial liabilities

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



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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

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**

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.

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

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**

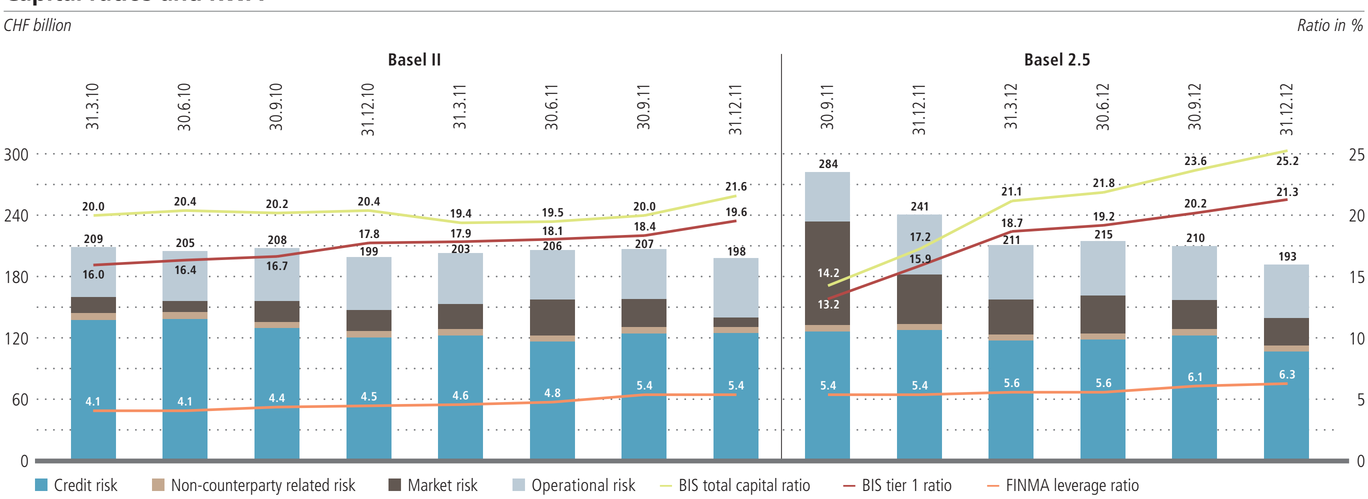
Regulatory requirements

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).

Audited

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.

Audited

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

Audited

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

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.

Basel 2.5 Pillar 3

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.

Risk, treasury and capital management

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.

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

Corporate governance, responsibility and compensation

Audited

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.

Audited

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.

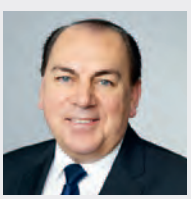
Board of Directors

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

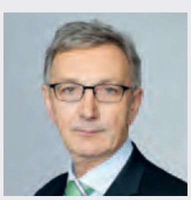
Swiss, born 23 March 1959
Zurich Insurance Group, Mythenquai 2, CH-8002 Zurich

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 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 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

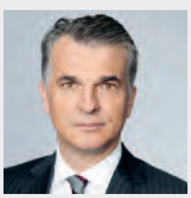
UBS operates under a strict dual board structure, as required by Swiss banking law. The management of the business is delegated by the BoD to the Group Executive Board (GEB).

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.

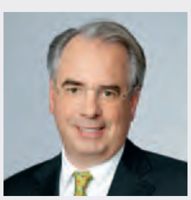
Lukas Gähwiler
Swiss, born 4 May 1965
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

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.

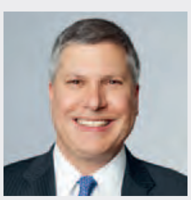
Robert J. McCann
American (US) and Irish, born 15 March 1958
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

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

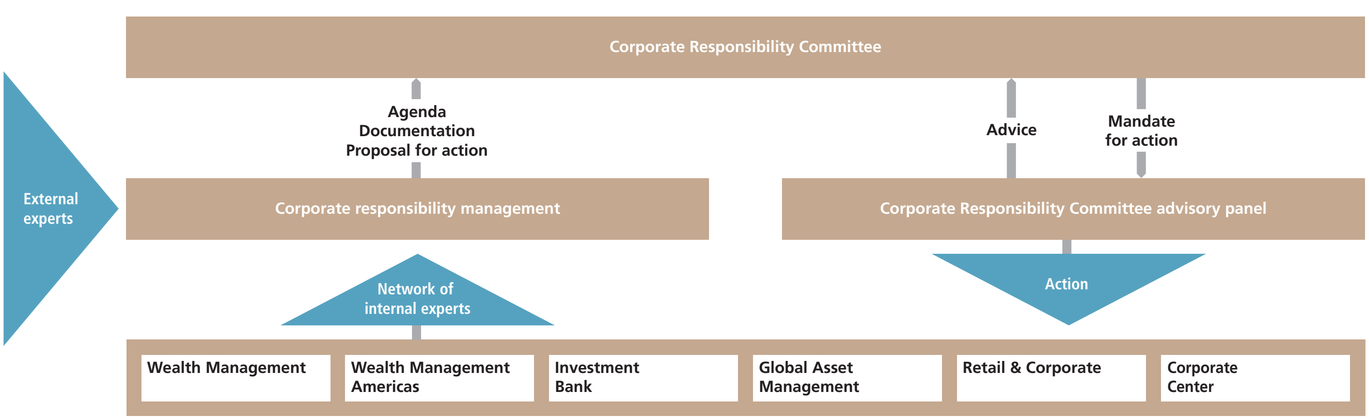
The GEB monitors our efforts to combat money laundering, corruption and terrorist financing. These efforts are led by the Head of Global AML (anti-money laundering) Compliance and supported by a network of expert global business teams. The GEB also monitors the implementation of our diversity and inclusion-related 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.

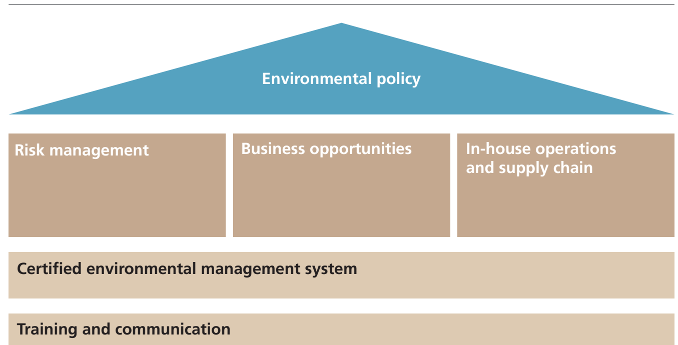
During 2012, Global AML (anti-money laundering) Compliance worked closely with the Environmental and Social Risk group to develop and introduce new and more effective ways to screen potential business partners, vendors and clients with regards to potential issues relating to environmental and social 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	

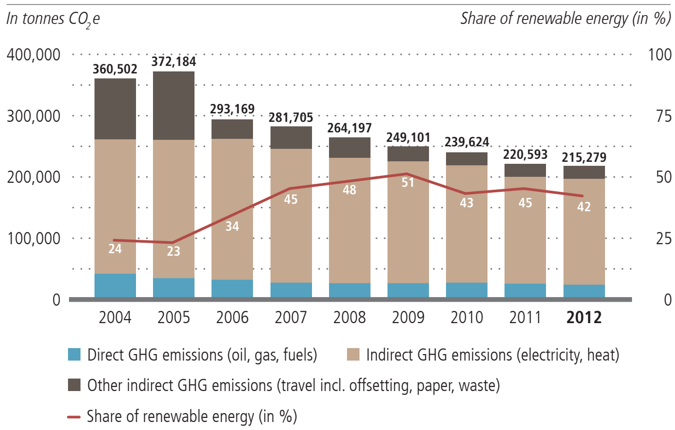
1 All figures are based on the level of knowledge as of January 2013. 2 FS stands for the performance indicators defined in the Global Reporting Initiative Financial Services Sector Supplement. 3 Includes customized screening services (single or multiple exclusion criteria). 4 Assets subject to restrictions 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%	●	220,593	239,624
Energy consumption in GWh	**761**	–10%	957	–21%	●	827	859
Share of renewable energy	**42%**	increase	24%[5]	73%	●	45%	43%
GHG offsetting (business air travel) in t CO_2e	**73,024**	100%	0[5]	100%	●	88,867	69,152
Paper consumption in kg per FTE	**122**	stabilize	130	–6%	●	122	119
Share of recycled and FSC paper	**55.8%**	50%	33.8%	65%	●	44.3%	42.8%
Waste in kg per FTE	**230**	stabilize	265	–13%	●	242	251
Waste recycling ratio	**54.2%**	70%	54.4%	–0.3%	●	54.2%	53.7%
Water consumption in m m^3	**1.95**	–5%	2.55	–23%	●	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

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.

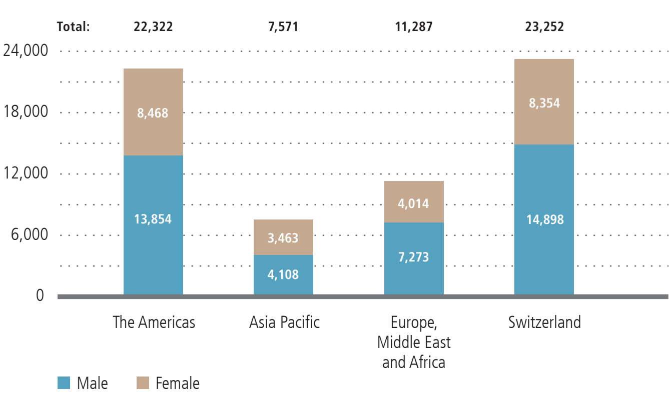
Our workforce is truly global. We have 891 offices in 56 countries, and our employees are citizens of 145 countries. In 2012, the average age of our employees was 39 years and the average length of employment with the firm was 8.9 years. In Switzerland, more than 51% of employees have worked at UBS for 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 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.

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

Corporate governance, responsibility and compensation

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

We want to become:

The *choice of* clients – worldwide

Our principles

To achieve this, our actions are driven by three principles:

Client focus	Excellence	Sustainable performance
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.

Our attitude

And we promise that:

"We will not rest, until…"

…we've helped our clients reach their goals.

We're relentless in our efforts to do the best for our clients.

Listing 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.

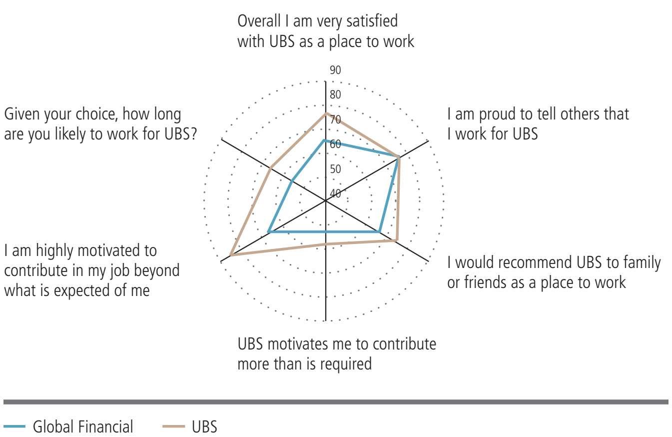
Feedback on measures of respect and recognition were encouraging. These elements are essential for effective cooperation across the firm and they have a positive effect on client service and sustainable results. The survey also provided insights into areas in need of improvement such as the communication 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

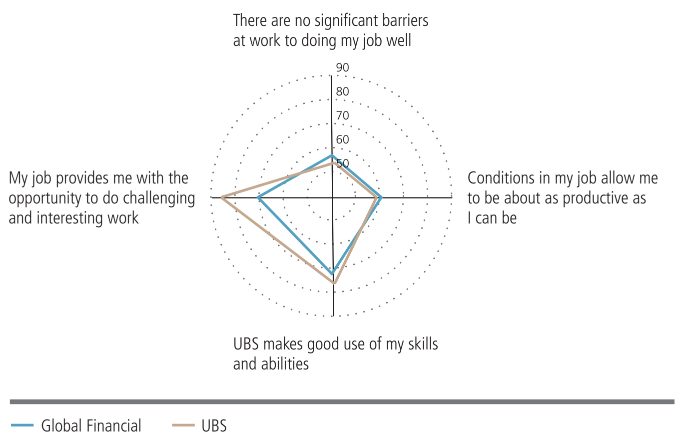
We strive to be a responsible employer and invest in all of our employees, whether full- or part-time, by offering a comprehen-

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.

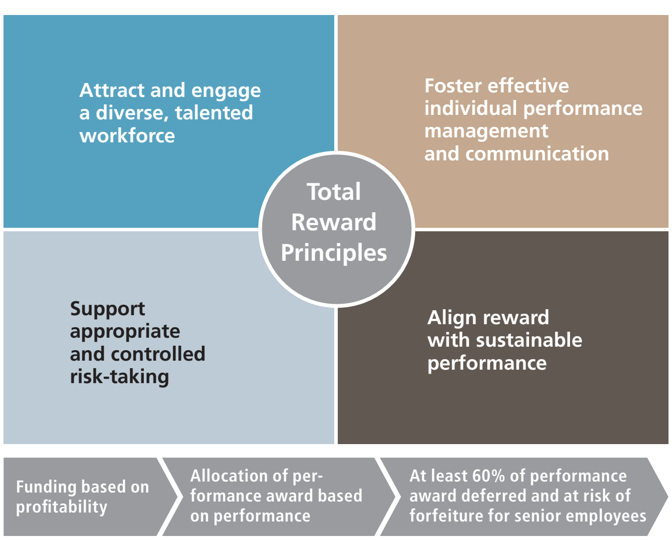
Ensuring we attract and engage a diverse, talented workforce

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.

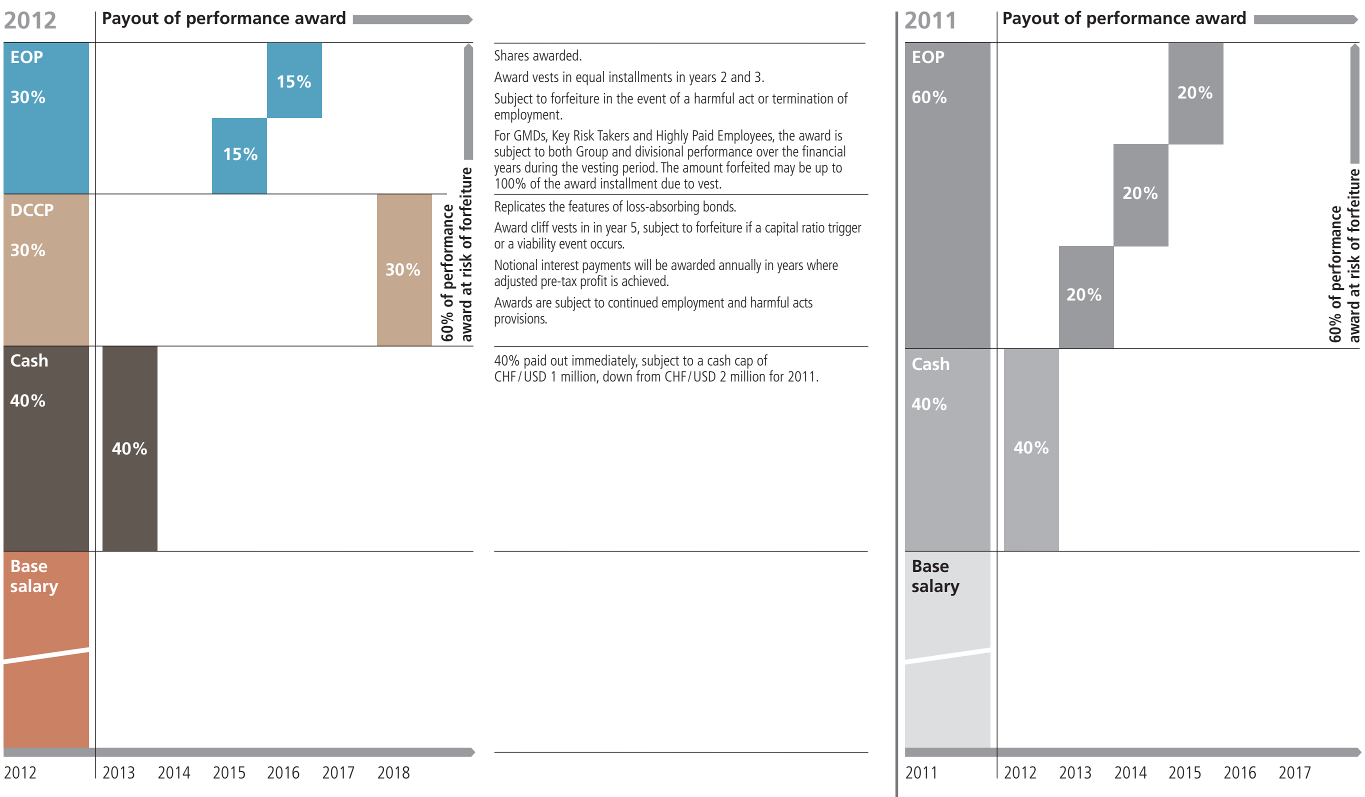
Employment contracts for those holding the rank of Director and above generally contain a notice period of between one and six months, depending on the location, which such employees must serve and during which time they are paid their base salary. We provide for severance payments in redundancy cases 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 transaction 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).

Audited

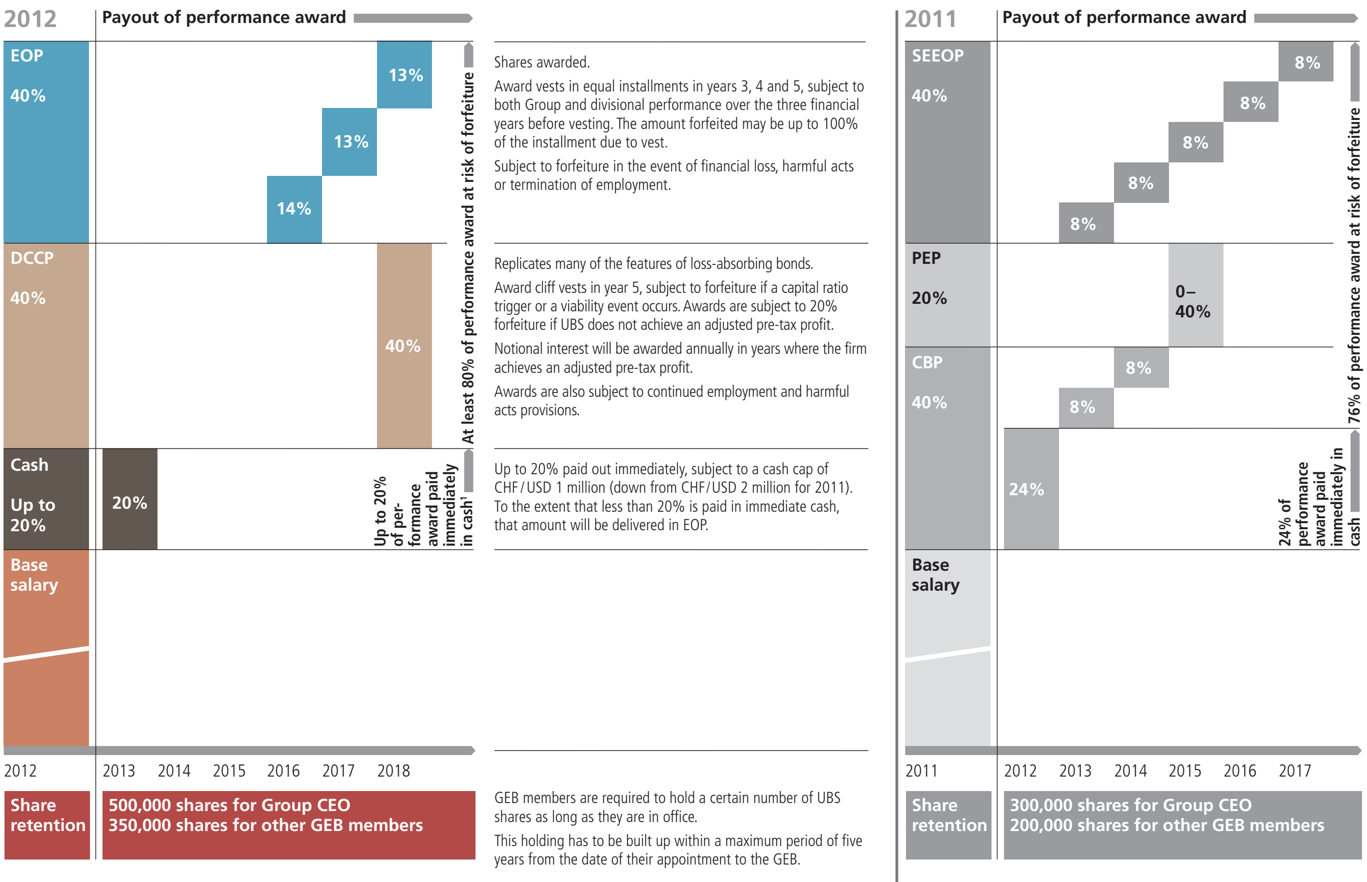
Sign-on payments, replacement payments, severance payments and guarantees

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 notional 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]

	Total for the year ended 2012		Not deferred		Deferred[3]		Total for the year ended 2011[4]
CHF million, except where indicated	amount	%	amount	%	amount	%	
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

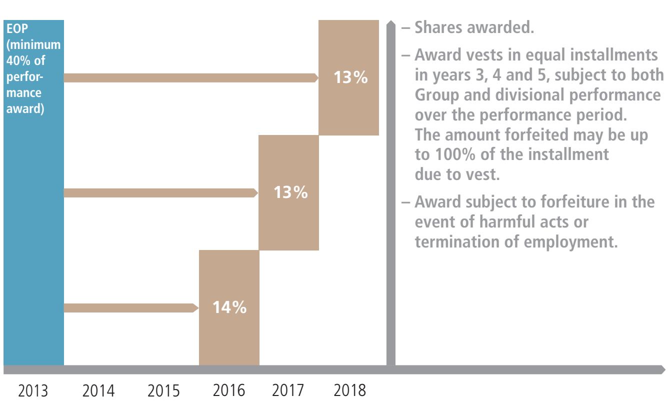
The EOP is a mandatory performance award deferral plan for all employees with total compensation of CHF/USD 250,000 or more. Such employees receive 30% of their performance award above that level in deferred UBS shares or notional shares under the EOP. GEB members receive at least 40% of their performance 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.

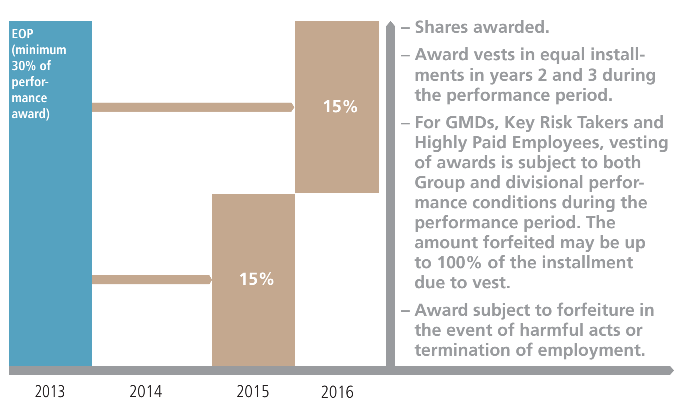
Employee categories[1]	Minimum percentage of performance award deferred under EOP	EOP vesting period	EOP performance conditions
GEB members	40%	Vests in equal installments in years 3 to 5	●
Group Managing Directors, Key Risk Takers and Highly Paid Employees[2]	30%	Vests in equal installments in years 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



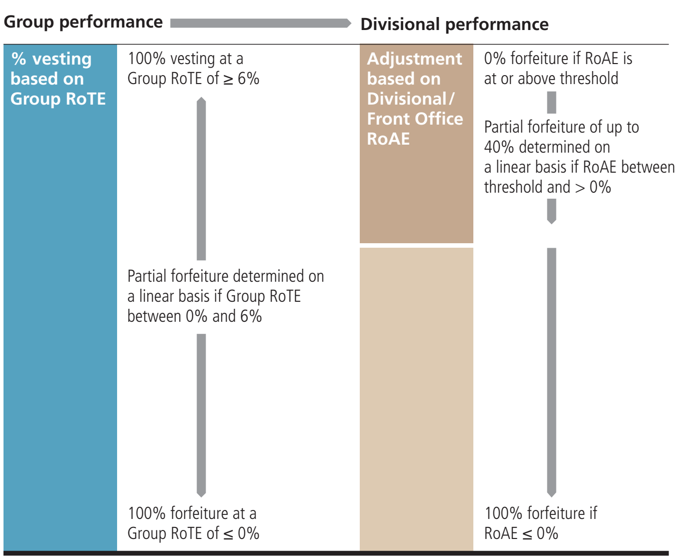
EOP performance conditions for GEB members, GMDs, Key Risk Takers and Highly Paid Employees: The vesting of an EOP award depends on both Group performance and divisional performance. Group performance is measured by the average adjusted Group return on tangible equity (RoTE) and divisional performance 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.

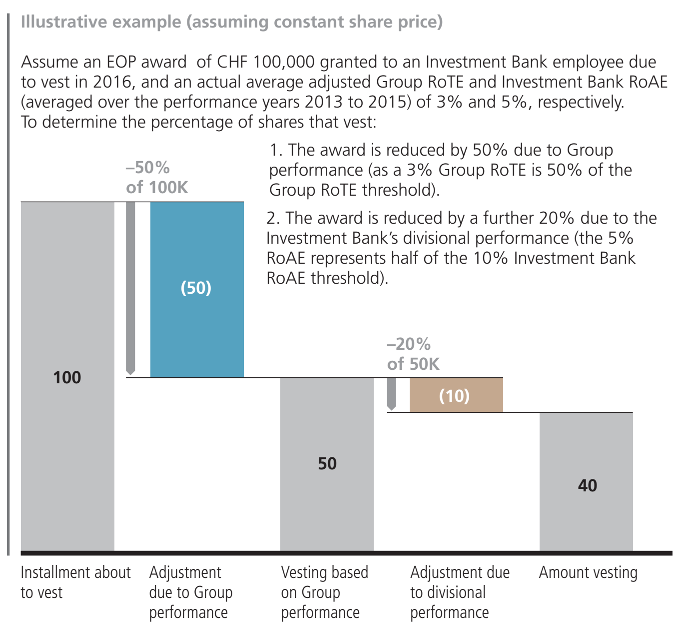
If the average adjusted Group RoTE achieved is greater than or equal to the 6% threshold, the award will vest in full, subject to the relevant divisional threshold also being met. If the Group RoTE is 0% or negative, the installment will be fully forfeited for the entire Group regardless of any division's 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





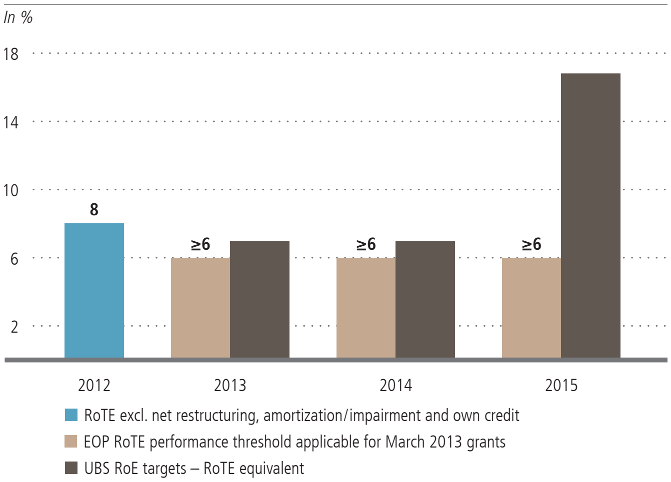
Divisional RoAE thresholds (or, for Corporate Center employees, Front Office RoAE thresholds)

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



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.

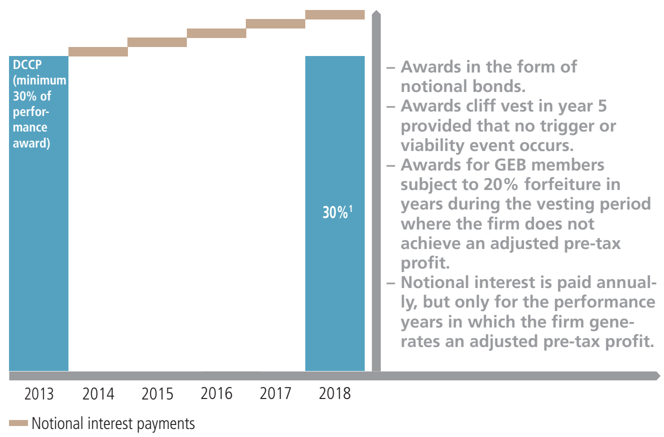
Deferred Contingent Capital Plan (DCCP)

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.

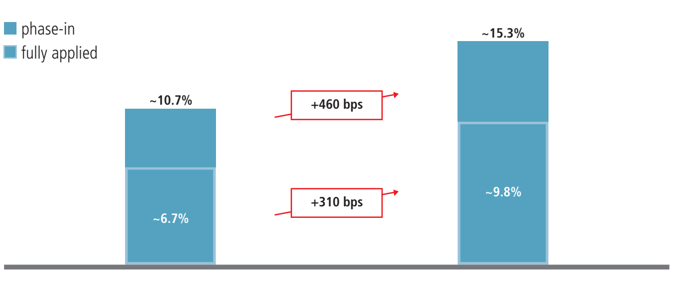
Our performance in 2012

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

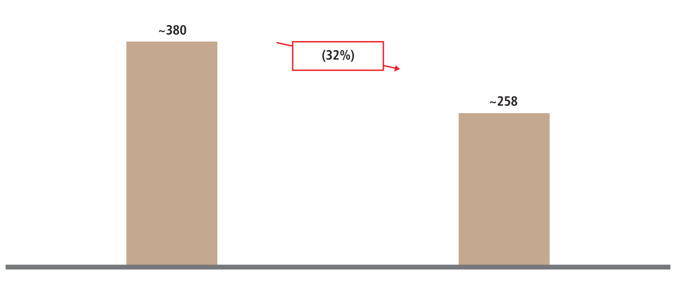
Basel III CET1 ratio

CHF billion Phase-in Basel III CET1 ratio up ~460 bps



Basel III RWA

CHF billion Basel III RWA reduced by ~32%



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.

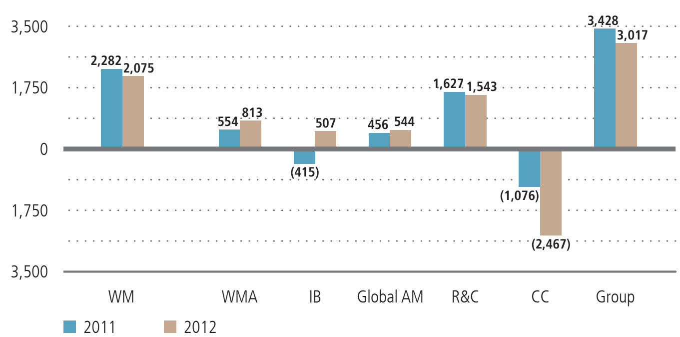
Summary of financial performance for 2012 and 2011

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

CHF million



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).

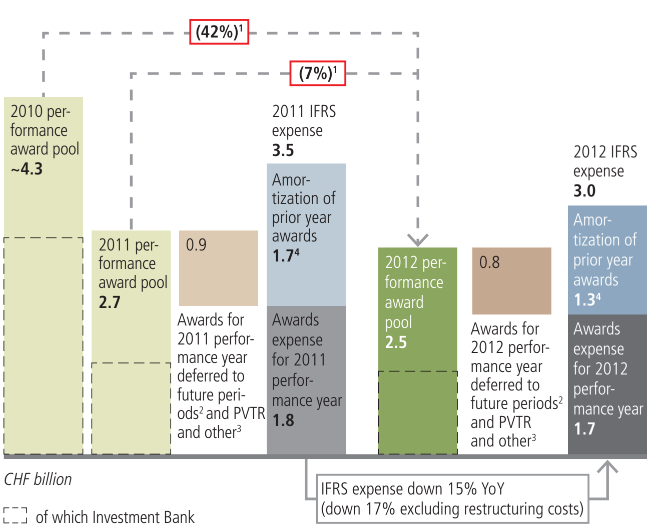
compensation plans listed in the "Deferred compensation" table are subject to ex-post adjustments, whether implicitly, through exposure to share price movements, or explicitly, for example, through forfeitures instigated by the firm. Accordingly, their value can change over time. The amounts shown in 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

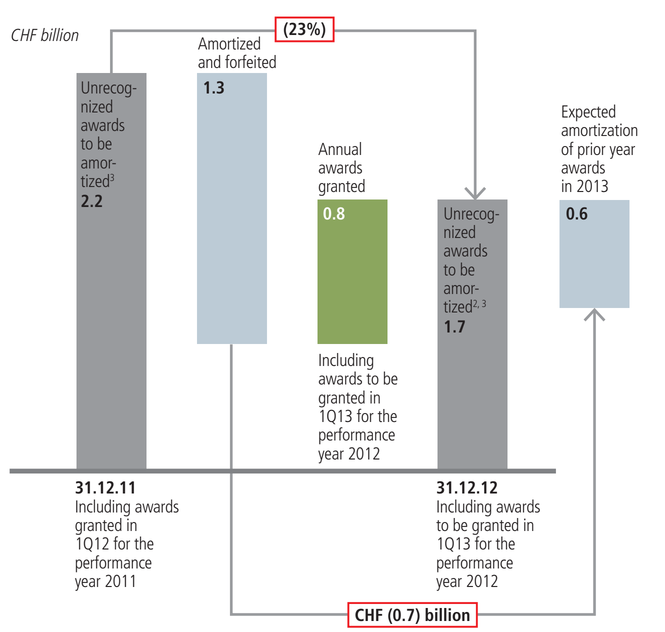
Performance award expenses



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

CHF million	Expenses: Relating to awards for 2012	Expenses: 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**

List of tables

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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]	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.

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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.

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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

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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.

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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.

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.

Financial information

Table of contents

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.

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

ERNST & YOUNG

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	Troy J. Butner
Licensed Audit Expert (Auditor in Charge)	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]

	For the year ended		
CHF million	**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).

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 payments 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 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

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 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 presentation 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 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.

	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 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]	Restruc-turing	Loan com-mitments and guar-antees	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 transactions 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

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 payment 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 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.

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 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

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 participants 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

			Derivative instruments		
CHF billion	Financial assets held for trading[1]	Financial assets designated at fair value	Positive replacement values	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 appropriate 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	Collateral-ized 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

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]

CHF million	Personnel expenses for the year ended 2011: Expenses relating to awards for 2011	Expenses relating to awards for prior years	Total	Personnel expenses deferred to 2012 and later: 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]

	Personal expenses for the year ended 2010			Personal expenses deferred to 2011 and later		
CHF million	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

	Number of performance shares 2012	Weighted average fair value of PEP performance shares at grant date (CHF)[1]	Representative of UBS shares 2012[2]
	2012		
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

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.

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 unrealized 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

			% change from
CHF million	**31.12.12**	31.12.11	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]

Sergio P. Ermotti, Group Chief Executive Officer

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2012	0					
2011	0					

Markus U. Diethelm, Group General Counsel

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2012	0					
2011	0					

John A. Fraser, Chairman and CEO Global Asset Management

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
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

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2012	0					
2011	0					

Carsten Kengeter, former co-CEO Investment Bank[4]

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
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

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2012	0					
2011	0					

Philip J. Lofts, Group Chief Risk Officer

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
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)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
		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

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2012	0					
2011	0					

Tom Naratil, Group Chief Financial Officer

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
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.

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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
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

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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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.

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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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.

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			2011 compared with 2010		
	Increase / (decrease) due to changes in			Increase / (decrease) due to changes in		
	Average volume	Average interest rate	Net change	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.

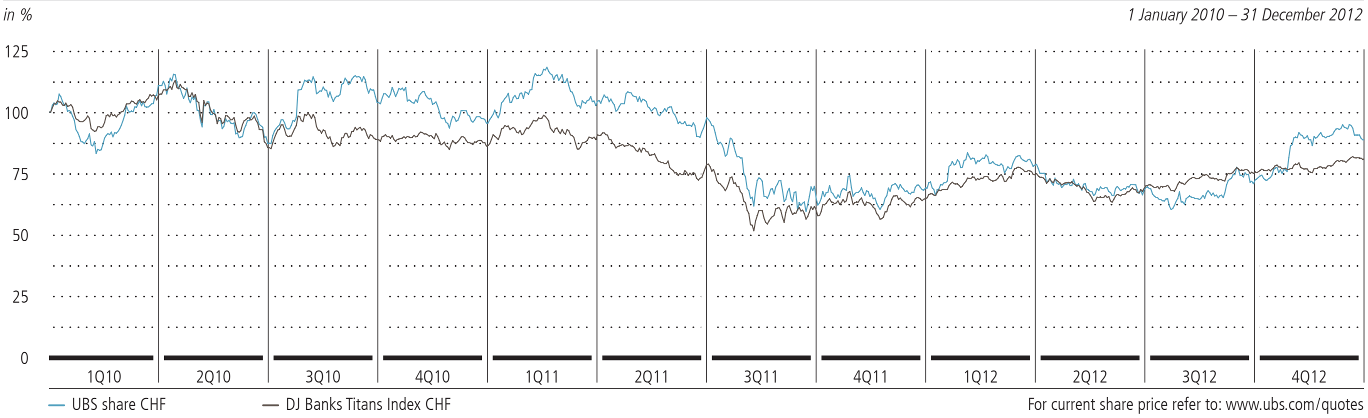
Loss history statistics

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.

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.

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UBS

Appendix 3 - Annual Report 2011
(original pagination)

UBS

Annual Report 2011

150 Years

Our *performance* in 2011

Contents

Dear shareholders,

For the financial year 2011 we report a net profit attributable to UBS shareholders of CHF 4.2 billion and diluted earnings per share of CHF 1.08. During the year we strengthened our industry-leading capital position, with our Basel II tier 1 capital ratio increasing significantly to 19.6% from 17.8%, and our Basel 2.5 tier 1 capital ratio rising to 15.9%. We attracted significant net new money inflows despite the challenging operating environment, recording combined net inflows in our wealth- and asset-gathering businesses of almost CHF 40 billion. We have also made progress in reducing both risk-weighted assets and costs and, taking into account the challenges we faced, the performance of our businesses gives us great confidence in the firm's future. We are therefore proposing to pay a dividend[1] to our shareholders for the financial year 2011 of CHF 0.10 per share, subject to shareholder approval at our Annual General Meeting of Shareholders (AGM) in May.

2011 was challenging for the firm and the industry as a whole. Markets were affected by ongoing concerns surrounding eurozone sovereign debt, the European banking system, the US federal budget deficit and economic growth issues, all of which affected client confidence. Activity levels were very subdued as many investors sought out safe haven investments, including in the Swiss franc, and remained on the sidelines of markets for most of the second half of the year. We also faced our own challenges, as in September we discovered unauthorized trading that led to a loss of CHF 1.8 billion.

During the year, it became increasingly clear that higher regulatory capital and liquidity requirements would put pressure on structures and business models throughout the industry, fundamentally impacting many business areas, most notably for investment banks. In light of the changed market environment and more stringent regulatory requirements, the Board of Directors and Group Executive Board re-evaluated the Group's strategy to ensure we continue to place our clients at the center of everything we do and with the ultimate goal of delivering more attractive and sustainable returns in future. The results of this re-evaluation were presented at our Investor Day 2011.

Our future strategic course has now been set: our wealth management businesses globally and our universal bank in Switzerland are central to our strategy. In order to serve the needs of our core wealth management clients, our Global Asset Management business and our Investment Bank must each be strong and successful in meeting the needs of their clients. Going forward, our Investment Bank will be less complex and less capital intensive. It will focus firmly on its corporate, institutional, sovereign, ultra high net worth, wealth management and other clients and will be an important partner to them. Only a competitive and successful Investment Bank will enable us to take our wealth management businesses to the next level.

Our plans build on the strengths of all of our businesses together with our leading capital and sound liquidity and funding profile. The new operating environment will require the industry to build capital and improve capital efficiency. In line with our desire to reduce complexity and drive high-quality risk-adjusted returns, by 2016 we aim to reduce risk-weighted assets in the Investment Bank and in the legacy portfolio together by 50% compared with 30 September 2011 levels calculated on a pro forma Basel III basis.

We believe our leading capital position gives us a distinct competitive advantage, and we are determined to build on this strength to maintain that advantage in the Basel III banking environment. FINMA, our Swiss regulator, will require that systemically important banks such as UBS hold significantly higher levels of total capital in future. We made good progress towards achieving our strategic target of a common equity tier 1 ratio of 13% under Basel III, well above FINMA's minimum requirements, ending the year with an estimated ratio of 10.8%. As a further step towards meeting these more stringent requirements, we also initiated an issuance program of loss-absorbing capital in February 2012, with a USD 2 billion inaugural issue. We continued to reduce risk-weighted assets and, in the fourth quarter alone, we achieved a 5% reduction in pro forma Basel III risk-weighted assets[2]. We are determined to build on this progress over coming quarters, and we are confident that our targeted capital structure, which is well in excess of international core capital requirements, will bolster confidence further in the firm. The more stringent Basel III capital and liquidity requirements will likely lead to greater competition for stable sources of funding, both secured funding and deposits, and to increased funding costs. Our sound funding position, derived from our wealth management businesses and our Retail & Corporate business, reinforces our financial position further.

In line with our new strategy, we updated our financial targets for our business divisions and the Group, underlined our determina-

1 The term "dividend" is used throughout the report, notwithstanding that for Swiss tax purposes the distribution is characterized as a payment from capital contribution reserves. Refer to the "Statement of appropriation of retained earnings" of the Parent Bank in the "Financial information" section of this report for more information. 2 Our pro forma Basel III risk-weighted assets calculation is a combination of the existing Basel 2.5 risk-weighted assets, a revised treatment for securitization exposures which applies a fixed risk weighting, as well as several new capital charges which require the development of new models and calculation engines. Our pro forma Basel III risk-weighted assets are based on estimates of the impact of these new capital charges, and will be refined as we progress with our implementation of the new models and associated systems.

Sergio P. Ermotti Group Chief Executive Officer **Kaspar Villiger** Chairman of the Board of Directors tion to control costs and announced our intention to implement a progressive capital returns policy, beginning with the CHF 0.10 dividend we propose to pay this year.

We are well advanced in implementing our CHF 2 billion cost reduction program announced in July, and we expect to see more of the benefits as a result of these measures coming through in 2012 and 2013. We remain vigilant on costs and will continue to seek additional efficiencies by exploring opportunities to lower the structural cost base of the firm. As already stated, our capacity for further tactical cost-cutting measures is limited and we must focus on strategic changes which go to the heart of our organizational design and structures. In addition, we will monitor markets actively and, if conditions deteriorate materially, we will take further measures to reduce our cost base.

Despite the challenges we faced in 2011, most of our businesses delivered improved profitability compared with the prior year. Wealth Management reported a pre-tax profit of CHF 2.7 billion, up from CHF 2.3 billion in 2010. Wealth Management Americas made notable progress reporting a pre-tax profit of CHF 534 million compared with a loss of CHF 130 million in the prior year, and our Retail & Corporate business recorded a pre-tax profit of CHF 1.9 billion, up from CHF 1.8 billion, attracting the highest level of new client assets since 2007. Together, these businesses delivered a 30% increase in pre-tax profits compared with the previous year. We also saw a marked improvement in our net new money performance across our wealth management businesses. Wealth Management's net new money improved significantly, with net inflows of CHF 23.5 billion compared with net outflows of CHF 12.1 billion in 2010, reflecting improvements in all regions and client segments. Wealth Management Americas attracted net new money inflows of CHF 12.1 billion compared with outflows of CHF 6.1 billion in 2010. This turnaround reflects the success we have had in both retaining and recruiting experienced financial advisors during the year.

In a difficult year for the asset management industry, our Global Asset Management business reported a pre-tax profit of CHF 428 million. Although de-risking continued to dominate investors' decisions, the business achieved an increase in total net new money during 2011. Notably, we attracted net inflows from third-party clients of CHF 12.2 billion, excluding money market flows. Clients continued to recognize the strengths of the business's diversified product range and, in particular, its leading alternative investment offerings and fast-growing passive capabilities. Expanding these areas remains a key strategic objective for the business in order to capture the opportunities presented by the longer-term industry trends.

A reduction in volumes and client activity as well as the strengthening of the Swiss franc impacted the Investment Bank's result for the year, as did the CHF 1.8 billion loss associated with the unauthorized trading incident in September. As soon as this incident was discovered we acted swiftly to mitigate its effects on the firm and our shareholders. We were deeply disappointed by this occurrence and we have already taken action designed to reinforce our control framework and we remain committed to ensuring that we address any further recommendations that come out of the ongoing independent investigations quickly and decisively. Despite these circumstances, the business reported a pre-tax profit of CHF 154 million, and a number of our businesses in the Investment Bank delivered notable performances. Our cash equities exchange market share rose slightly compared with 2010 levels, and revenues in our macro business rose to CHF 2.6 billion, an increase of 15% reflecting higher revenues across all interest rates business lines. Our foreign exchange business took advantage of market volatility in the second half of 2011, bolstered by the investments we have made in our new e-trading platform. In our advisory business, our market share and revenues increased as our efforts to build client relationships bore fruit. Additionally, the business successfully reduced its risk-weighted assets, something that is fundamental to its overall strategy and that will enable the business to deliver attractive and sustainable returns in future.

In September, the Board of Directors accepted the resignation of Oswald J. Grübel. We would like to reiterate our gratitude to him for the outstanding contribution he made to the firm. In November, the Board confirmed the appointment of Sergio P. Ermotti as Group Chief Executive Officer with immediate effect. Chairman of the Board Kaspar Villiger announced his decision not to stand for reelection and, as a result, Axel Weber has been proposed to succeed as Chairman, subject to his election at this year's AGM. In addition, we announced that Beatrice Weder di Mauro and Isabelle Romy will be nominated for election to the Board and, if elected, they will bring with them invaluable experience and expertise to strengthen the Board further. Bruno Gehrig has decided not to stand for reelection and we would like to express our thanks to Bruno for his exceptional contribution and great commitment since joining the Board in 2008 during some testing times for the firm.

Over the coming months, we will continue to mark our 150th anniversary by expressing our gratitude to all those who have supported us over the years, and by giving back to the communities we belong to across the globe, with a particular focus on projects promoting education and entrepreneurship. Our employees will be able to share this experience and will have the opportunity to volunteer for regional fundraising and other events that will bring long-lasting benefits to the communities in which they live and work.

Looking ahead, 2012 will be a year of progress for the Group. We will continue our efforts to drive efficiencies throughout the firm, we will drive home our distinct competitive advantages by continuing to strengthen our capital position and we will ensure that we continue to place our clients at the center of everything we do. We believe our clients will continue to place great value in safety and stability and will look to us more than ever to provide the best possible advice and solutions to help them achieve their investment aims. 2012 will also be a year of transition for the Investment Bank as we continue the process of reducing risk-weighted assets and reshaping the business to ensure its future success. By achieving our strategic objectives in a disciplined and timely manner, we are confident we will be able to provide more attractive and sustainable returns to our shareholders.

15 March 2012

Yours sincerely,

UBS

Kaspar Villiger Chairman of the Board of Directors	Sergio P. Ermotti Group Chief Executive Officer

Key figures

CHF million, except where indicated	As of or for the year ended 31.12.11	31.12.10	31.12.09
Group results			
Operating income	**27,788**	31,994	22,601
Operating expenses	**22,439**	24,539	25,162
Operating profit from continuing operations before tax	**5,350**	7,455	(2,561)
Net profit attributable to UBS shareholders	**4,159**	7,534	(2,736)
Diluted earnings per share (CHF)[1]	**1.08**	1.96	(0.75)
Key performance indicators, balance sheet and capital management[2]			
Performance			
Return on equity (RoE) (%)	**8.5**	16.7	(7.8)
Return on risk-weighted assets, Basel II, gross (%)	**13.7**	15.5	9.9
Return on assets, gross (%)	**2.1**	2.3	1.5
Growth			
Net profit growth (%)[3]	**(44.8)**	N/A	N/A
Net new money (CHF billion)[4]	**42.4**	(14.3)	(147.3)
Efficiency			
Cost / income ratio (%)	**80.5**	76.5	103.0
Capital strength			
BIS tier 1 ratio, Basel 2.5 (%)[5]	**15.9**		
BIS tier 1 ratio, Basel II (%)[5]	**19.6**	17.8	15.4
FINMA leverage ratio (%)[6]	**5.4**	4.4	3.9
Balance sheet and capital management			
Total assets	**1,419,162**	1,317,247	1,340,538
Equity attributable to UBS shareholders	**53,447**	46,820	41,013
Total book value per share (CHF)[6]	**14.26**	12.35	11.65
Tangible book value per share (CHF)[6]	**11.68**	9.76	8.52
BIS total ratio, Basel 2.5 (%)[5]	**17.2**		
BIS total ratio, Basel II (%)[5]	**21.6**	20.4	19.8
BIS risk-weighted assets, Basel 2.5[5]	**240,962**		
BIS risk-weighted assets, Basel II[5]	**198,494**	198,875	206,525
BIS tier 1 capital, Basel 2.5[5]	**38,370**		
BIS tier 1 capital, Basel II[5]	**38,980**	35,323	31,798
Additional information			
Invested assets (CHF billion)	**2,167**	2,152	2,233
Personnel (full-time equivalents)	**64,820**	64,617	65,233
Market capitalization[7]	**42,843**	58,803	57,108

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 Not meaningful and not included if either the reporting period or the comparison period is a loss period. 4 Excludes interest and dividend income. 5 Capital management data as of 31 December 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010 and 31 December 2009. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information. 6 Refer to the "Capital management" section of this report for more information. 7 Refer to the appendix "UBS registered shares" in this report for more information.

The 2011 results and the balance sheet in this report differ from those presented in our fourth quarter 2011 report issued on 7 February 2012. The net impact of adjustments made subsequent to the publication of the unaudited fourth quarter 2011 financial report on net profit attributable to UBS shareholders was a loss of CHF 74 million, which decreased basic and diluted earnings per share by CHF 0.02.

➔ **Refer to the "Certain items affecting our results in 2011" sidebar in the "Group results" section and to "Note 32 Events after the reporting period" in the "Financial information" section of this report for more information**

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 universal bank in Switzerland. Together with a client-focused Investment Bank and a strong, well-diversified Global Asset Management business, we will drive further growth and expand our premier wealth management franchise. Headquartered in Zurich and Basel, Switzerland, we have offices in more than 50 countries, including all major financial centers, and employ approximately 65,000 people. Under Swiss company law, we are organized as an Aktiengesellschaft (AG), a corporation that has issued shares of common stock to investors. UBS AG is the parent company of the UBS Group (Group). The operational structure of the Group comprises the Corporate Center and four business divisions: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank.

Wealth Management & Swiss Bank focuses on delivering comprehensive financial services to high net worth and ultra high net worth individuals around the world – except to those served by Wealth Management Americas – as well as private and corporate clients in Switzerland. Our Wealth Management business unit provides clients in over 40 countries, including Switzerland, with financial advice, products and tools to fit their individual needs. Our Retail & Corporate business unit provides individual and business clients with an array of banking services, such as deposits and lending, and maintains a leading position across its client segments in Switzerland. Starting with the first quarter of 2012, we will report Wealth Management and Retail & Corporate as separate business divisions, and will no longer report Wealth Management & Swiss Bank which will cease to be a business division.

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.

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, currency, hedge fund, real estate, infrastructure and private equity that can also be combined into multi-asset strategies. The fund services unit provides professional services, including legal fund set-up, accounting and reporting for traditional investment funds and alternative funds.

The *Investment Bank* provides a broad 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 broad range of securities. It provides financial solutions to a wide range of clients, and offers advisory and analytics services in all major capital markets.

The *Corporate Center* provides treasury services, and manages support and control functions for the business divisions and the Group in such areas as risk control, finance, legal and compliance, funding, capital and balance sheet management, management of non-trading risk, communications and branding, human resources, information technology, real estate, procurement, corporate development and service centers. It allocates most of the 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 (starting with the first quarter 2012 reporting) the legacy portfolio formerly in 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, Kaspar Villiger, all members of the BoD are independent.






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	7	8	9	10	11

1 **Kaspar Villiger** Chairman of the Board of Directors, Chairperson of the Governance and Nominating Committee and member of the Corporate Responsibility Committee 2 **Michel Demaré** Independent Vice Chairman, 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 **Rainer-Marc Frey** Member of the Audit Committee and the Risk Committee 5 **Bruno Gehrig** Member of the Governance and Nominating Committee and the Human Resources and Compensation Committee 6 **Ann F. Godbehere** Chairperson of the Human Resources and Compensation Committee, member of the Audit Committee and the Corporate Responsibility Committee 7 **Axel P. Lehmann** Member of the Governance and Nominating Committee and the Risk Committee 8 **Wolfgang Mayrhuber** Chairperson of the Corporate Responsibility Committee and member of the Human Resources and Compensation Committee 9 **Helmut Panke** Member of the Human Resources and Compensation Committee, member of the Risk Committee 10 **William G. Parrett** Chairperson of the Audit Committee 11 **Joseph Yam** Member of the Corporate Responsibility Committee and the Risk Committee

Our Group Executive Board






The management of the firm is delegated by the BoD to the GEB. Under the leadership of the Group CEO, the GEB 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.






1	2	3	4	5	6
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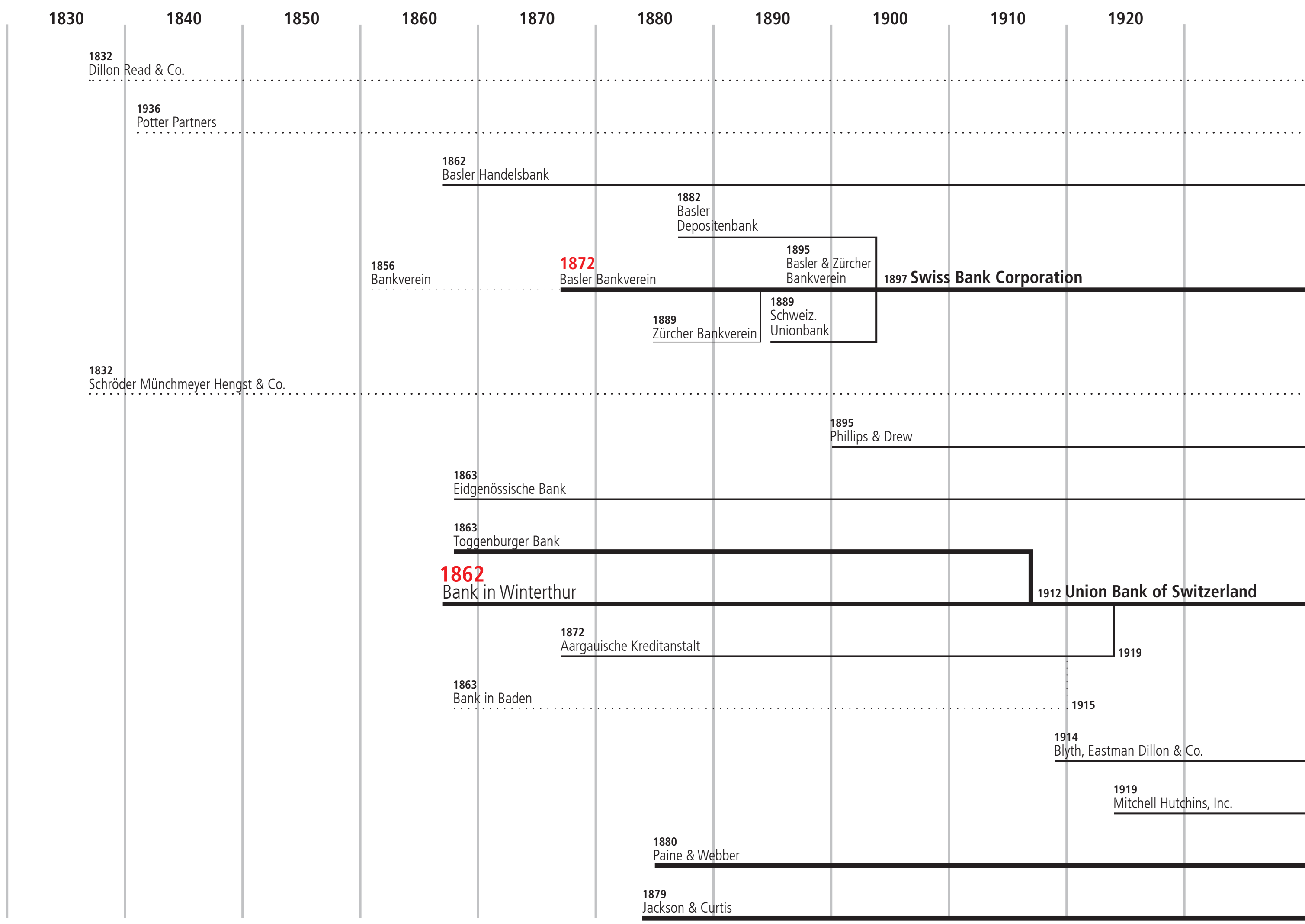
1 **Sergio P. Ermotti** Group Chief Executive Officer 2 **Markus U. Diethelm** Group General Counsel 3 **John A. Fraser** Chairman and CEO Global Asset Management 4 **Lukas Gähwiler** CEO UBS Switzerland and co-CEO Wealth Management & Swiss Bank 5 **Carsten Kengeter** Chairman and CEO Investment Bank 6 **Ulrich Körner** Group Chief Operating Officer, CEO Corporate Center and CEO UBS Group Europe, Middle East and Africa 7 **Philip J. Lofts** Group Chief Risk Officer 8 **Robert J. McCann** CEO Wealth Management Americas and CEO UBS Group Americas 9 **Tom Naratil** Group Chief Financial Officer 10 **Alexander Wilmot-Sitwell** Co-Chairman and co-CEO of UBS Group Asia Pacific 11 **Chi-Won Yoon** Co-Chairman and co-CEO of UBS Group Asia Pacific 12 **Jürg Zeltner** CEO UBS Wealth Management and co-CEO Wealth Management & Swiss Bank

The making of UBS

In 2012, UBS celebrates its 150th anniversary. This important milestone in our long history serves to demonstrate the firm's established and pivotal role in the development and growth of Swiss banking traditions.

The heritage of the banking industry in Switzerland can be traced back to its origins in 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 today's Investment Bank was built, commenced operations in 1946.

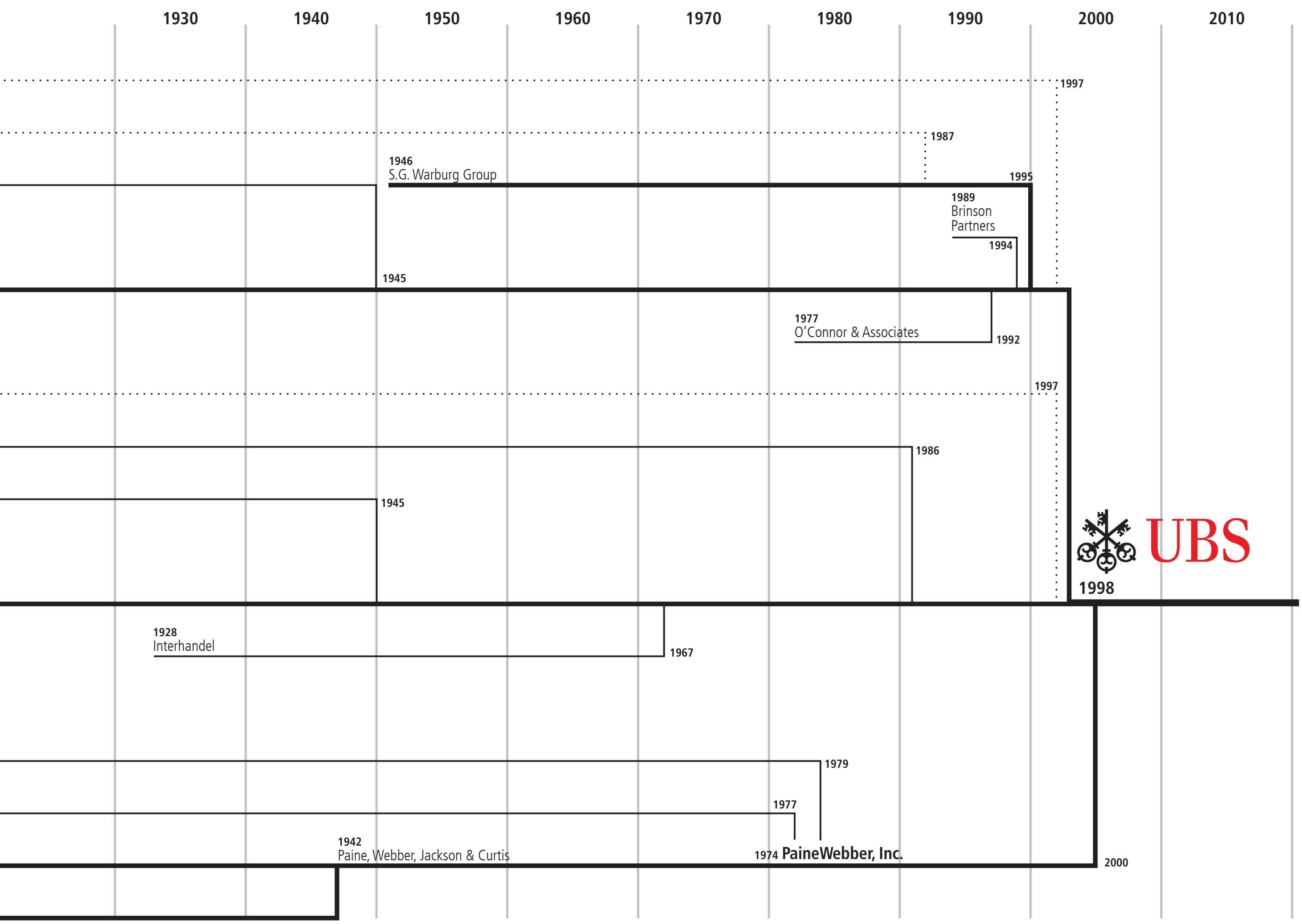


In the early 1990s, SBC and Union Bank of Switzerland were both commercial banks operating mainly out of Switzerland. The banks shared a similar vision: to become a world leader in wealth management, a successful global investment bank, and a top-tier global asset manager while remaining an important 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 biggest 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 built a strong presence in the Asia Pacific region and the emerging markets. Our new global reach found expression through our new global UBS brand identity introduced in 2003.



The firm's progress was reflected by the fact that 2006 was the most successful year in our 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 structured 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 losses of more than CHF 50 billion on these assets and received an equity investment from the Swiss Confederation concurrent with the Swiss National Bank's establishment of a fund to purchase illiquid securities and other positions from UBS. UBS responded with decisive action designed to reduce its risk exposures and stabilize its businesses. More recently, UBS increased its capital strength to meet new and enhanced industry-wide regulatory requirements, as well as better equipping the firm for the new post-crisis market realities.

Over the past few years, we have successfully reduced our balance sheet and legacy positions: compared with the end of 2008, our balance sheet is over half a trillion Swiss francs smaller and our Basel II risk-weighted assets are approximately 35% lower. Today, our Basel 2.5 tier 1 capital ratio is one of the highest in the industry. We will continue to build on this strength as well as on our stable funding and sound liquidity positions by leveraging the complementary capabilities of all our businesses to generate sustainable returns. With our focus on putting clients at the center of everything we do, increasing collaboration across the firm, building capital and continuing to reduce risk-weighted assets, while remaining vigilant on costs, we believe UBS will be able to deliver sustainable earnings and increasingly attractive returns to our shareholders. We have every reason to be confident about our future.

➔ **For a full overview of UBS's history, please see the interactive timeline at *http://www.ubs.com/history***

Celebrating our 150th anniversary

In 2012, we are celebrating our firm's 150th anniversary. Our celebrations focus on enhancing our social and charitable commitments around the world. We want to build on our legacy by strengthening and deepening our business relationships, and by helping the communities in which we live and work through long-lasting and valuable programs. Last but not least, our activities in 2012 signal that UBS is looking to the future with optimism and confidence.

There are a wide range of activities planned during the year, including celebrations for selected guests in Switzerland and our main business locations around the globe. Overall, we are hosting 25 client events in the Asia Pacific region, Europe, the US and South America.

Additionally, we are using this opportunity to launch our global "Excellence in Volunteering" award. Employees around the world who give of their time freely to help their local community are eligible to receive one of 150 awards in recognition of outstanding achievement. We are focusing on projects that promote education and entrepreneurship, the two umbrella themes for our community affairs activities. These include the **Young Enterprise Switzerland** project, **The Bridge Academy in Hackney** in London, **Investing for Success** in the Americas as well as community employee engagement programs in the Asia Pacific region.

In Switzerland, our home market, we will host a small birthday celebration in all UBS branches on 25 June 2012, the actual date of UBS's founding 150 years ago. The bank will present an anniversary leisure offering to both clients and the general public. In addition, the UBS Kids Cup is holding a special competition and will distribute gifts to young Swiss athletes who participated in the competition. Through our partnership with Stiftung Landschaftsschutz Schweiz, UBS volunteers can engage in a variety of projects designed to protect and conserve the natural beauty of the Swiss countryside. In Switzerland UBS is also offering social, environmental and educational charities additional help both through financial support and volunteers.

If you would like to find out more about our 150th anniversary celebrations then go to *http://www.ubs.com/150years*.

Operating environment and strategy

Current market climate and industry drivers

Sovereign debt stress continues to test financial stability

The start of 2011 was characterized by a modest global economic recovery. Thereafter, the markets were affected by ongoing concerns surrounding eurozone sovereign debt, the European banking system and US federal budget deficit issues, as well as renewed uncertainty about the global economic outlook in general. As a result, volatility increased in the markets and investor activity levels fell significantly, especially in the second half of the year. Switzerland was perceived as a safe haven by investors and the resulting appreciation of the Swiss franc led the Swiss National Bank (SNB) to intervene in early September, announcing that it would not tolerate an exchange rate of less than CHF 1.20 per euro.

Growth in 2011: subdued initial recovery stymied by macroeconomic and sovereign concerns

In the early part of 2011, the world experienced a subdued, two-speed recovery. Developed economies continued to grow modestly but steadily, though unemployment remained high. At the same time, activity in many emerging markets, which came out of the crisis relatively unscathed, was buoyant, though coupled with some inflationary pressures and risks of overheating. Monetary policy was highly accommodative, especially in advanced economies (central bank interest rates remained low) and fiscal policy provided additional stimulus globally. Bond and equity markets generally rebounded.

From the second quarter onwards, the global economy entered a new phase. Economic activity slowed markedly, as the earthquake and tsunami in Japan affected the global supply chain, unrest in the Middle East caused oil prices to rise and the sovereign debt crisis escalated considerably.

In the US, growth lagged behind that of previous recoveries, especially as difficulties in the housing market persisted, dampening consumer demand, while in Europe, the debt crisis spread increasingly beyond weaker countries and began to challenge core countries as well. As the "Arab spring" changed the political landscape in the Middle East and North Africa, it also impacted economic activity in the region. Finally, growing concerns over problems affecting China's real estate market and banking sector in particular increased fears of a possible hard landing for the country's economy.

After the financial crisis of 2008 and 2009, the public sector replaced the private sector in sustaining aggregate demand. In 2011, however, the public sector also started to retrench in many countries due to heightened pressure on public finances. At the same time, the macroeconomic environment and forthcoming regulatory overhaul prompted banks to deleverage, exacerbating the situation further.

Sovereign stress: eurozone debt crisis and political deadlock around the US debt ceiling

The European sovereign debt crisis was one of the most significant factors influencing global financial markets through most of 2011, with market pressure eventually reaching the eurozone core countries. Following initial stabilization packages for Greece and Ireland in 2010, the early part of the year saw European leaders agreeing to a bail-out of Portugal and negotiations on a second support package for Greece. However, these actions, combined with the creation of a permanent stabilization fund, failed to prevent yields on Spanish and Italian bonds from rising sharply from August onward.

In autumn, a reinforced "three-pronged" agreement on measures to alleviate the pressure on Greece by European leaders, including a reduction in the net present value of Greek sovereign debt held by the private sector, a top-up for the eurozone bailout fund and requirements for European banks to hold more capital, also proved to be insufficient in preventing a further escalation of the crisis. While yields for debt issued by Spain and Italy rose further, core countries, including France, were also challenged. Following another round of talks, eurozone countries and other EU members agreed to press ahead with an intergovernmental treaty enshrining new budgetary rules to tackle the crisis. Towards the end of the year, the European Central Bank announced two longer-term refinancing operations which contributed to the stabilization of financial markets going into the early part of 2012. Nonetheless, discussions on measures and support for Greece were ongoing in early 2012.

As a consequence of these developments, 12 out of 17 eurozone countries were downgraded by rating agencies; France and Austria lost their Standard & Poor's AAA status in early 2012.

Meanwhile, politicians from the Democratic and Republican parties in the US struggled to reach an agreement to increase the US debt ceiling, the limit beyond which the US Department of the Treasury may not borrow. After the debt ceiling was initially reached in April without a political solution, extraordinary measures were taken to allow the government to continue functioning. A last-minute agreement was finally reached at the end of July.

The political stalemate prompted Standard & Poor's to downgrade the US from AAA to AA+ in August, quoting reduced confidence in the government's ability to manage its finances. As the deadlock continued, the Congressional super committee set up to find ways to reduce the budget deficit also failed to reach an agreement.

Nevertheless, the US dollar remained the world's main reserve currency and yields on US 10-year government bonds fell to below 2% by the end of the year, while the labor market showed signs of slow improvements.

Foreign exchange markets: Swiss franc appreciation leads to Swiss National Bank intervention

Switzerland was seen as a safe haven by investors amid a deteriorating economic environment. The Swiss franc appreciated strongly against most major currencies during the first half of 2011. By early August, it neared parity with the euro. In light of these developments, on 6 September 2011 the SNB set a minimum rate of CHF 1.20 per euro, arguing that the massive overvaluation of the Swiss franc posed an acute threat to the Swiss economy and carried the risk of deflation. The SNB stressed that it would defend this rate with the utmost determination and was prepared to buy foreign currency in unlimited quantities. Since the announcement, the Swiss franc has fluctuated but remained slightly above the rate of CHF 1.20 per euro. However, the SNB has said the franc's value remains high even at a rate of CHF 1.20 per euro, and unless the Swiss franc weakens further, additional SNB measures cannot be ruled out.

Outlook

Sovereign debt concerns will continue to dominate the market environment in 2012. While the world economy is expected to grow slightly below 3% for the year, high uncertainty in the eurozone remains the main factor weighing on growth prospects in the region, leading to a recessionary outlook. However, this should not be sufficient to derail recovery in the US and emerging economies. Against this backdrop and as inflation pressures remain limited, monetary policy in developed economies will probably remain very accommodative up to at least well into 2013.

Industry drivers

Regulation driving structural and business model changes

Following the 2008/2009 financial crisis, regulators and legislators in major financial centers embarked on a path toward significantly stricter regulation of financial services. This remains the biggest driver of structural and business model changes in the industry. At the same time, regulatory uncertainty persists, hindering the necessary adaptation process and presenting a major obstacle to future growth.

On the one hand, such far-reaching legal reforms as the Independent Commission on Banking's recommendations for the ring-fencing of retail activities in the UK, the US Volcker rule prohibiting proprietary trading and, to some extent, the Swiss "too-big-to-fail" law are forcing substantial structural changes on banks. While implementation timetables extend over the next few years, banks must already start considering the implications, plan ahead and adjust their business models accordingly.

On the other hand, new rules requiring banks to hold more capital and liquidity, starting with the Basel III international standards, are impacting the relative attractiveness of certain businesses and will generally pressure banks' returns on equity. More than ever, regulatory capital is becoming a key constraint for banks, and this will have a fundamental impact on the investment banking business. Over time, this is likely to lead to a new equilibrium characterized by greater industry concentration, higher pricing, and reduced levels of compensation. Meanwhile, the increased liquidity needs resulting from the Basel III liquidity coverage ratio and net stable funding ratio are likely to lead to increased competition for both secured funding and deposits as a stable source of funding, thus leading to higher funding costs. As a consequence, banks are expected to focus even more on fee-generating businesses that require less capital and funding, with the resulting increased competition in these businesses putting pressure on returns as well.

Regulation is putting pressure on banking models to become simpler and more transparent, more risk-averse and less leveraged. As an indirect consequence of reform, consumers are likely to pay higher costs for banking services, while credit extended to companies is already being constrained or made more expensive.

➔ Refer to the "Regulatory developments" section of this report for more information

Macroeconomic environment impacting the industry

A low-yield environment and flat yield curve, as well as very low growth, put pressure on net interest margins, while clients became more risk averse, undermining activity levels and trading volumes, especially in the second part of 2011. At the same time, investors adopted a risk-on, risk-off approach, resulting in increased correlation and volatility in the market. Together with regulatory changes, this made the operating environment particularly challenging for the banking industry which led to lower revenues and earnings, resulting in many banks taking measures to reduce costs, including redundancies.

Funding stability: a key near-term market challenge

Obtaining sufficient medium- and long-term funding across all tenors to maintain a cost efficient and properly balanced liquidity and funding position was one of the key challenges for banks in 2011's difficult market conditions, particularly in the second half of the year. Market turmoil, especially in Europe, disrupted both short-term and long-term unsecured funding markets. The cost of raising new long-term unsecured funding remained well above pre-crisis levels, while the securitization markets were partially closed.

Many banks that were challenged to fulfill their appropriate funding requirements sourced liquidity from central banks. Starting in summer 2011, some European banks experienced a rather acute shortage of USD funding, as US money market funds significantly reduced their exposure to European banks. Differences in funding costs between the strongest banks and those perceived by the market as weaker are already increasing, and financial strength will continue to be a strong competitive advantage for the foreseeable future.

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

Pressure on client confidentiality is materially changing the environment for Swiss banks

Pressure on client confidentiality continues to increase worldwide. In this context, Switzerland signed withholding tax agreements with Germany and the UK in 2011. Under the agreements, persons resident in Germany and in the UK can have their existing banking relationships in Switzerland retrospectively taxed either by making a one-time tax payment or by disclosing their accounts. If implemented, future investment income and capital gains of German and British bank clients in Switzerland (which are not disclosed) will be subject to a final withholding tax, with Switzerland transferring the proceeds to the German and British authorities. The tax agreements are currently pending approval of the parliaments in all three countries and, if approved, should enter into force in early 2013. Additional discussions are likely to occur between Switzerland and other countries. The pressure on client confidentiality will have an impact on the business of banks serving cross-border clients, particularly in Switzerland. As a consequence, banks such as UBS will need to adapt to new client demands, rethink their cross-border value propositions and make significant efforts to ensure operational readiness and compliance. This is likely to be a challenge for smaller banks and is expected to lead to further consolidation in the sector.

Regulatory developments

In 2011, designing policy measures to address the "too-big-to-fail" issue was the key regulatory focus. Switzerland's parliament adopted a law to define the regulatory framework for the country's largest banks, while the G20 heads of states endorsed a set of measures for global systemically important banks, including additional loss absorbency requirements, standards on effective resolution regimes and stricter supervision.

Swiss "too-big-to-fail" law

Following the recommendations presented in October 2010 by the Commission of Experts appointed by the Swiss Federal Government, the political process continued around the "too-big-to-fail" law to define the framework for the largest banks in Switzerland.

The Federal Council issued an initial text for consultation between December 2010 and March 2011 and presented the draft law and explanatory notes to the Swiss parliament in April 2011. Following the parliamentary process, the law (a revision of the Swiss banking law or Bankengesetz) was finally adopted on 30 September 2011. This revision applies to systemically important Swiss banks as designated by the Swiss National Bank, currently only UBS and Credit Suisse. Finally, in December 2011, the Swiss Federal Department of Finance (FDF) launched a consultation on the changes to the banking and capital adequacy ordinances necessary to implement the "too-big-to-fail" law. This consultation lasted until 16 January 2012.

Key elements of the law and of the draft ordinances as proposed for consultation include the following:

1. *Capital:* higher capital requirements than for other banks, to be determined by the Swiss Financial Market Supervisory Authority (FINMA). We expect the capital requirements to consist of (i) a minimum of 4.5% (of risk-weighted assets (RWA)) in the form of common equity tier 1, (ii) a buffer of 8.5% composed of a minimum of 5.5% common equity tier 1 and up to 3% of high-trigger contingent capital, and (iii) a progressive component based on market share and aggregate exposure that can be fulfilled with low-trigger contingent capital. Accordingly, the progressive component is currently expected to amount to 6%, bringing total capital requirements to 19%. The ordinances also contain provisions for a leverage ratio.
2. *Organization:* each systemically important bank is required to produce an emergency plan, demonstrating how their systemically important functions within Switzerland can be maintained in case of impending insolvency.
3. *Liquidity and risk:* banks will be subject to tighter liquidity and enhanced risk diversification requirements.

The law contains a review clause to allow for future international policy developments to be taken into account. Also, the largest banks are eligible for a capital rebate, if they take actions that facilitate recovery and resolvability beyond ensuring that systemically important functions are maintained in case of insolvency.

The ordinances implementing the "too-big-to-fail" law must now be presented to the Swiss parliament for approval during the course of 2012. They are expected to come into force on 1 January 2013. Thereafter, UBS must comply with the new rules, based on a transitional timetable lasting until the beginning of 2019.

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

Proposals for the introduction of macroprudential measures in Switzerland

In November 2011, the FDF issued a consultation for the introduction of a countercyclical capital buffer in Switzerland. According to the proposal, the buffer would apply in principle to all risk-weighted positions in Switzerland, but its scope can be limited to certain sectors of the economy, for example, to credit positions related to the Swiss mortgage market. It would be capped at 2.5% of the risk-weighted positions in Switzerland. It would be the Swiss National Bank's responsibility to request activation of the buffer, spelling out its scope and the size in percentage terms applicable to each affected category of risk-weighted positions. The Federal Council would have to take the ultimate decision on any proposed activation. These capital requirements would have to be satisfied with common equity tier 1. The FDF estimates the impact on the two large banks in terms of additional capital requirements to be between 0.1% and 0.6% of RWA, depending on the scope and size of the buffer. These capital requirements would be in addition to all other capital requirements to which banks in Switzerland are subject. Following the FDF's review of the various consultation responses, the effective date of implementation of the proposal – not synonymous with the potential activation date of the buffer – could be in the first half of 2012.

Separately, the FDF issued a consultation paper outlining proposed changes to the capital adequacy ordinance focusing on increased capital requirements for mortgage loans secured by residential properties. The proposal includes higher risk weights for residential mortgages under the Basel standard approach, where the loan-to-value or income coverage ratio exceeds prudent standards. For banks using the advanced internal ratings-based approach, including UBS, the FDF proposes the introduction of an additional capital charge that corresponds to the difference between the determined RWA and an amount that corresponds to 80% of the RWA that the bank would report, if it adopted the standard approach. If implemented as proposed, this would significantly increase the capital requirements for our Swiss mortgage book.

International regulatory framework for large banks

In December 2010, the Basel Committee on Banking Supervision (BCBS) launched "Basel III: A global regulatory framework for more resilient banks and banking systems" that set internationally agreed capital and liquidity standards. Since the beginning of 2011, international regulatory discussions have focused principally on an additional regulatory framework to solve the "too-big-to-fail" issue.

On 25 June 2011, the Group of Governors and Heads of Supervision (GHOS), the oversight body of the BCBS, announced measures for global systemically important banks (G-SIB). Based on the results of a related consultation process over the summer, the heads of state at the G20 Summit in November 2011 endorsed a series of measures developed by the BCBS and the Financial Stability Board (FSB). These measures must now be implemented in national regulatory frameworks and comprise the following:

1. *A methodology to determine G-SIB and additional loss absorbency requirements for G-SIB*. The methodology uses an indicator-based measurement approach. Once implemented, banks identified as G-SIB would be required to hold additional capital requirements of 1% to 2.5% of RWA in the form of common equity tier 1 over and above the Basel III international standards. An additional, though currently empty, bucket with requirements of 3.5% of RWA has been created to discourage banks from increasing their systemic relevance further. These additional loss absorbency requirements will be phased-in in parallel with the capital conservation and countercyclical buffers of the Basel III framework, i.e. between 2016 and 2018, becoming fully effective on 1 January 2019.
2. The FSB's *"Key attributes of effective resolution regimes"* are intended to set minimum international standards that will enable authorities to resolve financial institutions in the case of insolvency, while maintaining the continuation of their vital economic functions and without exposing taxpayers to losses. The measures proposed are targeted at national authorities and comprise an international standard for national resolution regimes, requirements for recovery and resolution planning and resolvability assessments as well as institution-specific cross-border cooperation agreements.
3. *More intensive and effective supervision of systemically important financial institutions (SIFI)*, including stronger supervisory mandates, resources and powers, and higher supervisory expectations for risk management functions, data aggregation capabilities, risk governance and internal controls.

Based on the G-SIB methodology put forward by the BCBS, an initial list of 29 G-SIFI was published by the FSB. The list includes UBS. While the term G-SIB applies specifically to banks and the list currently contains only banking groups, SIFI refers to financial institutions in general. In the future, the list will be updated and could include G-SIFI that are not banking groups. The additional loss absorption measures referred to above are not expected to affect UBS, given that UBS will already be subject to the elevated capital requirements to be imposed by FINMA.

Basel 2.5 market risk framework

The primary effect of revisions to the Basel II market risk framework (commonly referred to as Basel 2.5) issued by the BCBS in 2009 was to introduce new requirements to incorporate the effects of stressed markets. The new requirements have led to lower Bank for International Settlements (BIS) tier 1 and total capital and to higher BIS RWA, thereby lowering UBS's BIS tier 1 and total capital ratios. In line with the BIS transition requirement, the impact of Basel 2.5 is included in our disclosures from 31 December 2011 onwards.

➔ **Refer to the "Capital management" and "Basel 2.5 Pillar 3" sections for more information on the Basel 2.5 framework**

Regulatory developments in other jurisdictions

Developments in US regulatory initiatives are focused on rulemaking stemming from the Dodd-Frank Act passed in July 2010. Regulators have made significant progress with implementation of many provisions to occur in 2012. A key topic remains the so-called "Volcker Rule," which would prohibit banking entities from engaging in proprietary trading, subject to a defined set of 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. The two-year transition period to comply with the Volcker Rule's prohibition commences in July 2012. US regulators have proposed regulations to further implement the Volcker Rule, which are expected to be issued in final form later in 2012. UBS expects that certain of its historical trading activities will be considered prohibited proprietary trading. UBS Investment Bank's decision to exit equities proprietary trading business segments, announced during our Investor Day on 17 November 2011, includes businesses likely to be prohibited. For principal trading activity permitted under one of the exemptions, UBS anticipates that it will be required to implement a compliance regime including calculation of required metrics for each trading book. As proposed, the implementing regulations may effectively require the Investment Bank to implement its compliance program 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. UBS is not able to estimate the effect of implementation of the Volcker Rule compliance program on permitted trading activities until regulations (including the required metrics) are finalized and the required metrics are calculated and calibrated. 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 activities of UBS in relation to funds, particularly outside the US.

US regulators have also begun to issue final regulations governing swaps and derivatives markets as contemplated by the Dodd-Frank Act. UBS expects that UBS AG's swaps activities will require it to register as a swap dealer with the US Commodity Futures Trading Commission and the Securities and Exchange Commission during 2012. The regulations will impose substantial new requirements for clearing, trade execution, recordkeeping, transaction reporting, compliance and conduct in relations to swaps activities. US regulators have not yet issued guidance on the application of US regulation to activities of registered swap dealers outside the US. The potential extraterritorial application of swap dealer regulatory requirements could impose a significant operational and compliance burden and creates the potential for duplicative and conflicting regulation.

In the EU, 2011 saw many important legislative proposals from the European Commission (including a review of the Markets in Financial Instruments Directive (MiFID), Capital Requirements Directive IV, a review of the Market Abuse Directive and Credit Rating Agencies Regulation III), political agreement by the Council and European Parliament on the Short Selling Regulation, which has now moved to the rule-making phase, negotiations on the European Market Infrastructure Regulation, and consultations on secondary legislation on the Alternative Investment Fund Managers Directive.

Of particular note are the legislative proposals on the review of MiFID, which contains a very broad reform agenda encompassing the trading market structure, transparency regime, regulation of commodity derivatives, investor protection and third-country access to the EU single market. The dossier is now being considered by EU legislators, with political agreement only expected in the first half of 2013. Significant progress was also made on the European Market Infrastructure Regulation, which once it comes into force in 2012, will mandate the clearing of all standardized over-the-counter derivative contracts through central counterparties and reporting of over-the-counter derivative contracts to trade repositories in line with commitments made at the G20 summit in Pittsburgh in 2009.

In the UK, in September 2011, the Independent Commission of Banking issued its final recommendations on reforms of the UK banking sector to promote financial stability and competition. These included the ring-fencing of retail activities and additional loss absorbency requirements for banks. The UK government responded in December 2011, agreeing with the thrust of the recommendations, but amending some points and subjecting a set of issues to a further consultation scheduled for the second quarter of 2012. On the reform of the UK regulatory architecture, the government is moving closer to transferring regulatory responsibility to the Financial Policy Committee (macroprudential regulator), the Prudential Regulation Authority (PRA) (prudential regulator for certain deposit-takers and investment banks) and the Financial Conduct Authority (conduct and markets regulator as well as prudential regulator for non-PRA firms). The related Financial Services Bill was introduced to Parliament in January 2012, and is expected to receive Royal Assent by the end of 2012, with full implementation of the new architecture by the middle of 2013.

Our strategy

UBS is a client-focused financial services firm that aims to provide superior financial advice and solutions to clients. Our strategy is shaped by our commitment to deliver attractive and sustainable risk-adjusted returns and takes into account the changing business environment and more stringent capital regulatory requirements. We believe the successful execution of this strategy will enable us to implement a progressive capital returns policy starting with the dividend of CHF 0.10 per share we propose to pay to our shareholders for the financial year 2011.

At our Investor Day in November 2011, we provided a comprehensive update on our strategic plans, which center on our pre-eminent wealth management businesses and our universal bank in Switzerland supported by our Global Asset Management business and the Investment Bank. Our strategy builds on the strengths of all of these businesses, and at the same time targets a significant reduction in risk-weighted assets and improvements to our strong capital position. At the end of 2011, our Basel 2.5 capital ratio was one of the highest in the industry at 15.9%, and our Basel III pro forma common equity ratio, calculated on the phased-in basis that will become applicable as of January 2013, stood at an estimated 10.8%. We will build on this strength as well as on our stable funding and sound liquidity positions by capitalizing on the complementary capabilities of all our businesses to generate more sustainable returns. This requires us to make changes to our risk profile and to focus and simplify some aspects of our Investment Bank. In line with our desire to reduce complexity and drive high-quality risk-adjusted returns, we aim to reduce risk-weighted assets. To facilitate this objective and as announced during our Investor Day in November 2011, we transferred a portfolio of legacy assets from the Investment Bank to the Corporate Center. By 2016, we aim to reduce risk-weighted assets in the Investment Bank and in the legacy portfolio together by 50% from 30 September 2011 levels calculated on a pro forma Basel III basis.

Since the last financial crisis, we have turned around the performance of Wealth Management and Wealth Management Americas. When adjusted for restructuring costs, the gain made on the sale of our strategic investment portfolio in 2011 and a provision related to an arbitration matter in 2010, our wealth management businesses increased their 2011 aggregate profits by 19% to CHF 2.9 billion despite challenging market conditions. This progress also led to increased confidence amongst our clients and we recorded combined net new money of CHF 35.6 billion compared with net outflows of CHF 18.2 billion in 2010. Combined invested assets increased by CHF 2 billion to CHF 1,459 billion. Improved profitability and our ability to attract new assets have enabled us both to retain and recruit high-quality advisors, as evidenced in particular by the significant reduction in advisor attrition rates in our Wealth Management Americas business. We remain committed to our home market and to growing the profitability of our leading Retail & Corporate business, which is critical to the Group in terms of both revenue and profitability, as well as delivering growth to other businesses. The more stringent Basel III capital and liquidity requirements are likely to lead to increased competition for both secured funding and deposits as a stable source of funding, and to higher funding costs. Our solid funding position, derived from our wealth management businesses and our Retail & Corporate business, as well as the stable earnings generated by our Retail & Corporate business, reinforces our financial position further. Our strategy centers on these businesses and we are committed to building on the progress we have made in the last few years.

Our strategy puts our clients at the center of everything we do and close collaboration between our businesses allows us to deliver the very best of UBS to them. Today, our clients benefit from the comprehensive range of complementary capabilities offered by the Group as a whole. While collaboration has always been part of our corporate ethos, we believe there are further benefits to be delivered both for our clients and our shareholders. As a key part of this, the Investment Bank will work more closely with UBS's wealth management businesses and increase its emphasis on the execution, advisory and research capabilities it provides to wealth management clients.

The Investment Bank is critical to the success of our wealth management businesses and the Group as a whole. The complementary needs of clients of the Investment Bank and of our wealth management businesses means we can maximize value for them and for the firm. Making connections between clients, markets and ideas is the essence of value creation, and these connections between private wealth and wholesale markets are especially close in areas where we already have a strong presence, such as the Asia Pacific region. There, for example, we have the strongest combination of wealth management and investment banking businesses and through closer collaboration we can build further on our leading position. However, new regulations require us to build and improve the quality of our capital base, and so we are adjusting our Investment Bank to make it simpler, more focused, less capital-intensive and able to deliver improved risk-adjusted returns. We will build on its strengths in equities, foreign exchange and advisory, while shaping the business in favor of the products and services that our clients demand, that offer the best growth opportunities and that are less capital-intensive.

We will continue to invest in key geographies and products where we identify opportunities across the Group. In practice, this means that our Wealth Management business will work to strengthen its industry-leading positioning, while accelerating development within growth markets. Our Wealth Management Americas business will continue with its strategic banking initiatives, including its mortgage lending initiatives, to ensure continued growth in balances coming from credit lines to our target high net worth and ultra high net worth client base. It will also sharpen the focus on "delivering the bank", as we aim to become the provider of choice for companies, their employees and families for all their wealth management needs. Our Retail & Corporate business will further enhance the range of life cycle products and services we offer our clients, while capitalizing on additional growth opportunities in advisory and execution. Our Global Asset Management business will expand its alternatives platform further and invest in fast-growing passive capabilities, while continuing to grow its third-party wholesale business. Finally, the Investment Bank will work to service our core clients competitively, optimize capital allocation and reduce risk-weighted assets in core businesses with the goal of delivering attractive and sustainable risk-adjusted returns.

Capital strength remains the foundation for our success and we will continue to build capital to achieve our targeted Basel III tier 1 common equity ratio of 13%. This target is above the regulatory requirements for both the Swiss Financial Market Supervisory Authority (FINMA) and the Basel Committee on Banking Supervision and we believe this will provide even greater comfort to our clients and increase confidence further in the firm as a whole. We have built a strong track record both in balance sheet and legacy asset reductions. Over the past few years, we have successfully reduced our balance sheet and legacy positions: compared with the end of 2008, our balance sheet is over half a trillion Swiss francs smaller and our Basel II risk-weighted assets are approximately 35% lower. We have achieved significant reductions in legacy positions in the Investment Bank since the end of 2008. We will continue to reduce risk by exiting or shrinking businesses within our Investment Bank that deliver unattractive returns relative to their capital consumption, particularly in our fixed income, currencies and commodities operations.

Vigilance on costs remains paramount in an industry undergoing fundamental change, and since the financial crisis of 2007–2009 we have successfully reduced expenses, with costs for 2011 around 20% below 2008 levels. As concerns mounted around issues in the eurozone and the US during 2011, we took further action to prepare our cost base for more challenging market conditions. In August 2011, we announced a CHF 2 billion cost reduction program. We have already seen some benefits as a result of these measures, and we expect more of the benefits to become apparent in our results over coming quarters. Given the cost reductions we have implemented and announced, scope for further material tactical cuts is limited. Thus we are focused on making strategic changes which go to the heart of our organization's structure and design. While we believe these changes will be adequate to resize our cost base to the current environment and to meet our financial targets, we will monitor markets actively and, if conditions deteriorate materially, we will take further action.

Our reputation remains our most valuable asset, and retaining the trust and confidence of all our stakeholders is critical to the long-term success of UBS. We have set ourselves the key strategic objective of strengthening our operational risk framework to ensure that all of our employees, at every level of the organization, pay even greater attention to safeguarding and reinforcing our reputation. As a first step, we are enhancing our performance management processes to ensure operational risk has a stronger weighting in the assessment of individuals, teams and business performance. This assessment will be fundamental to the success, compensation and career prospects of all UBS employees.

We are confident that our focus, placing our clients at the center of everything we do, increasing collaboration across the firm, continuing to reduce risk-weighted assets and build capital, while remaining vigilant on costs, constitutes the right strategy to enable us to deliver sustainable earnings and increasingly attractive capital returns to our shareholders.

The strategic priorities for our businesses

Our strategy centers on our Wealth Management and Wealth Management Americas businesses and our universal bank in Switzerland supported by our Global Asset Management business and the Investment Bank.

Wealth management is a growth business area with attractive profit margins and high barriers to entry in many markets. Our preeminent Wealth Management business has a strong global footprint in all major financial centers, making it ideally placed to take advantage of these conditions and the opportunities they present. Wealth Management Americas is a client-focused and advisor-centric business. We believe the long-term growth prospects of the wealth management business are attractive in the Americas, with the high net worth and ultra high net worth markets expected to be the fastest growing segments in terms of invested assets.

Our strategy for *Wealth Management* builds on the considerable progress we have made and aims to extend our industry-leading position. We plan to achieve this through a combination of targeted investments and the expansion of client advisor capabilities in markets we believe present attractive growth opportunities. We aim to increase efficiency by consolidating our on- and offshore European businesses to reflect the convergence of client needs in this market, and we will focus our investment in regions with the highest potential for growth, particularly Asia Pacific and the emerging markets where we expect to see the fastest market growth in the global ultra high net worth and high net worth client segments. We also aim to enhance the business's gross margin through pricing initiatives and increasing lending opportunities. Our transformation from a traditional private bank into a more dynamic investment manager with strong advisory capabilities will help to meet our clients' needs whatever the market environment. Our clients will continue to benefit from the access our Investment Bank gives them to execution, capital markets, investment insight and research, as well as advisory and other capabilities.

In *Wealth Management Americas* we remain committed to our client-focused and advisor-centric strategy. We will build on our achievements by continuing to focus on delivering advice-based solutions and by seeking to capture more banking and lending opportunities in the high net worth and ultra high net worth client segments through our unique position in the market and our force of high-quality financial advisors. We will bolster our financial advisors' productivity through increased training and platform enhancements, and work to strengthen our partnership with the Investment Bank further. We believe we are uniquely positioned to serve high net worth and ultra high net worth investors in the world's largest wealth market. We are large enough to be relevant, but small enough to be nimble, enabling us to combine the advantages of both large and boutique wealth managers. We aim to differentiate ourselves from competitors by being 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 and global solutions from our asset-gathering businesses and the Investment Bank.

Our leading *Retail & Corporate* business constitutes a central building block for the universal bank model in Switzerland and is critical to the Group in terms of both revenue and profitability, as well as delivering growth to other businesses. Our goal is to deliver value-added services that make us the bank of choice for retail clients. We will continue to refine our suite of life cycle-based offerings which provide our clients with products and dedicated services to fulfill their evolving needs. Through systematic and consistent sales management, we will continue to ensure an efficient and seamless sales process. We will continue to put our clients first by investing in our branches and electronic channels, using technology to complement, rather than replace, our traditional branch network.

Our diversity and size puts us in a unique position to serve all our clients' complex financial needs. We aim to be the main bank of Swiss 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 strive to further expand and leverage our transaction banking capabilities and increase our presence and grow in the commodities trade finance business. Combining the universal bank approach with our local market expertise will enable us to provide access to all UBS capabilities, while generating opportunities to cross-sell and increase referrals. Achieving these goals for the business will allow the firm to continue to benefit from the advantages this success brings to our global brand in general and to our leading wealth management business in particular.

We have shaped our *Global Asset Management* strategy according to the changing needs of clients by developing a diversified business model across investment capabilities, regions and distribution channels. 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.

With long-term performance as our focus, we will work closely with clients in pursuit of their investment goals. In particular, we are continuing to expand our strong third-party institutional business both in developed and emerging markets; while expanding third-party wholesale distribution in the Americas and Europe, building on our strengths in areas including Asia Pacific and Switzerland. We also remain committed to delivering distinctive products and solutions to the clients of UBS's wealth management businesses. We aim to expand our successful alternatives platform, building on our established positions in real estate and fund of hedge fund businesses, and invest in our fast-growing passive capabilities, including exchange-traded funds and strategies tracking non-standard indices.

The *Investment Bank* is critical to the success of UBS, and its strategy is built on the principles of client relevance, capital efficiency and close collaboration with our Wealth Management and Wealth Management Americas businesses. The business is focused firmly on meeting the needs of our corporate, institutional, sovereign, ultra high net worth, wealth management and other clients while adapting to more stringent capital requirements. Having a

We are building on the strengths of all our businesses

Investment Bank	Wealth Management / Wealth Management Americas	Retail & Corporate	Global Asset Management
– Consistently top-ranked research house[1] – Top 3 global equities house[2] – Top 3 overall FX market share[3] consistently since 2005, #1 FX house 2011[4] – Best equity derivatives house in Asia[5] – Top 3 in structured credit in the first half of 2011[6] – Strong global footprint: consistently among top 3 in APAC IBD, rated #1 pan-European brokerage firm and a leading Australian franchise	– World's leading HNW and UHNW wealth manager: CHF 1.5 trillion of invested assets – Unrivalled in scope, reach and client mix – Strong footprint in all major financial centers – WM: among industry-leading cost/income ratios, significant increase in return on assets since 2009 – WMA: highest financial advisor productivity and invested assets per financial advisor among main US peers	– Leading retail and corporate business in Switzerland – Driver of growth in Wealth Management, Global Asset Management and the Investment Bank – Continued to attract strong deposit inflows – Inherently stable business with strong cash flow generation – Full-year 2011 pre-tax profit of CHF 1.9 billion	– Invested assets: CHF 574 billion, of which 66% from third-party channels – Full-year 2011 third-party net new money inflows of over CHF 12 billion – Well diversified across investment capabilities, regions and distribution channels – Successful alternatives platform, including our real estate[7] and fund of hedge funds[8] businesses, both ranked #2 globally

1 Institutional Investor, 2011. 2 UBS estimates based on companies reporting of 31.12.2011 YTD revenues. 3 Euromoney FX Poll (2005–2011). 4 Risk Magazine, September 2011. 5 Risk – Structured Products Awards, 2011. 6 Coalition, November 2011. 7 Pensions & Investments, October 2011. 8 InvestHedge, September 2011.

competitive and successful Investment Bank is critical to the success of our wealth management businesses. To achieve this we will build on our current strengths in providing flow, solutions and advisory services. We aim to grow our leading equities franchise through targeted technology investments and to reshape our fixed income, currencies and commodities business to materially reduce its level of risk and capital consumption and to make the business more client-focused. We also aim to increase market share in our investment banking department and global capital markets businesses by leveraging our client relationships and global footprint further. To ensure we are able to deliver effectively, we will be highly disciplined in executing, trading, actively managing our portfolio and using our resources to the best possible advantage. To support our goal of becoming more focused and less complex while taking on less risk, we will continue with our efforts to increase our capital efficiency and to actively reduce risk-weighted assets. We will do this by optimizing our business mix in favor of products and services that have the highest relevance to clients, offer the best growth opportunities and are less capital-intensive.

Reducing risk and building capital

We benefit from a strong liquidity position as measured under the proposed Basel III guidelines, and our mix of funding sources is stable and well diversified by market, product and currency, with client deposits providing the single largest source of funding for the firm. Our capital strength is the foundation for the future success of our businesses and today our Basel 2.5 capital ratio is one of the highest in the industry. We will continue derisking our balance sheet and building our capital base to ensure we remain among the world's best-capitalized banks under Basel III.

Our strategic imperative to achieve our targets for Basel III capital ratios requires a rapid and prudent reduction of risk deployed in our Investment Bank and in the legacy portfolio in the Corporate Center. We intend to reduce the Group's Basel III risk-weighted assets by a third with a targeted reduction of risk-weighted assets in the Investment Bank and the legacy portfolio of around half by 2016. These plans to improve capital efficiency in the Investment Bank involve a reduction in risk-weighted assets in our core businesses of approximately 35% and a reduction of around 90% in legacy risk-weighted assets by 2016. We will continue to invest in growth businesses where we have strong market positions and in areas critical to the success of the Group as a whole.

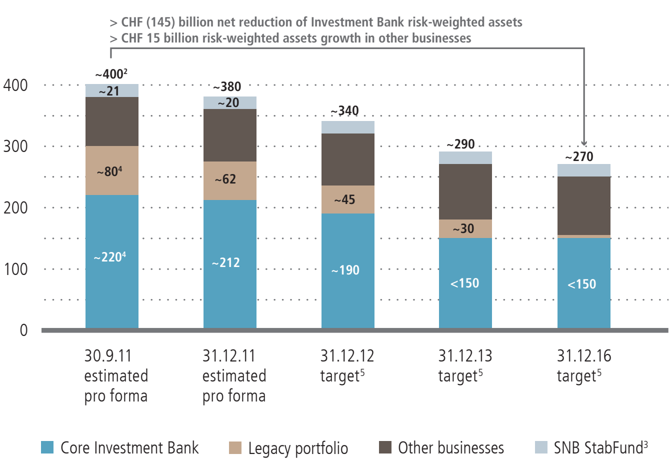
➔ **Refer to the "Capital management" section of this report for more information on Basel III**

Measuring our performance

To track our progress in executing our strategy, we have established annual target performance ranges for each of our business divisions and for the Group as a whole. These ranges focus on the key performance metrics of growth, profitability and efficiency. We believe these are the appropriate metrics against which to

Risk-weighted asset reduction – Basel III[1]

Swift execution on risk-weighted asset reduction



1 Our pro-forma Basel III risk-weighted assets are based on estimates and will be refined as we progress with our implementation of new models and associated systems. 2 The 30 September 2011 pro-forma risk-weighted assets of around CHF 400 billion was already factored in the reversal of CHF 17 billion of stress value-at-risk related to the unauthorized trading incident in the fourth quarter of 2011. 3 SNB StabFund option or underlying assets; assumed constant for future periods (around CHF 20 billion). 4 Final composition of the legacy portfolio as of 30 September 2011. Original 30 September 2011 disclosure was CHF around 70 billion in legacy and around CHF 230 billion in core Investment Bank. 5 Target assumes constant foreign exchange rates.

Annual target performance ranges[1]

Range of sustainable performance in our businesses:

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[2]	**1–4%**
	Net interest margin[3]	**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%**
Core Investment Bank	Pre-tax return on attributed equity[4]	**12–17%**
	Cost / income ratio	**70–80%**
	Basel III RWAs (CHF billion)	**< 150**

Group
Return on equity[4] 12–17%
Cost / income ratio 65–75%

1 Annual performance ranges for 2012 through 2016; excluding own credit and future significant non-recurring items, if any. Targets assume constant foreign exchange rates. 2 Client assets (invested and custody-only assets) and loans (on-balance sheet client liabilities). 3 Net interest income (annualized) / average loans. 4 The return on equity target for the Group and the return on attributed equity target for the Investment Bank apply from the beginning of 2013. 2012 is a transition year as the Group is targeting a substantial reduction in risk-weighted assets. As a result, equity attributed to the Investment Bank is expected to be reduced, including a component to be allocated to the Corporate Center relating to the legacy portfolio that was transferred from the Investment Bank to the Corporate Center before the end of 2011 and will be managed and reported with effect from the first quarter of 2012 within the Corporate Center.

judge our future success. While any target framework will naturally be subject to the vagaries of the market, we believe these ranges are realistic and achievable on an annual basis over the next five years. As we have previously stated, we have taken 2013 as the starting point for the Group's return on equity target and the Investment Bank's return on attributed equity target, because 2012 will be a year of transition for the Investment Bank in which we will focus on reducing risk-weighted assets in the business. The target performance ranges for all other business divisions apply from 2012. Achieving these divisional targets should enable the Group to deliver a return on equity of 12–17% starting in 2013 and a cost/income ratio of 65–75%.

UBS Switzerland

UBS is the largest and strongest universal bank in Switzerland. Switzerland is the only country where we operate in retail, corporate and institutional banking, wealth and asset management as well as investment banking. Our strong position in the Swiss home market is crucial to sustain our global brand and further grow our global core business. We are fully committed to our home market, and by building on our 150 years of banking heritage, UBS Switzerland maintains a leading position in all five business areas. With approximately 300 branches and 4,700 client-facing staff, we are able to reach approximately 80% of Swiss wealth, one in three households, one in every three wealthy individuals and almost half of all Swiss companies.

We strive to be the leading bank in Switzerland with regard to client satisfaction, employee engagement and sustainable profitability. UBS Switzerland's unique universal bank model is central to our success. Our dedicated Swiss management team has representatives from all five business areas, and ensures a uniform approach to the market when offering our full range of banking products, expertise and services. Our cross-divisional management approach allows us to utilize efficiently our existing resources, promotes cross-divisional thinking and enables seamless collaboration across all business areas. As a result, we are in a unique position to efficiently serve our clients with a comprehensive range of banking products and services to fit their needs. We are able to differentiate ourselves through 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 provides a substantial part of the Group's revenues.

Given the strength of the economy and stable political environment in Switzerland, the country remains an attractive and growing financial market. This inherent stability and growth has been the basis for our success and the constant contribution from UBS Switzerland to the Group financial performance. Thanks to our universal bank model, vast client base and branch network, we are well-positioned to capture future market growth and 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, which measures the total return of a UBS share, i.e. 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 to the changing business conditions.

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 total shareholder return

The Group and business division KPI are explained in the "Group/business division key performance indicators" table.

In keeping our focus on the key performance metrics of growth, profitability and efficiency, a few enhancements will be made to the KPI framework with effect from the first quarter of 2012 reporting onwards.

➔ Refer to the "Changes to key performance indicators in 2012" sidebar for more information

Group / business division key performance indicators

			Wealth Management & Swiss Bank				
Key performance indicators	Definition	Group	Wealth Management	Retail & Corporate	Wealth Management Americas	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 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 (%)	FINMA 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 (CHF billion)	Inflow of invested assets from new and existing clients less outflow from existing clients or due to client defection	●	●		●	●	
Gross margin on invested assets (bps)	Operating income before credit loss (expense) or recovery (annualized as applicable) / average invested assets		●		●	●	
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						●

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 and assets held for purely transactional purposes.
- The measure "invested assets" is a more restrictive term 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 purely transactional and 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 to facilitate comparison with a US peer. 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 client assets as a result of a change in the service level delivered are treated as net new money inflows or outflows.

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 & Swiss Bank 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 216 billion of invested assets were double counted in 2011 (CHF 225 billion in 2010).

➔ **Refer to "Note 34 Invested assets and net new money" in the "Financial information" section of this report for more information**

Seasonal characteristics

Our main businesses do not generally show significant seasonal patterns, although 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 are only slightly impacted by seasonal components, such as 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 2012

Commencing in the first quarter of 2012, we will implement two new key performance indicators for our Retail & Corporate segment; namely, "Net new business volume growth (%)" and "Net interest margin (%)". Both new key performance indicators will be used to assess and monitor the performance of this business. "Net new business volume growth (%)" will capture our success in expanding our business volume from lending to clients as well as acquiring client assets. The "Net interest margin (%)" is a key profit driver as net interest income contributes to more than half of our total operating income. Wealth Management Americas will also report a new key performance indicator "Share of recurring revenue (%)" to measure its business performance.

The currently disclosed KPI "Net new money (CHF billion)" for the Group and the segments Wealth Management, Wealth Management Americas and Global Asset Management will be replaced by "Net new money growth (%)". Our senior management considers the change from an absolute to a growth rate of net new money to be a more meaningful key performance indicator.

Group / business division key performance indicators

Key performance indicators	Definition	Group	Wealth Management	Retail & Corporate	Wealth Management Americas	Global Asset Management
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				●	
Net new money growth (%)	Net new money for the period (annualized as applicable) / invested assets at the beginning of the period	●	●		●	●

Wealth Management

Headquartered in Switzerland, with a presence in over 40 countries, Wealth Management provides wealthy private clients with financial advice, products and tools to fit their individual needs.

Business

Wealth Management delivers comprehensive financial services to wealthy private clients around the world – except those served by Wealth Management Americas. With CHF 750 billion of invested assets at the end of 2011, we are one of the largest wealth managers in the world. Our clients benefit from the entire spectrum of UBS resources, ranging from asset management to estate planning and corporate finance advice, in addition to the specific wealth management products and services 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 goal is to be the bank of choice for wealthy individuals worldwide. We offer products and services to private clients, focusing in particular on the ultra high net worth (clients with investable assets of more than CHF 50 million) and high net worth client segments (clients with investable assets between CHF 2 million and CHF 50 million). In addition, we also provide wealth management solutions, products and services to financial intermediaries.

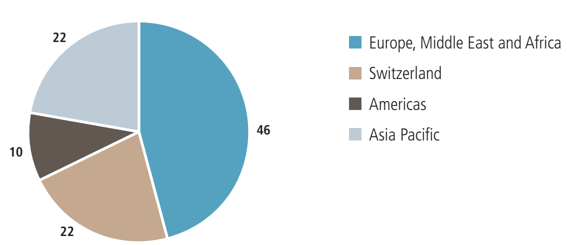
We remain confident on the long-term growth prospects of our wealth management business, and we expect the wealth management market to grow twice as fast as the gross domestic product in all regions of the globe. From a client segment perspective, the global ultra high net worth market shows the highest 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. This applies in particular to Asia, Latin America, the Middle East and Central and Eastern Europe, the areas where we expect to see the fastest market growth based on economic development and entrepreneurial wealth creation. 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 competencies across the Group to identify investment opportunities in all market conditions and tailor products to individual client needs. We intend to increase our client advisor base to about 4,700 advisors in the medium term, with a particular emphasis on the emerging markets and Asia Pacific growth regions. Our global booking centers give us a strong local presence that enables us to book client assets in multiple locations. In an increasingly complex regulatory environment, we aim to differentiate ourselves from competitors through our sophisticated and robust compliance framework. In our pursuit of the highest possible levels of compliance, we make ongoing investments to optimize our risk management processes and conduct extensive employee training. We strive to adapt quickly to changes to regu-

Invested assets by client domicile

In %, except where indicated **Total: CHF 750 billion**

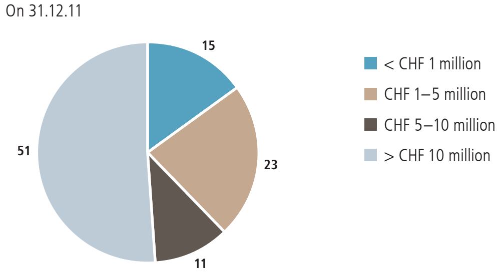
On 31.12.11



Invested assets by client wealth

In %, except where indicated **Total: CHF 750 billion**

On 31.12.11



latory and suitability requirements in every region, drawing on our local know-how and experience.

In Asia Pacific, we continue to focus on Hong Kong and Singapore, the leading financial centers in the region, as well as on selective presences in the major onshore markets. Today, we are present in seven markets and have already established sizeable businesses in several onshore locations such as Japan and Taiwan. We continue to invest in our local presences in China and India to capture long-term growth opportunities.

In the emerging markets, we are focusing on the Middle East, Latin America, as well as Central and Eastern Europe, and we already have local presences in more than 20 countries. As the majority of our clients from emerging markets prefer to book their assets in established financial centers, we are strengthening our emerging markets coverage through our booking centers in the US, the UK and Switzerland. We will continue to expand our local presence where appropriate, for example, through the establishment of new advisory offices, such as the one recently opened in Israel.

In Europe, our growth ambition is underpinned by an established European footprint in all major booking centers and a broad franchise. We are combining the management of 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 requirements.

In Switzerland, our wealth management operations' close collaboration with our leading retail, corporate, asset management and investment banking businesses gives us the foundation to grow market share in our Wealth Management franchise, and provides our clients access to investment insight and research, products, capital markets and execution as well as to advisory and other 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 we regard as having considerable growth potential, by continuously enhancing our service and product offering. We have, for example, recently introduced a new product group in our philanthropy offering called "Impact Investing", which aims to make measurable, positive social and environmental impacts at the same time as generating financial returns for the investor. Moreover, to cover the needs of the largest 250 family offices worldwide, we have created the Global Family Office Group as a joint venture between Wealth Management and the Investment Bank. With its dedicated specialist teams from both Wealth Management and the Investment Bank, the Global Family Office Group delivers the full range of capabilities our integrated bank has to offer this highly sophisticated client group.

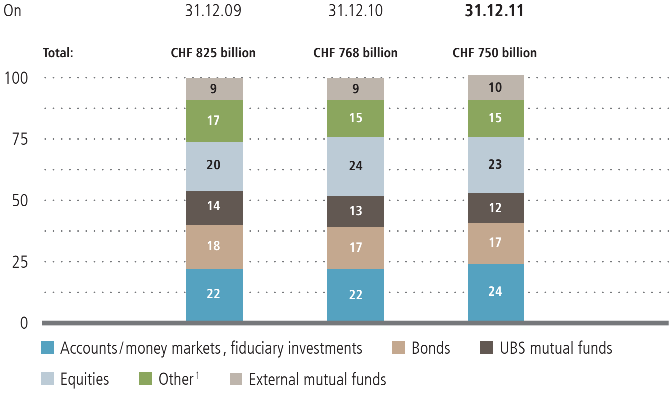
Our Global Financial Intermediaries (Global FIM) business serves approximately 1,700 asset managers. Based on defined business models, Global FIM supports financial intermediaries as a strategic business partner, offering professional investment advisory services and tailored solutions that enable them to advise their clients more effectively. Global FIM is represented in 11 Swiss locations and 14 international locations. We regard financial intermediaries as an attractive client segment offering high growth potential.

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, mostly in Europe, Asia Pacific, Latin America and the Middle East. As of the end of 2011, Wealth Management employed roughly 16,000 people worldwide, of whom approximately 4,200 were client advisors. The Wealth Management business unit is governed by an executive committee and is primarily organized along regional lines with the business areas Asia Pacific,

Invested assets by asset class

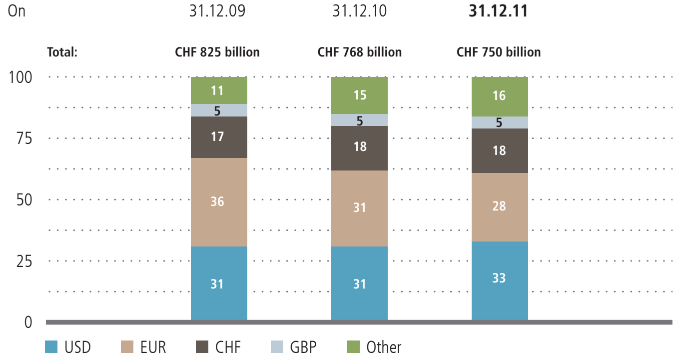
In %, except where indicated



[1] Including structured products and alternative investments.

Invested assets by currency

In %, except where indicated



Europe, Global Emerging Markets, Switzerland and Global Ultra High Net Worth Clients. Our business is supported by a 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

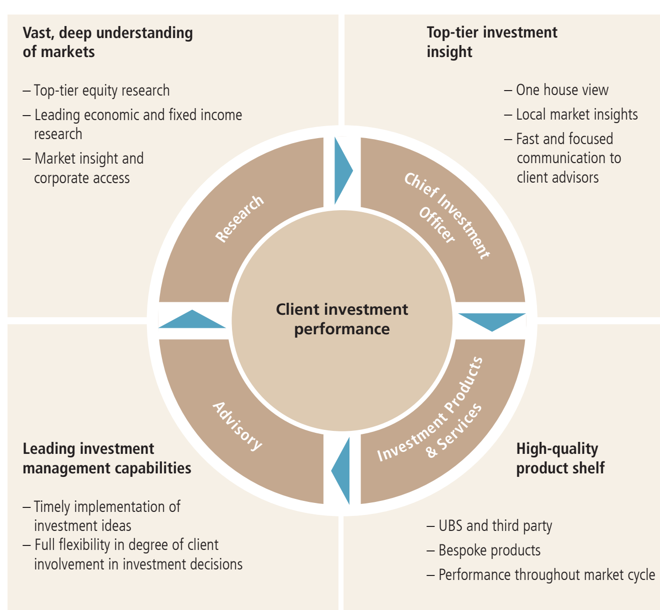
As a global, integrated firm, UBS has the necessary expertise to identify appropriate investment opportunities for clients and the local presence to advise them in a timely manner. We provide our clients with the financial advice, products and tools that best fit their individual needs. We accommodate the individual needs of our clients by offering services across the full investment spectrum, from execution only to discretionary mandates. Clients 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 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. For our ultra high net worth clients, we offer institutional-like servicing that provides special access to our Investment Bank and Global Asset Management offerings.

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 evolve our wealth management business model from a traditional private bank towards an investment manager with strong advisory capabilities. This implies active relationships between our highly qualified client advisors and their clients. Fast and focused communication, new investment ideas, access to growth markets and wealth protection are critical for our clients' success. To this end, and with the ultimate goal of improving our clients' investment performance, we have set up a new team under the leadership of our Chief Investment Officer that formulates our investment view by integrating the research and expertise of our investment specialists across all business divisions and from all around the globe. Based on this "UBS house view", our client advisors actively and regularly inform our clients about our opinion on developments in the financial markets. Clients receive investment proposals directly related to our house view, as well as solutions for alternative scenarios should clients have diverging views on market trends.

Our Investment Products & Services unit ensures our offering is consistently adapted to market conditions by aligning our products with the investment views of our Chief Investment Officer. Wealth Management also gives clients access to the knowledge, and product and service offerings from Global Asset Management and the Investment Bank, complemented by an open product platform providing access to a wide array of products from third-party providers. 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 their clients' financial situation, and develop and implement systematic, tailored investment strategies. These strategies are regularly reviewed and based on individual client profiles, which comprise all important investment criteria such as 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 solutions to our clients.

Investment management and advisory – key components



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 delivers 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 has generated stable profits which have contributed substantially to the overall financial performance of the Group. We are market leaders in the retail and corporate loan market in Switzerland, with a highly collateralized lending portfolio of CHF 135 billion on 31 December 2011, as shown in the "Loans, gross" chart. This portfolio is managed for profitability rather than for market share.

Our Retail & Corporate unit constitutes a central building block for the universal bank model of UBS Switzerland. Retail & Corporate 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. Furthermore, Retail & Corporate leverages the cross-selling potential of products and services provided by our asset-gathering and investment banking businesses. Together, these actions contribute strongly to our Group profitability. In addition, Retail & Corporate provides and pays for a substantial part of the Swiss infrastructure, including nearly 300 branches, and the Swiss banking product platform.

Strategy and clients

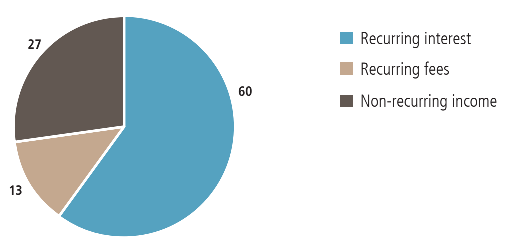
Our goal is to deliver value-added services that make us the bank of choice for retail clients in Switzerland. With a network of around 300 branches, 1,250 automated teller machines, self-service terminals and customer service centers, alongside e-banking and mobile banking, we serve one in three households in Switzerland. We are continuously refining our suite of life cycle-based offerings which provide our clients with products and dedicated services to fulfill their evolving needs. Through systematic and consistent sales management, we ensure an efficient and seamless sales process. In order to improve our clients' experience of banking with us, we will continue to invest in our branches and electronic channels, using technology to complement, rather than replace, our traditional branch network.

Our size in Switzerland and the diversity of businesses we operate put us in a unique position to serve all our clients' complex financial needs. 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 largest 100. We strive to further expand and leverage our transaction banking capa-

Business mix

In %, except where indicated **Total: CHF 3,897 million[1]**

For the year ended 31.12.11

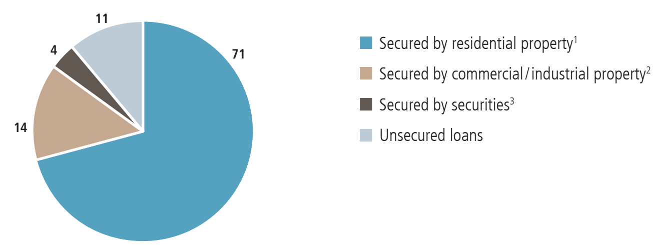


1 Excluding sale of strategic investment portfolio (CHF 289 million).

Loans, gross

In %, except where indicated **Total: CHF 135 billion**

As of 31.12.11



1 60% average loan to value based on the latest credit review. 2 54% average loan to value based on the latest credit review. 3 Includes guarantees and other collateral.

bilities (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 while generating opportunities to cross-sell and increase referrals.

As the leading retail and corporate banking business in Switzerland, we understand the importance of our role in supporting the needs of our clients. In 2011, we initiated the necessary steps to hone and simplify our service commitments across the business, including streamlining our processes, reducing the administrative burden on our client advisors and enhancing their 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.

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 Credit Suisse, Raiffeisen, the cantonal banks and PostFinance, as well as 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 including cash accounts, payments, savings and retirement solutions, investment fund products, residential mortgages, as well as life insurance and advisory services. These are tailored to clients' individual needs and requirements. We provide financing solutions to our corporate clients, offering access to capital markets (equity and debt capital), 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. Our close collaboration with the Investment Bank enables us to offer capital market products such as foreign exchange offerings, hedging strategies (currency, interest rates, and commodities) and trading (equities and fixed income, currencies and commodities), and 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.

Wealth Management Americas

Wealth Management Americas provides 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

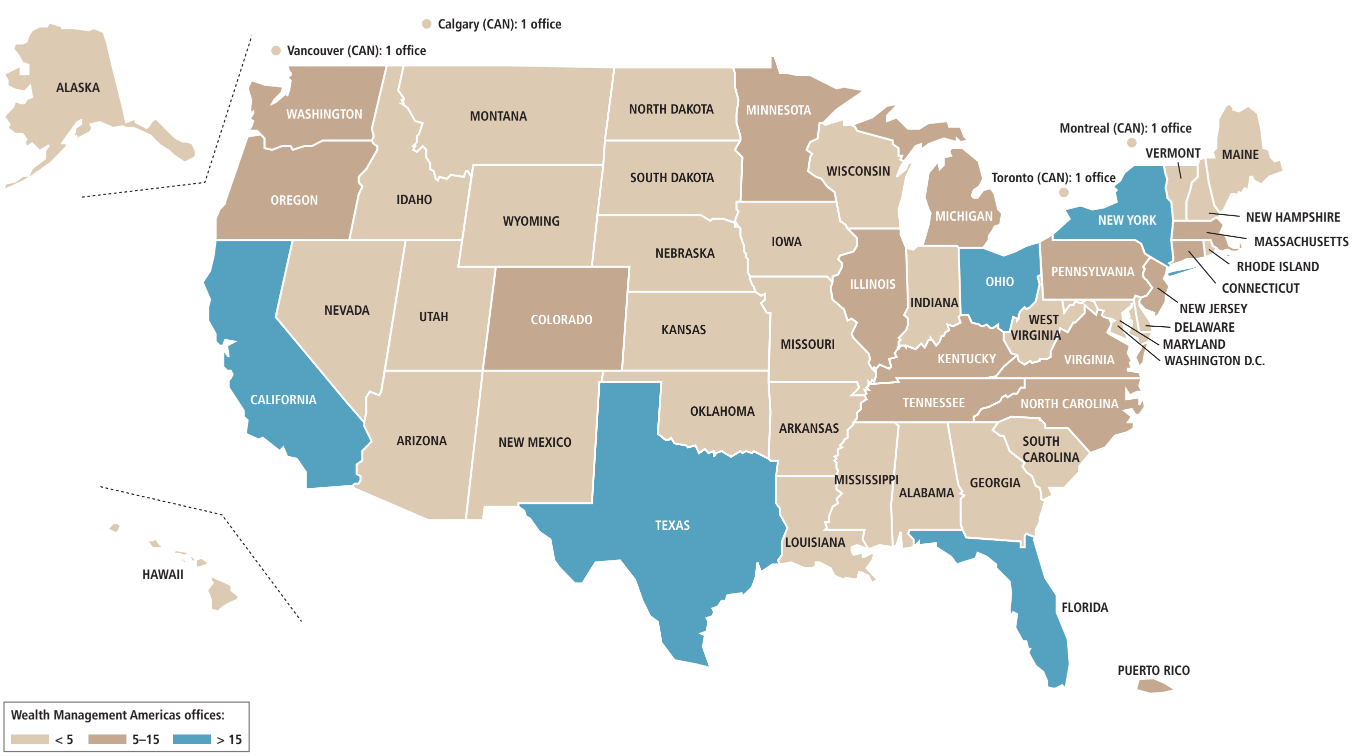
Wealth Management Americas is among the leading wealth managers in the Americas in terms of financial advisor productivity and invested assets, and includes the domestic US and Canadian businesses as well as international business booked in the US. On 31 December 2011, the business division had CHF 709 billion in invested assets.

Strategy and clients

Our goal is to be the best wealth management business in the Americas. In order to achieve this, we must continue to 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 almost 7,000 financial advisors and CHF 709 billion in invested assets, we are large enough to be relevant, but small enough to be nimble, enabling us to combine the

Geographical presence in key markets



advantages of both 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 and global 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 2011, 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. 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 6,967 financial advisors as of 31 December 2011. Most corporate and operational functions of the business division are located in the 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 Utah bank, which provides Federal Deposit Insurance Corporation (FDIC)-insured deposit accounts, enhanced collateralized lending services and mortgages.

Canadian wealth management and banking operations are conducted through UBS Bank (Canada).

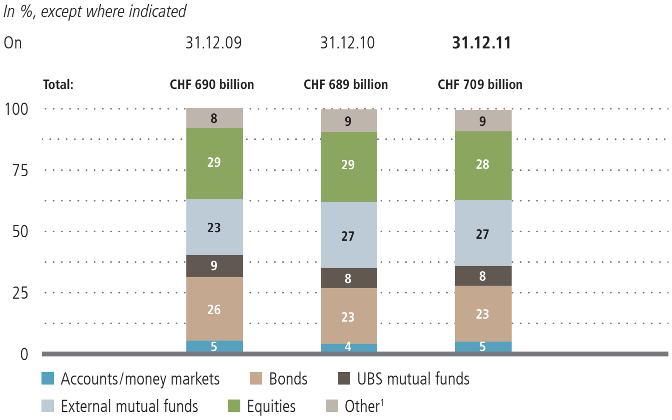
Significant business transfers in the past few years included the 2009 sales of 56 branches to Stifel, Nicolaus & Company, Incorporated and UBS's Brazilian financial services business, UBS Pactual, to BTG Investments, LP.

Competitors

Wealth Management Americas competes with national full-service brokerage firms, domestic and global private banks, regional broker-dealers, independent broker-dealers, registered invest-

Invested assets by asset class

In %, except where indicated

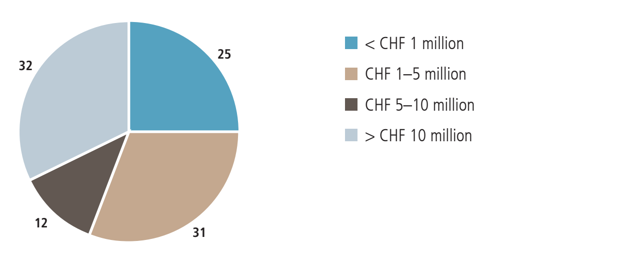


[1] Includes structured products, alternative investments and fiduciary investments.

Invested assets by client wealth

In %, except where indicated **Total: CHF 709 billion**

On 31.12.11



ment 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, tax management strategies, 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 the 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.

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, a global fund administration business, provides professional services including legal fund set-up, accounting and reporting. Invested assets totaled CHF 574 billion and assets under administration were CHF 375 billion on 31 December 2011. 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.

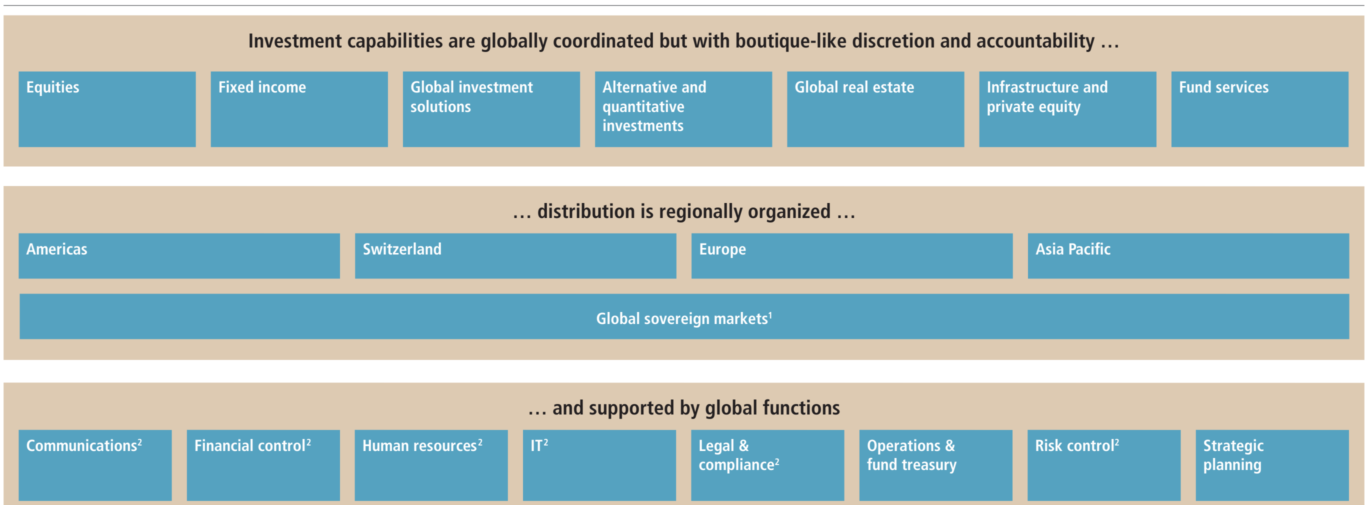
Strategy

With long-term performance as our focus, we work closely with clients in pursuit of their investment goals. In particular, we are continuing to expand our strong third-party institutional business both in developed and emerging markets while also expanding third-party wholesale distribution in the Americas and Europe, building on our strengths in this channel in Asia Pacific and Switzerland. We also remain committed to delivering distinctive products and solutions to the clients of UBS's wealth management businesses.

In the highly volatile market environment, investors are increasingly looking for market-like returns ("beta") from passive investments, complemented by higher potential returns ("alpha") from higher-risk investments, including alternatives. In response to this, we continue to expand our successful alternatives platform, building on our established positions in real estate and fund of hedge funds businesses. In addition, we continue to invest in our fast-growing passive capabilities, including exchange-traded funds and strategies tracking non-standard indices.

The current environment and near-term outlook are characterized by market uncertainty, investor risk aversion and lower interest rates. In this environment, 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.

Business structure



1 Works in close coordination with region heads and the Pan Asia institutional team. 2 Reports to UBS Group functional head.

The long-term outlook for the asset management industry remains strong, with three main drivers: (i) the financial crisis has reduced the assets of both the retired and the working population, creating a pressing need for increased savings rates; (ii) emerging markets will continue to drive growth in the mutual funds industry and retirement schemes in these markets; and (iii) as governments focus on reducing deficits, they will need to reduce support for benefits and pensions and will face increased pressure to privatize infrastructure assets.

Organizational structure

The "Business structure" chart shows the investment, distribution and support structure of the business division. We employ around 3,800 personnel in 26 countries, and have our principal offices in London, Chicago, Frankfurt, Hartford, Hong Kong, New York, Paris, Singapore, Sydney, Tokyo and Zurich. Global Asset Management operates through UBS AG or its subsidiaries.

Significant recent acquisitions, business transfers and other developments

- In November 2011, investment management responsibility for a private equity fund of funds was transferred to Global Asset Management from Wealth Management & Swiss Bank.
- In October 2011, Global Asset Management completed the acquisition of the ING Investment Management Limited business in Australia. This currently operates as a subsidiary of UBS Global Asset Management (Australia) Ltd and will be fully integrated during 2012.
- In July 2011, the infrastructure and private equity fund of funds businesses were transferred from our alternative and quantitative investment area to our infrastructure investment area which, as a result, was renamed infrastructure and private equity.
- In January 2011, investment management responsibility for a multi-manager alternative fund was transferred to Global Asset Management from Wealth Management & Swiss Bank.
- In October 2010, UBS increased from 51.0% to 94.9% its holding in UBS Real Estate Kapitalanlagegesellschaft mbH (KAG), a Global Asset Management joint venture with Siemens in Munich, Germany.
- In September 2010, investment management responsibility for Wealth Management Americas' US hedge fund business was transferred to Global Asset Management's alternative and quantitative investments area. A joint venture between the two business divisions aims to deliver attractive hedge fund and fund of hedge funds solutions to Wealth Management Americas' clients.
- In December 2009, the real estate investment management business of Wealth Management & Swiss Bank was transferred to Global Asset Management.
- In September 2009, UBS completed the sale of its Brazilian financial services business, including its asset management business, UBS Pactual Asset Management.

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 specialist niche players that focus mainly on one asset class, particularly in the real estate, hedge fund or infrastructure 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 chart of invested assets by channel, at 31 December 2011, approximately 66% 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 34% originated from UBS's wealth management businesses.

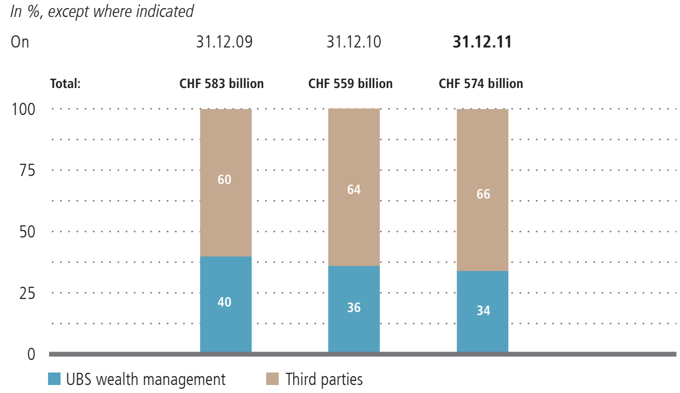
Products and services

Global Asset Management's business lines are as follows: 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 of invested assets by business line is shown in the chart on the next page.

The "Investment capabilities and services" chart illustrates our offering, which can be delivered in the form of segregated, pooled and advisory mandates, along with a range of more than 1,000 registered investment funds, exchange-traded funds and other investment vehicles in a wide variety of jurisdictions and across all major asset classes.

Invested assets by channel

In %, except where indicated



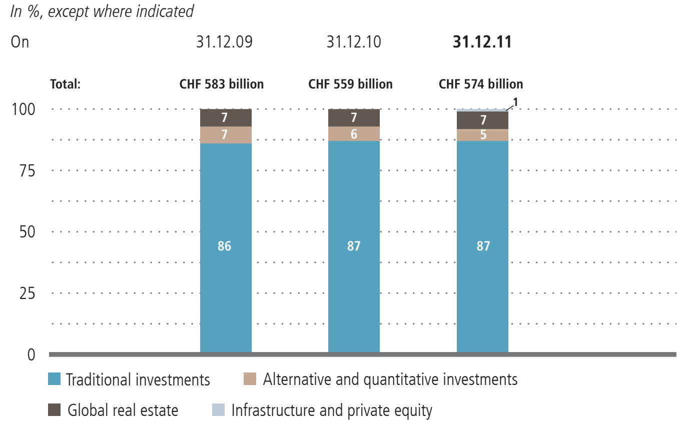
Investment capabilities and services

Equities	Fixed income	Global investment solutions	Alternative and quantitative investments	Global real estate	Infrastructure and private equity	Fund services
Core / value	Global	Global	Single-manager hedge funds	Global	Direct infrastructure investment	Fund / product set-up
Global	Country and regional	Country and regional		Country and regional		International distribution support
Country and regional	Money market	Asset allocation	Multi-manager hedge funds	Income, core, value-added and opportunistic strategies	Infrastructure fund of funds	
Emerging markets	Short duration	Currency management			Private equity fund of funds	Fund / product administration
Thematic and SRI	Core and core plus	Return and risk targeted	Quantitative	Multi-manager funds		
Long / short	Sector specific	Structured portfolios	Active commodities, multi-manager	Listed securities		Shareholder services
Opportunity / high alpha	Emerging markets	Risk management		Farmland		Private labeling
Growth	High yield	Advisory services				Reporting
Global	Indexed	Multi-manager				Ancillary services for fund of hedge funds
Country and regional	Unconstrained					
Emerging markets	Customized solutions					
Structured						
Global and regional						
Indexed						
Enhanced indexed						
ETFs						
Market neutral						
Multi-strategy						

- *Equities* offers a full spectrum of investment styles with varying risk and return objectives. It has three investment pillars with distinct strategies, including core/value (portfolios managed according to a price-to-intrinsic-value philosophy), growth (portfolios of quality growing companies that we believe to be undervalued in the market) and structured (strategies that employ proprietary analytics and quantitative methods, including passive).
- *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, it 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, Europe, Switzerland and

Invested assets by business line

In %, except where indicated



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. It offers direct and indirect investment, multi-manager and real estate securities strategies.

– *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 Fund 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*, the global fund administration business, provides professional services, including legal set-up, reporting and accounting for retail and institutional investment funds, hedge funds and other alternative products.

Distribution

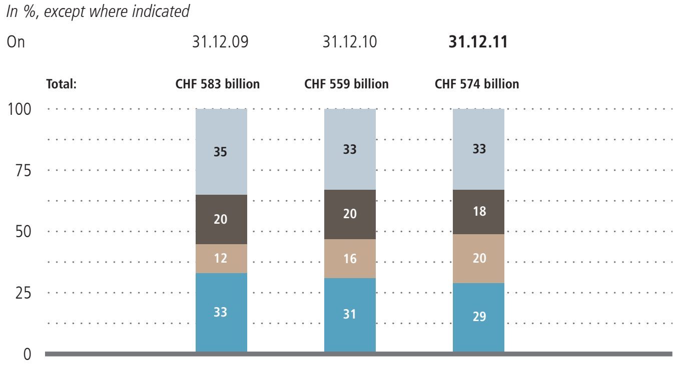
Our capabilities and services are distributed through our regional business structure (Americas, Asia Pacific, Europe and Switzerland) as detailed in the "Business structure" chart. A breakdown of invested assets across these regions is shown in the bar chart.

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 Assets represented are totals for the Global Asset Management business division worldwide. The regional split is primarily based on the client servicing location.

Investment Bank

The Investment Bank provides a broad 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 broad range of securities. It provides financial solutions to a wide range of clients, and offers advisory and analytics services in all major capital markets.

Business

The Investment Bank is organized into three distinct business areas to align the delivery of our services and the execution of our strategy with the needs of our clients:
- equities
- fixed income, currencies and commodities (FICC)
- the investment banking department

The equities and FICC businesses are aligned within securities to foster a higher degree of cooperation across sales and trading. Together, they offer access to the primary and secondary securities markets, foreign exchange and prime brokerage services as well as research on equities, fixed income, commodities, and economic and quantitative research. The investment banking department provides advice on mergers and acquisitions and raises capital for corporate, institutional and sovereign clients in the debt and equity markets. In addition, the investment banking department plays a lead role in marketing UBS to corporates by leveraging senior client relationships.

Strategy

The Investment Bank is critical to the success of UBS's strategy. It is well positioned across many businesses and regions – for example, we are among the market leaders in equities, equity derivatives and foreign exchange and we have a strong presence across all businesses in Asia.

We are repositioning the Investment Bank to align our businesses more closely with the needs of our core clients and the wealth management franchise, and to address economic and regulatory changes that affect the entire industry. Our business model aims to be simpler and more focused, with the goal of optimizing returns predicated on the efficient execution of our strategy across three strategic pillars: (i) flow; (ii) solutions; and (iii) advisory and analytics. Each pillar represents businesses that have similar transactional characteristics and success factors.

We believe that while none of the three pillars can support our franchise or deliver adequate returns on its own, a carefully balanced combination can better protect our profitability against fluctuations in client demand, costs or market movements.

To support our goal of becoming more focused and less complex while taking on less risk, we have intensified efforts to increase our capital efficiency and to actively reduce risk-weighted assets. In line with this strategy, we plan on reducing risk-weighted assets in the core businesses by approximately one-third and reducing our legacy portfolio (managed and reported in the Corporate Center starting with the first quarter of 2012) by close to 90% by the end of 2016. In our operating plan, we estimate the potential revenue loss from the risk-weighted assets reduction in our core businesses to be approximately CHF 500 million per annum. To this end, we will optimize our business mix in favor of products and services that have the highest relevance to clients, offer the best growth opportunities and are less capital intensive.
- In reshaping our securities business, we are exiting certain areas, including FICC asset securitization, complex structured products, FICC macro directional and equities proprietary trading. With the exception of macro directional and equities proprietary trading, the assets associated with the areas we intend to exit will be managed in a legacy asset portfolio, which will be reported in the Corporate Center starting with the first quarter of 2012.
- We have also revised our approach to other businesses with high capital intensity relative to returns, such as long-dated rates derivatives in flow rates, which will be scaled back sig-

Our strategy

	Flow	Solutions	Advisory and analytics
What?	Execution Market-making Clearing	Support key clients Selective risk-taking Market expertise	Research and insight Advisory Analysis
Clients?	Wealth Management, institutional	Wealth Management, corporates, sovereigns, sponsors and institutional	Wealth Management, corporates, sovereigns, sponsors and institutional
How?	Invest and grow	Optimize	Monetize
C/I ratio	High	Low	High
Capital intensity	Low	Medium–High	Low
RoE	Medium	High	Medium–High

nificantly. We will nevertheless continue to invest in businesses in which we have a strong presence and those that offer attractive risk-return characteristics, such as cash and equity derivatives, foreign exchange, certain credit businesses and commodities.
– In advisory and capital markets, we are increasing the intensity of our coverage to leverage our global footprint more effectively. This includes strengthening our presence in the Americas, restoring our position in Europe, the Middle East and Africa and extending our leading market position in Asia Pacific.

Across the Investment Bank, we will continue to invest in infrastructure, technology, the retention and development of our people and hiring of talent in key areas to ensure the successful execution of our strategy. The Investment Bank is also investing to improve its internal risk control systems and increasing its focus on corporate governance. In 2011, we continued to focus on the efficiency of our cost base through a number of initiatives, and we expect the full impact of our activities to be realized during the course of 2012 and 2013. These initiatives include headcount reductions, refocusing of discretionary spending on client revenue generating activities and increasing efficiency of our operating model and processes.

➔ **Please refer to the "Our strategy" section of this report for further information about our strategy and targets**

Organizational structure

The Investment Bank comprises the three business areas described in the "Business" section above. Additionally, the global capital markets business is a joint venture between securities and the investment banking department, which consists of two separate areas: equity capital markets and debt capital markets. Global leveraged finance is a joint venture between the investment banking department and FICC and includes the global syndicated finance business.

We employ approximately 17,000 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, disposals and business transfers

In September 2009, UBS completed the sale of its Brazilian financial services business, UBS Pactual.

In April 2010, UBS entered into an agreement to acquire Link Investimentos, a Brazilian financial services firm.

Competitors

Our main competitors are 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. Other competing firms are active in many of the businesses and markets in which we participate.

Products and services

Securities

The securities segment provides a coordinated distribution platform with enhanced cross-asset delivery and specialist skills. Securities research is a consistently top-ranked research house, which provides in-depth investment analysis across various asset classes of more than 3,400 companies worldwide, or about 85% of the global market capitalization, in over 50 markets. In addition, we have a specialist research function offering quantitative analysis, socially responsible investing, alternative research, valuation and accounting, and special situations analysis.

Equities

We are one of the world's largest participants in the primary and secondary markets for cash equity and equity-related products, including listed options, structured products, equity-linked securities, swaps, futures and over-the-counter (OTC) derivative contracts. Our equities franchise utilizes a client-centric model to serve hedge funds, asset managers, wealth management advisors, banks, pension funds and corporations globally. We structure, execute, distribute, finance and clear cash equity and equity-related products, in addition to distributing new equity and equity-related issues. Our prime services franchise includes prime brokerage and execution and clearing services, which enables clients to address regulatory changes in the OTC derivative markets.

The main business lines of the equities business area are outlined below:
– *Cash equities* provides clients with liquidity, investment advisory, trade execution and related consultancy services, together with comprehensive access to primary 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 algorithms, strategies and analytical tools.
– *Derivatives and equity-linked* provides a full range of flow, structured, synthetic and equity-linked products with global access to primary and secondary markets. The franchise enables clients to hedge and manage risk through a wide range of exchange-traded, OTC, securitized and fund–wrapped products. We create customized structured products for institutional and retail investors with returns linked to individual companies, sectors and indices across multiple asset classes.
– *Prime services* offers an integrated global prime brokerage business, including multi-asset class clearing and custody, capital consultancy, financing, securities lending and equity swaps execution. In addition, we provide clients with execution and clearing capabilities on futures and options contracts across all asset classes, including equities, fixed income and commodities, on more than 70 exchanges globally.

Fixed income, currencies and commodities

The FICC business area delivers products and solutions to corporate, institutional and public-sector clients in all major markets, as well as to private clients via targeted intermediaries. The main business lines of the FICC business area are outlined below:

- *Macro* consists of the foreign exchange, money market and interest rate sales and trading businesses, as well as cash and collateral trading. We provide a range of foreign exchange, precious metals, treasury, and liquidity management solutions to institutional and private clients via targeted intermediaries. Interest rate activities include standardized rate-driven products and services such as interest rate derivatives trading, underwriting and trading of government and agency securities.
- *Credit* sales and trading encompasses the origination, underwriting, trading and distribution of cash and synthetic products across the credit spectrum – bonds, derivatives, notes and loans. We are active across all major markets in secondary trading and market making of flow and structured credit instruments, securitized products and loans, and are focused on providing market liquidity and tailored solutions to our clients. In partnership with the investment banking department, we also provide capital markets debt financing and liability risk management solutions to corporates and institutions.
- The *emerging markets* business offers investors in Central and Eastern Europe, the Middle East, Latin America and selected Asian countries access to international markets, and provides international investors with an opportunity to add exposure through our onshore presence in key locations. We also provide liquidity in local markets across foreign exchange, credit, rates and structured products.
- Our *commodities* business includes market-leading indices and precious metals offerings, combined with flow trading in agriculture, base metals and energy. We service a broad spectrum of institutional and corporate clients from risk management to direct or structured investments, enabling them to structure deals at all levels of complexity and to access liquidity during and outside exchange times and across time zones. From the first quarter of 2012, this business will be part of the macro business.

Investment banking department

The investment banking department provides strategic advice and a range of capital markets execution services to corporate clients, financial institutions, financial sponsors, sovereign clients and hedge funds. With a presence in all major financial markets, investment banking coverage is based on a matrix of country, sector and product banking professionals.

The main business lines of the investment banking department business area are outlined below:

- The *advisory group* assists in acquisitions and sale processes, and also advises on strategic reviews and corporate restructuring solutions.
- *Global capital markets* is a joint venture with the securities business. It offers financing and advisory services that cover all forms of capital raising as well as risk management solutions. It comprises the equity capital markets business, aligned with equities, whose products include initial public offerings, secondary offerings and equity-linked transactions; and the debt capital markets business, aligned with FICC, whose products include commercial paper, medium-term notes, senior debt, high-yield debt, subordinated debt and hybrid capital. All our financing products are provided alongside risk management solutions, which include derivatives, structured finance, ratings advisory services and liability management.
- *Global leveraged finance* provides event-driven (acquisition, leveraged buyout) loans, and bond and mezzanine leveraged finance to corporate clients and financial sponsors.

Corporate Center

The Corporate Center enables UBS to operate coherently and effectively by providing and managing support and control functions for the business divisions and the Group. It provides services in the areas of risk, finance (including funding, capital and balance sheet management, and management of non-trading risk), legal and compliance, information technology, human resources, real estate, procurement, communication and branding, corporate development, security and offshoring.

Aims and objectives

The Corporate Center provides the business divisions with Group-level control in the areas of finance, risk, legal and compliance, and a global corporate shared services organization 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. Each functional head in the Corporate Center has authority over all businesses in their area of responsibility, including the authority to issue Group-wide policies for that area.

The integration of Group-wide shared service functions (information technology, human resources, real estate, procurement, communication and branding, corporate development, security and offshoring) into the Corporate Center under the leadership of the Group Chief Operating Officer (Group COO) was completed in 2009. At the same time, the control functions were centralized under the Group Chief Financial Officer (Group CFO), the Group Chief Risk Officer (Group CRO), and the Group General Counsel (Group GC), respectively.

The Corporate Center has improved efficiency, execution and service quality. We have upgraded our cost management for global and Group-wide cost responsibilities, and have implemented simple service delivery models with clear responsibilities. Our investment governance process provides oversight, review and approval of programs in the project portfolio and of those in the pipeline. This is part of a global service level agreement framework, ensuring investments are aligned with the Group's strategic priorities. Overall, the integrated structure helps us to maintain independent control functions and a core platform from which we can create synergies for revenue growth and enhance shareholder value.

The Corporate Center also encompasses certain centrally managed positions, including the SNB StabFund option and (with effect from the first quarter of 2012) the legacy portfolio formerly in the Investment Bank.

In 2011, the Corporate Center focused on further streamlining the organization, implementing strategic change programs and improving operational excellence. At the end of the year, there were approximately 19,300 employees across all of the Corporate Center functions. The majority of the Corporate Center's treasury income, costs and headcount are re-allocated to the business divisions for which the respective services are performed.

Organizational structure

The Corporate Center 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 CFO is responsible for transparency in, and appraisal of, the financial performance of the Group and its business divisions; the Group's financial reporting; forecasting, planning and controlling processes; and for providing advice on financial aspects of strategic projects and transactions. The Group CFO manages the divisional and Group financial control functions. He manages and controls our tax affairs and treasury and capital management, including management and control of funding and liquidity risk as well as regulatory capital ratios. After consultation with the Board of Directors' Audit Committee, the Group CFO makes proposals to the Board of Directors (BoD) regarding the policies for accounting we have adopted, and defines the policies for financial reporting and disclosure. Together with the Group Chief Executive Officer (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, investors and rating agencies.

Group Chief Operating Officer

The Group COO is responsible for the management and performance of the shared service functions of the Group, including the management and control of Group-wide information technology, procurement, real estate and corporate administrative services, human resources, strategy, communications and branding as well as for physical and information security and offshoring. In addition, the Group COO supports the Group CEO in developing our strategy and addressing key strategic issues. The Group COO also acts as the CEO of the Corporate Center, and oversees the business and strategic planning of shared services.

Group Chief Risk Officer

The Group CRO is responsible for developing and implementing 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 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 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. The Group GC is further 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 regulatory and professional standards in the conduct of our business.

Regulation and supervision

As a Swiss-registered company, our home country regulator and consolidated supervisor is the Swiss Financial Market Supervisory Authority (FINMA). However, our operations are global and are therefore regulated and supervised by the relevant authorities in each of the jurisdictions in which we conduct business. The next 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

Swiss Federal Legislation

We are regulated by the Swiss Federal Law relating to Banks and Savings Banks of 8 November 1934, as amended, and the related Implementing Ordinance of 17 May 1972, as amended, which are together known as the Federal Banking Law. Depending on the license obtained under this law, banks in Switzerland may engage in a full range of financial services activities, including commercial banking, investment banking and asset management. Banking groups may also engage in insurance activities, but these must be undertaken through a separate subsidiary. The Federal Banking Law establishes a framework for supervision by FINMA.

Switzerland implemented the internationally agreed capital adequacy rules of the Basel Capital Accord (Basel II) by means of the Capital Adequacy Ordinance of 29 September 2006, and subsequent FINMA circulars. Switzerland imposes a more differentiated and tighter regime than the internationally agreed rules, including more stringent risk weights. The revised decree on capital requirements issued at the end of 2008 increased the risk-based buffer and complemented it with a leverage ratio requirement, i.e. a minimum ratio of capital and balance sheet assets. In the course of 2010, the Swiss Federal Council and FINMA incorporated the Basel II enhancements issued by the Basel Committee on Banking Supervision on 13 July 2009 into the Capital Adequacy Ordinance and related circulars. The enhancements strengthen the Basel II rules governing trading book capital, and enhance the three pillars of the Basel II framework. The revised Capital Adequacy Ordinance, together with the FINMA circulars, entered into force on 1 January 2011. These requirements are being upgraded to reflect the Basel III framework issued by the Basel Committee on Banking Supervision as implemented in Switzerland.

➔ Refer to the "Capital management" section of this report for more information about capital requirements

In autumn 2011, the Swiss parliament amended the Federal Banking Law to address the lessons learned from the financial crisis and to address 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, UBS is required to produce and update recovery and resolution plans that will help the firm and the regulator prevent another crisis or to mitigate its effects on both clients and counterparties. These new sections are expected to enter into force during 2012.

The Federal Act of 10 October 1997 on the Prevention of Money Laundering in the Financial Sector lays down a common standard for due diligence obligations for the whole financial sector, which must be met to prevent money laundering.

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. The supervisory authority for investment funds in Switzerland is FINMA, which is responsible for the authorization and supervision of the institutions and investment funds subject to its control.

In our capacity as a securities broker, we are governed by the Swiss Stock Exchange Act; FINMA is the competent supervisory authority.

Regulation by the Swiss Financial Market Supervisory Authority

FINMA is strongly involved in the shaping of the legislative framework for banks:
- FINMA has substantial influence on the drafting of Swiss federal acts and ordinances from the Federal Council or the parliament.
- On a more technical level, FINMA is empowered to issue its own ordinances and circulars.

Self-regulation by the SIX Swiss Exchange and the Swiss Bankers Association

Certain aspects of securities brokering, such as the organization of trading, are subject to self-regulation through the SIX Swiss Exchange (SIX), under the overall supervision of FINMA. Furthermore, we are also an issuer of listed shares subject to self-regulation by the SIX.

FINMA also officially endorses self-regulatory guidelines issued by the banking industry (through the Swiss Bankers Association), making them an integral part of banking regulation.

Two-tier system of supervision and direct supervision of UBS

Generally, supervision in Switzerland is based on a division of tasks between FINMA and a number of 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 responsibility of external auditors encompasses the audit of financial statements, the review of banks' compliance with all prudential requirements and on-site audits.

Because of its importance to the Swiss financial system, UBS is directly supervised by dedicated teams at FINMA. The regime of direct supervision is regulated by FINMA Circular 08/9 on the Supervision of Large Banking Groups. Supervisory tools include scheduled 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.

We are directly supervised by the FINMA team "Supervision of UBS," which is supported by teams specifically monitoring investment banking activities, risk management, and solvency and capital aspects.

Role of the Swiss National Bank and division of tasks between FINMA and the Swiss National Bank

While the Swiss National Bank (SNB) does not exercise any banking supervision and is not responsible for enforcing banking legislation, it is mandated to contribute to the stability of the financial system, is responsible for the supply of liquidity and conducts the monetary policy. In fulfilling its mandate, the SNB monitors developments in the banking sector from the perspective of the system as a whole. Accordingly, FINMA and the SNB work together 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 may request that these banks provide information as required.

➔ **Refer to the "Regulatory developments" and "Risk factors" sections of this report for more information**

Regulation and supervision in the US

Banking regulation

Our operations in the US are subject to a variety of regulatory regimes. We maintain branches in several states including Connecticut, Illinois, Florida and New York. 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, such as limits on extensions of credit to a single borrower, including UBS subsidiaries and affiliates.

The licensing authority of each 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 the US operations of UBS under generally similar circumstances, as well as in the event that a judgment against a federally licensed branch remains unsatisfied, and 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) UBS, 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 aimed at 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 of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences for the firm, both in legal terms and in terms of our reputation.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 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," (xi) the role of credit-rating agencies, and more. The details of the legislation and its impact on UBS's operations will depend on the final regulations ultimately adopted by various agencies and oversight boards.

US regulation of other US operations

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 SEC and the Financial Industry Regulatory Authority (FINRA). Each entity is also regulated by some or all of the following: the 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 businesses, 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 American Stock Exchange and the Chicago Climate Exchange.

Many of the provisions of the Dodd-Frank Act discussed above will affect the operation of these non-banking entities, as well as UBS's US banking operations. Again, the impact of this statute on UBS's operations will depend on the final regulations ultimately 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 Financial Services Authority (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 reporting to the Bank of England. These proposals are currently the subject of consultation and legislative consideration.

➔ **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 directly 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 materially 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 recent financial crisis, and in light of the current instability in global financial markets, regulators and legislators have proposed, adopted, or are actively considering, a wide range of changes to these laws and regulations. The measures are generally designed to address the perceived causes of the crisis and to limit the systemic risks posed by major financial institutions. These measures include the following:
– significantly higher regulatory capital requirements;
– changes in the definition and calculation of regulatory capital, including the capital treatment of certain capital instruments issued by UBS and other banks;
– changes in the calculation of risk-weighted assets (RWA);
– new or significantly enhanced liquidity requirements;
– requirements to maintain liquidity and capital in multiple jurisdictions where 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;
– a variety of measures constraining, taxing or imposing additional requirements relating to compensation;
– requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to wind down or disassemble.

A number of measures have been adopted and will be implemented in 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 the timing of their implementation.

Notwithstanding attempts by regulators to coordinate their efforts, the proposals differ by jurisdiction and therefore enhanced regulation may be imposed in a manner that makes it more difficult to manage a global institution. The absence of a coordinated approach is also likely to disadvantage certain banks, such as UBS, as they attempt to compete with less strictly regulated financial institutions and unregulated non-bank competitors.

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 are generally proceeding 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, proposed or publicly espoused by regulatory authorities in other major global banking centers.

The Swiss Federal Department of Finance has consulted on proposed changes to the banking ordinance and capital adequacy ordinance. These ordinances, when final, could in effect result in higher capital adequacy requirements than the 19% of RWA that has been publicly discussed. In particular, de facto higher capital requirements (to be fulfilled at the level of the Group and the parent holding systemically relevant functions) may be the result of the leverage ratio if implemented as currently proposed, or of the planned early implementation in Switzerland of the anticyclical buffer requirement recommended by the Basel Committee on Banking Supervision. In addition, the Swiss Government's proposed changes to the risk weighting of residential mortgages would significantly increase the capital requirements for our Swiss mortgage book.

The new ordinances will, among other things, contain 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 (6% to cover systemic risk in addition to the 13% to be required due to the combination of Basel III and the "Swiss finish"). The Swiss Federal Council will have to present the revised ordinances to the Swiss parliament for approval; the ordinances are expected to come into force on 1 January 2013.

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., separate lines of business into dedicated entities, possibly with limitations on intra-group funding and guarantees), or in some manner to reduce business risk levels.

Regulatory changes in other locations in which we operate may subject us to requirements to move activities from UBS AG branches into subsidiaries, which in turn creates operational, risk control, capital and tax inefficiencies, as well as higher local capital requirements and potentially 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 London as a global booking center for many types of products. The UK Independent Commission on Banking (ICB) has recommended structural and non-structural reform of the banking sector to promote financial stability and competition. 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. Such measures could have a material effect on our businesses located or booked in the UK, although the applicability and implications of such changes to offices and subsidiaries of foreign banks are not yet entirely clear. Already, we are being required by regulatory authorities to increase 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 Investment Bank.

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 announced decision to exit equities proprietary trading business segments within the Investment Bank. For other trading activity, 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 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.

Because many of the regulations that must be adopted to implement the Dodd-Frank Act have not yet been finalized, the effect on business booked or conducted by UBS in whole or in part outside the US cannot yet be determined fully.

In addition, in 2009 the G20 countries committed to move all standardized over-the-counter (OTC) derivative contracts on exchange and clear them 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 and other jurisdictions, and will have a significant impact on our OTC derivatives business, primarily in the Investment Bank. For example, most OTC derivatives trading will move toward a central clearing model, increasing transparency through trading on exchanges or swap execution facilities. 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.

In connection with the rules being adopted on swaps and derivative markets in the US as part of the Dodd-Frank Act, UBS AG could be required to register as a swap dealer in the US during 2012. The new regulations will impose substantial new requirements on registered swap dealers, but no guidance has been issued yet on their application to the activities of swap dealers outside the US. The potential extra-territorial application of the new rules could create a significant operational and compliance burden and potential for duplicative and conflicting regulation.

We are currently required to produce recovery and resolution plans in the US, UK and Switzerland. 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.

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 legislative and regulatory changes may have a negative impact on our relationships with clients and our success in attracting client business.

Due to recent changes in Swiss regulatory requirements, and due to liquidity requirements imposed by certain 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.

Our reputation is critical to the success of our business

Damage to our reputation can have fundamental negative effects on our business and prospects. Our reputation is critical to the success of our strategic plans. 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. 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. The unauthorized trading incident that we announced in September 2011 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 for more information on the unauthorized trading incident**

Our capital strength is important in supporting our strategy, client franchise and competitive position

Our capital position, as measured by the BIS tier 1 and total capital ratios, 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, as determined for the purpose of the regulatory capital calculation. Eligible capital can also be reduced for a number of other reasons, including certain reductions in the ratings of securitization exposures, adverse currency movements directly affecting the value of equity and prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions. 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), a change in regulatory treatment of certain positions (such as the application of market stresses in accordance with Basel 2.5 adopted in the last quarter of 2011), adverse currency movements, increased counterparty risk or a deterioration in the economic environment 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 BIS guidelines. Forthcoming changes in the calculation of RWA under Basel III and FINMA requirements will significantly increase the level of our RWA and, therefore, have an adverse effect on 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, FINMA has introduced a minimum leverage ratio, which must be achieved by 1 January 2013. 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. Moreover, although we have recently identified certain businesses that we plan to exit in response to regulatory and business changes, changes in the calculation and level of capital requirements or other regulatory changes may render uneconomic certain other businesses conducted in our Investment Bank or in other business divisions, or may undermine their viability in other ways. The reduction or elimination of lines of business could adversely affect our competitive position, particularly if competitors are subject to different requirements under which those activities continue to be sustainable.

Performance in the financial services industry is affected by market conditions and the economic 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, inflation or a severe financial crisis can negatively affect our revenues and ultimately our capital base.

A market downturn 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 which are susceptible to macroeconomic and political developments, or as a result of the failure of a major market participant. We have material exposures to certain emerging market economies, both as a wealth manager and as an investment bank. As our presence and business in emerging markets increases, and as our strategic plans depend more heavily upon our ability to generate growth and revenue in the emerging markets, we become more exposed to these risks. The ongoing eurozone crisis demonstrates that such developments, even in more developed markets, can have similarly 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 recent quarters, 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;
– 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. 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 to a lesser extent in 2009. Although we have significantly reduced our risk exposures starting in 2008, in part through transfers in 2008 and 2009 to a fund controlled by the SNB, we continue to hold substantial legacy risk positions, the value of which was reduced significantly by the financial crisis. In many cases these risk positions continue to be illiquid and have not recovered much of their lost 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 begun to carry out plans to reduce drastically the risk-weighted assets associated with the legacy risk positions, but the continued illiquidity and complexity of many of these legacy risk positions could make it difficult to sell or otherwise liquidate these exposures. At the same time, our strategy rests heavily on our ability to reduce sharply the risk-weighted assets associated with these exposures in order to meet our future capital targets and requirements without incurring unacceptable losses.

We hold positions related to real estate in various countries, including a very substantial Swiss mortgage portfolio, and we could suffer losses on these positions. 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 revenue accounts for the largest portion of our non-Swiss franc revenue) 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, the strengthening of the Swiss franc especially against the US dollar and euro, which occurred during 2011, had an adverse effect on our revenues and invested assets. Since 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, wealth management and Investment Bank activities. This includes lending, underwriting and derivatives businesses and positions. Changes in interest rates, credit spreads, equity prices 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 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 & Swiss Bank 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 assets rely on models; models have inherent limitations and may use inputs which have no observable source

Where possible, we mark our trading book assets 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 assets 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 wealth management and asset management businesses

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, as evidenced by our overall net new money inflows in 2011, but others, such as the long-term changes affecting the cross-border private banking business model, will continue to affect client flows for an extended period of time. If we experience again material net outflows of client assets, the results of our wealth management and asset management businesses are likely to be adversely affected.

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, 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 recent years, 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 and failure of security and physical protection, are appropriately controlled. If our internal controls fail or prove ineffective in identifying and remedying such risks we could suffer operational failures that might result in material losses, such as the loss from the unauthorized trading incident announced in September 2011.

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.

➔ **Refer to the "Update on internal control over financial reporting" and the "Management's report on internal control over financial reporting" in the "Financial information" section of this report for more information**

Legal claims and regulatory risks and restrictions arise in the conduct of our business

Due to the nature of our business, we are subject to regulatory oversight and liability risk. 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 these matters cannot be predicted and they could adversely affect our future business or financial results. We continue to be subject to government inquiries and investigations, and are involved in a number of litigations and disputes, many of which arose out of the financial crisis of 2007–2009. The unauthorized trading incident announced in September 2011 has triggered a joint investigation by FINMA and the UK Financial Services Authority and separate enforcement proceedings by the two authorities. We are also subject to potentially material exposure in connection with claims relating to US RMBS and mortgage loan sales, the Madoff investment fraud, Lehman principal protection notes, LIBOR rate submissions and other matters.

We are in active dialogue with our regulators concerning the actions that we are taking to improve our operational and risk management controls, processes and systems. 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 largely remediated the deficiencies that led to the material losses during the recent financial crisis, the unauthorized trading incident announced in September 2011 has revealed different shortcomings that we are also urgently addressing. The unauthorized trading incident has presented us with further challenges and potential constraints on the execution of our business strategy, as we seek once again to enhance our operational and control framework and demonstrate its effectiveness to regulatory authorities. Notwithstanding the remediation we have already completed and which is in process, the consequences of the ongoing regulatory review and enforcement proceedings arising from the incident cannot be predicted.

➔ **Refer to "Note 21 Provisions and contingent liabilities" in the "Financial information" section of this report for more information on litigation and regulatory matters and other contingent liabilities**

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 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 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 of employee compensation, higher levels of deferral and clawbacks and performance conditions may adversely affect our ability to retain and attract key employees, and may in turn negatively affect our business performance. Starting with the performance year 2009, the portion of variable compensation granted in the form of deferred shares was much higher than in the past. Although our peers have over time also increased their deferral percentages, we continue to be subject to the risk that key employees will be attracted by competitors and decide to leave UBS, or that we may be less successful than our competitors in attracting qualified employees. Regulatory constraints and pressure from regulators and other stakeholders affect not only UBS but also the other major international banks, but some of our peers may have a competitive advantage due to differences in the requirements and intensity of pressure among different jurisdictions.

Our financial results may be negatively affected by changes to accounting standards

We are required to report our results and financial position in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Changes to IFRS may mean that our reported results and financial position differ in the future from those expected. Such changes also may affect our regulatory capital and ratios. When accounting changes are finalized, UBS assesses the potential impact and discloses significant future changes in its financial statements. Currently, there are a number of finalized and potential accounting 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 our balance sheet is tested for impairment at least annually. Our impairment test in respect of the assets recognized as of 31 December 2011 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.

We are exposed to risks arising from the different regulatory, legal and tax regimes applicable to our global businesses

We operate in more than 50 countries, earn income and hold assets and liabilities in many different currencies and are subject to many different legal, tax and regulatory regimes. Our ability to execute our global strategy depends on obtaining and maintaining local regulatory approvals. This includes the approval of acquisitions or other transactions and the ability to obtain and maintain the necessary licenses to operate in local markets. 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.

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 2011 in respect of prior years' tax losses are based on profitability assumptions over a five-year horizon. If the business plan earnings and assumptions in future periods substantially deviate from the current outlook, the amount of deferred tax assets may need to be adjusted in the future. This could include write-offs of deferred tax assets through the income statement if actual results come in substantially below the business plan forecasts and/or if future business plan forecasts are revised downward substantially.

In the coming years, our effective tax rate will be highly sensitive both to our performance and to the development of new business plan forecasts. Currently unrecognized deferred tax assets in the UK and especially the US could be recognized if our actual and forecasted performance in those countries is strong enough to justify further recognition of deferred tax assets under the governing accounting standard. 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, for example, the Group's performance in the UK and especially in the US is strong, we could be expected to write up additional US and/or UK deferred tax assets in the coming years. The effect of doing so would significantly reduce the Group's effective tax rate in years in which any write ups are made. Conversely, if our performance in those countries does not justify additional deferred tax recognition, but nevertheless supports our maintaining current deferred tax levels, we expect the Group's effective tax rate to be in the range of 20–25% (although the tax rate may differ if there are significant book tax adjustments, which generally mainly affect Swiss taxable profits, for example own credit gains/losses).

Our effective tax rate is also sensitive to any future reductions in tax rates, particularly in the US and Switzerland, which would cause the expected future tax saving from items such as tax loss carry-forwards in those locations to diminish in value. This in turn would cause a write-down of deferred tax assets.

Additionally, the final effect of income taxes we accrue in the accounts is often only determined after the completion of tax audits (which generally takes a number of years) or the expiry of statutes of limitations. In addition, changes to, and judicial interpretation of, tax laws or policies and practices of tax authorities could cause the amount of taxes ultimately paid by UBS to materially differ from the amount accrued.

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 109 million has been recognized in operating expenses (within pre-tax profit) in the fourth quarter of 2011. In November 2011 the UK government announced its intention to increase the rate of the levy by 17% from 1 January 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. Whilst not yet certain, we expect that the annual bank levy expense will continue to be recognized for IFRS purposes as a one-off 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 Financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The application of certain of these accounting principles requires considerable judgment based upon estimates and assumptions that involve significant uncertainty at the time they are made. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in assumptions may have a significant impact on the Financial statements in the periods when assumptions are changed. 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 the accounting policies that we use is included in "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report.

The application of assumptions and estimates means that any selection of different assumptions could cause the reported results to differ. 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 our Financial statements. They are not intended to suggest that other assumptions would be more appropriate.

Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated using observable data in respect of similar financial instruments as well as models. Where market observable inputs are not available, inputs are estimated based on appropriate assumptions. 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 comparative market prices. Where practicable, models use only observable data; however, areas such as default rates, volatilities and correlations require management to make estimates.

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 classification of a financial instrument at fair value. 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 if deemed necessary. Correspondingly, a debit valuation adjustment approach is applied to incorporate own credit risk in the fair value of uncollateralized *Negative replacement values*. Own credit risk for *Financial liabilities designated at fair value* is calculated using the funds transfer price curve.

As of 31 December 2011, financial assets and financial liabilities for which valuation techniques or models are used and whose inputs are observable (level 2) amounted to CHF 550 billion and CHF 561 billion, respectively. Financial assets and financial liabilities whose valuations include significant unobservable inputs (level 3) amounted to CHF 25 billion and CHF 24 billion, respectively.

Changes in assumptions for input factors would affect the reported fair value of financial instruments. If management had used reasonably possible alternative assumptions for our level 3 instruments accounted for at fair value through profit or loss, the net fair value of non-derivative instruments would have been up to CHF 0.6 billion higher or lower on 31 December 2011. Similarly, the net fair value of derivative instruments would have been up to CHF 1.1 billion higher or lower than the amounts recognized on our balance sheet on 31 December 2011.

➔ Refer to "Note 26 Fair value of financial instruments" in the "Financial information" section of this report for more information on valuation of financial instruments

Goodwill impairment test

UBS performs an impairment test on its goodwill assets on an annual basis, or when indicators of a potential impairment exist. The impairment test is performed for each segment for 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 further below.

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 individually 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. This may be the case if the regulatory pressure on the banking industry further intensifies and conditions in the financial markets diminish our performance relative to forecast. 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, there would be no impact to the BIS tier 1 capital ratio or BIS total capital ratio of the UBS Group.

As of 31 December 2011, the following four segments carried goodwill: Wealth Management (CHF 1.3 billion), Wealth Management Americas (CHF 3.3 billion), Global Asset Management (CHF 1.4 billion), and the Investment Bank (CHF 3.0 billion). On the basis of the impairment testing methodology described above, UBS concluded that the year-end 2011 balances of goodwill allocated to its segments remain recoverable.

➔ **Refer to "Note 1a) 21) Goodwill and intangible assets" and "Note 16 Goodwill and intangible assets" 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. A financial asset or group of financial assets is impaired only if a loss event occurred after the initial recognition of the financial asset(s), but not later than at the balance sheet date ("incurred loss model"). 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 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.

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 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 9a Due from banks and loans", "Note 9b 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 2011, our gross loan portfolio was CHF 267 billion and the related allowances amounted to CHF 0.8 billion, of which CHF 83 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**

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 order to determine 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.

➔ **Refer to "Note 1a) 3) Subsidiaries" 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. The models 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.

Several recognized valuation models exist. The models we apply have been selected because they are able to handle 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.

➔ **Refer to "Note 1a) 25) Equity participation and other compensation plans" and "Note 30 Equity participation and other compensation plans" 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 the relevant accounting standards. The level of deferred tax asset recognition is influenced by management's assessment of our future profitability regarding 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, the relevant accounting standards require 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 2011 have been based on future profitability assumptions over a five-year time horizon, adjusted to take into account the recognition criteria of IAS 12 *Income Taxes*. 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 2011, the deferred tax assets amounted to CHF 8.5 billion, which included an amount of CHF 8.0 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 22 Income taxes" and "Note 1a) 22) Income taxes" in the "Financial information" section of this report for more information**

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, they are designated as hedging instruments in fair value hedges, cash flow hedges or net investment hedges. The designation of derivative or non-derivative hedging instruments is at our discretion.

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.

Changes in the fair value of derivatives that qualify as fair value hedges are recorded in the income statement along with the change in the fair value of the hedged item attributable to the hedged risk. The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges is recognized in equity and transferred to profit or loss in the same periods in which the hedged cash flows affect profit or loss. Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

The Group discontinues hedge accounting when it 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 a forecast transaction is no longer deemed highly probable. In certain circumstances, the Group may decide to discontinue hedge accounting voluntarily, even though the mentioned criteria for discontinuing are not fulfilled. De-designated hedging derivatives from hedge relationships are treated as held for trading from the de-designation date.

➔ Refer to "Note 1a) 15) Derivative instruments and hedge accounting" and "Note 23 Derivative instruments and hedge accounting" in the "Financial information" section of this report for more information

Provisions

Provisions are recognized when we have a present legal or constructive obligation as a result of past events, if it is probable that an outflow of resources will be required to settle or discharge the obligation and a reliable estimate of the obligation can be made.

Recognition of provisions often requires use of an estimate as the exact amount of the obligation is often unknown. The estimate is based on all available information and reflects the amount that in management's opinion represents the best estimate of the expenditure required to settle or discharge the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Future events that may affect the amount required to settle or discharge the obligation are reflected in the amount provided, whenever there is sufficient objective evidence that such future events will occur. We revise existing provisions up or down when additional information becomes available which allows the estimates to be quantified more accurately. Management necessarily exercises judgment in making assumptions and estimates when calculating provisions.

Provisions are classified in "Note 21 Provisions and contingent liabilities" in the "Financial information" section of this report into the following categories: operational risks, litigation and regulatory matters, restructuring, provisions for loan commitments and guarantees, and other. Operational risks include provisions resulting from security risks and transaction processing risks. Litigation and regulatory matters includes provisions for claims related to legal, liability and compliance risks. Provisions for reinstatement costs for leasehold improvements, provisions for onerous lease contracts, provisions for employee benefits and other items are disclosed under *Other*.

➔ Refer to "Note 1a) 27) Provisions" in the "Financial information" section of this report for more information

Pension and other post-employment benefit plans

The defined benefit obligation at the end of the year and the net periodic pension cost for the year depend on the expected future benefits to be provided, determined using a number of economic and demographic assumptions. The assumptions include life expectancy, the discount rate, expected salary increases, expected returns on plan assets and pension rates.

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 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 expected return on plan assets is the long-term average return that management believes is expected on the pension assets, based on class of asset.

The most significant plan is the Swiss pension plan. Life expectancy for this plan has been based on the 2010 BVG generational mortality tables. This change has resulted in higher life expectancies than the prior year, which was based on the 2005 BVG mortality table that preceded the 2010 tables. The assumptions for the discount rate and the expected return on plan assets also changed from the prior year, to 2.3% and 3.5%, respectively.

➔ Refer to "Note 29 Pension and other post-employment benefit plans" and "Note 1a) 24) Pension and other post-employment benefit plans" in the "Financial information" section of this report for more information

UBS results

Net profit attributable to UBS shareholders was CHF 4,159 million in 2011 compared with CHF 7,534 million in 2010. Pre-tax profit declined to CHF 5,350 million from CHF 7,455 million, reflecting lower operating income primarily in the Investment Bank, partly offset by cost reductions. In 2011, we recorded a net tax expense of CHF 923 million compared with a net tax benefit of CHF 381 million in 2010.

Income statement

	For the year ended			% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Continuing operations				
Interest income	**17,969**	18,872	23,461	(5)
Interest expense	**(11,143)**	(12,657)	(17,016)	(12)
Net interest income	**6,826**	6,215	6,446	10
Credit loss (expense) / recovery	**(84)**	(66)	(1,832)	27
Net interest income after credit loss expense	**6,742**	6,149	4,614	10
Net fee and commission income	**15,236**	17,160	17,712	(11)
Net trading income	**4,343**	7,471	(324)	(42)
Other income	**1,467**	1,214	599	21
Total operating income	**27,788**	31,994	22,601	(13)
Personnel expenses	**15,591**	16,920	16,543	(8)
General and administrative expenses	**5,959**	6,585	6,248	(10)
Depreciation of property and equipment	**761**	918	1,048	(17)
Impairment of goodwill	**0**	0	1,123	
Amortization of intangible assets	**127**	117	200	9
Total operating expenses	**22,439**	24,539	25,162	(9)
Operating profit from continuing operations before tax	**5,350**	7,455	(2,561)	(28)
Tax expense / (benefit)	**923**	(381)	(443)	
Net profit from continuing operations	**4,426**	7,836	(2,118)	(44)
Discontinued operations				
Profit from discontinued operations before tax	**0**	2	(7)	(100)
Tax expense	**0**	0	0	
Net profit from discontinued operations	**0**	2	(7)	(100)
Net profit	**4,427**	7,838	(2,125)	(44)
Net profit attributable to non-controlling interests	**268**	304	610	(12)
from continuing operations	**268**	303	600	(12)
from discontinued operations	**0**	1	10	(100)
Net profit attributable to UBS shareholders	**4,159**	7,534	(2,736)	(45)
from continuing operations	**4,158**	7,533	(2,719)	(45)
from discontinued operations	**0**	1	(17)	(100)
Comprehensive income				
Total comprehensive income	**7,457**	6,484	(2,792)	15
Total comprehensive income attributable to non-controlling interests	**560**	609	484	(8)
Total comprehensive income attributable to UBS shareholders	**6,896**	5,875	(3,276)	17

2011

Performance before tax

Profit from continuing operations before tax was CHF 5,350 million down from CHF 7,455 million, mainly due to a decline in operating income of CHF 4,206 million, partly offset by cost reductions of CHF 2,100 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 and a decline in asset-based fees, the loss of CHF 1,849 million related to the unauthorized trading incident, and (even excluding the effect of the unauthorized trading incident) lower trading revenues in our equities and fixed income, currencies and commodities (FICC) businesses. 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.

➔ Refer to the "Certain items affecting our results in 2011" sidebar in this section of this report for more information on the unauthorized trading incident, the sale of our strategic investment portfolio and our cost reduction program

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 the year.

Net interest and trading income in FICC, excluding own credit, was down by CHF 1,621 million, partly reflecting the strengthening of the Swiss franc. Credit trading revenues declined due to concerns surrounding the eurozone and the global economic outlook in general, which led to increased market volatility and significantly impacted liquidity and client activity. Emerging market interest and trading revenues also declined. Furthermore, in 2011 we recorded a loss of CHF 284 million related to credit valuation adjustments for monoline credit protection compared with a gain of CHF 667 million in 2010. These declines were partly offset by higher macro net interest and trading revenues which increased across interest rates and foreign exchange business lines.

➔ Refer to "Note 26 Fair value of financial instruments" in the "Financial information" section of this report for more information on own credit

Equities interest and trading revenues, excluding own credit and the unauthorized trading incident, declined by CHF 523 million reflecting the strengthening of the Swiss franc, and lower revenues in the derivatives and equity-linked businesses.

Net interest income in Wealth Management increased by CHF 231 million, mainly as higher treasury-related income and a 10% growth in average lending volumes compensated for margin pressure resulting from low market interest rates. In addition, net interest income benefited from income derived from the strategic investment portfolio in the first nine months of 2011. Income derived from the strategic investment portfolio was significantly lower in 2010 as the portfolio was only established during the fourth quarter of that year. Net trading income in Wealth Management also increased by CHF 231 million, partly due to treasury-related revenues.

Net interest income in Retail & Corporate declined by CHF 94 million due to margin pressure that was partly offset by higher volumes.

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.

Corporate Center trading revenues 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.

➔ Refer to the "Risk management and control section" section of this report for more information on our option to acquire the SNB StabFund's equity

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 172 million of impairment charges taken on reclassified and acquired securities, partially offset by recoveries on certain loan positions.

➔ 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 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

Net interest and trading income

CHF million	For the year ended 31.12.11	31.12.10	31.12.09	% change from 31.12.10
Net interest and trading income				
Net interest income	**6,826**	6,215	6,446	10
Net trading income	**4,343**	7,471	(324)	(42)
Total net interest and trading income	**11,169**	13,686	6,122	(18)

Credit loss (expense) / recovery

CHF million	For the year ended 31.12.11	31.12.10	31.12.09	% change from 31.12.10
Wealth Management	**11**	11	45	0
Retail & Corporate	**(101)**	(76)	(178)	33
Wealth Management & Swiss Bank	**(90)**	(64)	(133)	41
Wealth Management Americas	**(6)**	(1)	3	500
Investment Bank	**12**	0	(1,698)	
of which: related to reclassified securities[1]	***37***	*(133)*	*(425)*	
of which: related to acquired securities	***(28)***	*(39)*	*(18)*	*(28)*
Corporate Center	**(1)**	0	(5)	
Total	**(84)**	(66)	(1,832)	27

1 Refer to "Note 28b Reclassification of financial assets" in the "Financial information" section of this report.

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.

➔ **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 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.

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

Operating expenses

Total operating expenses were CHF 22,439 million in 2011 compared with CHF 24,539 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 1,329 million, or 8%, to CHF 15,591 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 discretionary variable compensation were CHF 3,392 million, a decrease of CHF 690 million, or 17%, from the prior year. Expenses relating to 2011 bonus awards recognized in the performance year 2011 were CHF 1,807 million, down CHF 804 million or 31% from the prior year, reflecting a 40% decrease in the overall bonus pool for the 2011 performance year. The amortization of deferred compensation awards from prior years increased by CHF 114 million, or 8%, to CHF 1,585 million.

Other variable compensation increased by CHF 86 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.

➔ Refer to "Note 6 Personnel expenses" and "Note 30 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 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 and regulatory matters decreased by CHF 355 million, or 56%, mainly due to lower charges for litigation provisions in Wealth Management Americas and the Investment Bank.

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 restate related restructuring charges which were CHF 93 million in 2011 compared with CHF 79 million in the prior year.

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

Depreciation and amortization

Depreciation 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 impairment charges related to restructuring in Wealth Management Americas.

Amortization 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 923 million. This includes a Swiss net deferred tax expense of CHF 1,063 million, which reflects a tax expense of CHF 949 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 381 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.

In the first half of 2012, we expect our tax rate to be in the region of 20–25%. However, the tax rate may differ if there are significant book tax adjustments, which generally mainly affect Swiss taxable profits – for example, own credit gains/losses. In the second half of 2012, consistent with past practice, we expect to revalue our deferred tax assets based on a reassessment of future profitability taking into account updated business plan forecasts.

➔ **Refer to "Note 22 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 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.

Comprehensive income attributable to UBS shareholders

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). Most of those items will be recognized in net profit when the underlying item is sold or realized.

Comprehensive income attributable to UBS shareholders in 2011 was CHF 6,896 million, including net profit attributable to UBS shareholders of CHF 4,159 million, and other comprehensive income attributable to UBS shareholders of CHF 2,737 million.

OCI attributable to UBS shareholders included foreign currency translation gains of CHF 706 million, fair value gains on financial investments available-for-sale of CHF 495 million, and fair value gains of CHF 1,537 million on interest rate swaps designated as cash flow hedges.

Foreign currency translation gains of CHF 706 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.

OCI attributable to UBS shareholders in 2010 was negative CHF 1,659 million, mainly reflecting foreign currency translation losses of CHF 909 million and fair value losses on financial investments available-for-sale of CHF 607 million.

➔ **Refer to the "Statement of comprehensive income" 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.

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 due to improvements in all regions

Performance from continuing operations before tax

	For the year ended			% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Wealth Management	**2,676**	2,308	2,280	16
Retail & Corporate	**1,919**	1,772	1,629	8
Wealth Management & Swiss Bank	**4,596**	4,080	3,910	13
Wealth Management Americas	**534**	(130)	32	
Global Asset Management	**428**	516	438	(17)
Investment Bank	**154**	2,197	(6,081)	(93)
Corporate Center	**(363)**	793	(860)	
Operating profit from continuing operations before tax	**5,350**	7,455	(2,561)	(28)

Net new money[1]

	For the year ended		
CHF billion	31.12.11	31.12.10	31.12.09
Wealth Management	23.5	(12.1)	(87.1)
Wealth Management Americas	12.1	(6.1)	(11.6)
Global Asset Management	4.3	1.8	(45.8)
of which: money market flows	*(4.7)*	*(6.4)*	*(12.1)*

1 Excludes interest and dividend income.

Invested assets

	As of			% change from
CHF billion	31.12.11	31.12.10	31.12.09	31.12.10
Wealth Management	750	768	825	(2)
Retail & Corporate	134	136	135	(1)
Wealth Management & Swiss Bank	883	904	960	(2)
Wealth Management Americas	709	689	690	3
Traditional investments	497	487	502	2
of which: money market funds	*92*	*96*	*111*	*(4)*
Alternative and quantitative investments	31	34	41	(9)
Global real estate	38	36	39	6
Infrastructure and private equity[1]	8	1	1	700
Global Asset Management	574	559	583	3
Total	2,167	2,152	2,233	1

1 With effect from 2011, the Infrastructure and private equity fund of funds businesses were transferred from Alternative and quantitative investments to Infrastructure, which following the transfer was renamed Infrastructure and private equity. As the amounts were not material, prior periods were not restated.

and client segments. The strongest net inflows were recorded in Asia Pacific and the 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.

Net new money inflows in Wealth Management Americas were CHF 12.1 billion compared with net outflows of CHF 6.1 billion in 2010. This turnaround was due to improved net inflows from net recruiting of financial advisors, including higher inflows from recruitment of experienced financial advisors, and 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 & Swiss Bank 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 & Swiss Bank continues 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.

Invested assets

Total invested assets were CHF 2,167 billion on 31 December 2011, up slightly from CHF 2,152 billion on 31 December 2010. Net new money inflows of CHF 42 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.

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

Certain items affecting our results in 2011

Cost reduction program

In July 2011, we announced a cost reduction program intended to align our cost base with changes in the market environment. As part of this program, in August we announced that we would reduce our headcount by approximately 3,500 and rationalize our real estate requirements. As a result, we expect to recognize restructuring charges totaling approximately CHF 550 million, of which CHF 403 million was recognized in 2011.

Staff reductions announced in August included redundancies as well as natural attrition. Of the expected 3,500 staff reductions, approximately 45% will come from the Investment Bank, 35% from Wealth Management & Swiss Bank, 10% from Global Asset Management, and 10% from Wealth Management Americas. The majority of affected staff departed in 2011.

UBS will continue to be vigilant in managing its cost base while remaining committed to investing in growth areas.

➔ **Refer to "Note 37 Reorganizations and disposals" in the "Financial information" section of this report for more information**

Unauthorized trading incident

In September 2011, we announced that the Investment Bank had incurred a loss of CHF 1,951 million (USD 2,229 million) due to an unauthorized trading incident. Large stock index futures positions were offset in our systems with fictitious, forward-settling exchange-traded funds (ETF) positions. These fictitious ETF positions masked the risk related to the futures positions, and ultimately the substantial losses incurred on them. Our risk and operational systems detected unauthorized or unexplained activity, but this was not sufficiently investigated nor was appropriate action taken to ensure that existing controls were enforced.

The resulting loss adversely impacted the Group's pre-tax profit for the year by CHF 1,849 million. The remainder of the loss, CHF 102 million, was a foreign currency translation loss recognized directly in equity (other comprehensive income) as a result of the fact that the activity took place in a foreign operation in a functional currency other than the Swiss franc.

A special committee of the Board of Directors was established and is conducting an investigation of the unauthorized trading activity and its relation to the control environment. A second investigation is being carried out jointly by the Swiss Financial Market Supervisory Authority (FINMA) and the UK Financial Services Authority (UK FSA); they have retained KPMG for this purpose. In addition, FINMA and the UK FSA have announced that they have commenced enforcement proceedings against UBS in relation to this matter. We are cooperating fully with these investigations and are committed to addressing all findings to ensure that we have a risk management framework that better protects the firm and its shareholders.

➔ **Refer to the "Impact of the unauthorized trading" sidebar in the "Compensation" section of this report for more information**

Sale of our strategic investment portfolio

In the third quarter of 2011, we sold our strategic investment portfolio comprised of long-term fixed-interest-rate US Treasury securities with a face value of USD 9.4 billion and UK Government bonds with a face value of GBP 2.9 billion. The gain on sale of CHF 722 million was recognized as other income. Of this gain, CHF 433 million was allocated to Wealth Management and CHF 289 million to Retail & Corporate.

This portfolio was established in the fourth quarter of 2010 to hedge negative effects on the bank's net interest income stemming from the prolonged period of very low interest rate yields. As the market yields of the positions were declining below targeted levels, we closed these positions to realize gains.

➔ **Refer to the "Interest rate and currency management" section of this report for more information on our management of non-trading interest rate risk**

Adjustments to 2011 results after issuance of fourth quarter report

After the publication of our fourth quarter 2011 financial report on 7 February 2012, management adjusted the 2011 results to account for subsequent events. The net, after-tax effect of these adjustments was to reduce net profit attributable to UBS shareholders by CHF 74 million, which decreased basic and diluted earnings per share by CHF 0.02.

The principal change relates to an agreement in principle that we entered into with a monoline insurer in March 2012, under which we agreed to the commutation of certain credit default swap contracts in exchange for a net cash payment. This had the effect of reducing the Investment Bank's 2011 net trading income by CHF 167 million. The settlement, if consummated, would also include the resolution of litigation and the mutual release of claims, as well as the removal of certain existing impediments to the restructuring or sale by UBS of legacy assets which account for aggregate Basel III risk-weighted assets of almost CHF 15 billion. The transaction is in keeping with our strategy to reduce our Basel III risk-weighted assets in anticipation of future capital requirements. We cannot predict when or at what prices the underlying assets may be restructured or sold.

➔ **Refer to "Note 32 Events after the reporting period" in the "Financial information" section of this report for more information**

2010

Results

In 2010, we reported a Group net profit attributable to shareholders of CHF 7,534 million, a profit before tax from continuing operations of CHF 7,455 million and a profit before tax from discontinued operations of CHF 2 million. In 2009, we recorded a net loss attributable to shareholders of CHF 2,736 million.

Operating income

Total operating income was CHF 31,994 million in 2010, up from CHF 22,601 million in 2009. Net interest income was CHF 6,215 million compared with CHF 6,446 million in the prior year.

Net interest and trading income

Net interest and trading income was CHF 13,686 million compared with CHF 6,122 million in 2009.

The Investment Bank's fixed income, currencies and commodities' (FICC) trading revenues improved due to an increase in credit trading revenues, which was partially offset by decreases in trading revenues in our macro and emerging markets businesses. A major part of the improvement was due to de-risking and reduction of the residual positions portfolio. Equities trading revenues, excluding own credit, decreased compared with the previous year, primarily in the derivatives and equity-linked business.

An own credit loss on financial liabilities designated at fair value of CHF 548 million was recorded in 2010, compared with a CHF 2,023 million loss in 2009. This was due to continuing but comparatively less tightening of our credit spreads in 2010. Debit valuation adjustments on derivatives in the Investment Bank's FICC business were positive CHF 155 million compared with negative CHF 1,882 million in 2009. This resulted from the widening of overall credit spreads in the second quarter, partially offset by a tightening of the credit spreads in the third and fourth quarters.

Interest income in Wealth Management was down CHF 116 million, or 6%, due to pressure from the low interest rate environment and the decrease in value of the euro and US dollar against the Swiss franc in 2010. Interest income in Retail & Corporate was down 259 million, or 10%, partly as low market interest rates continued to exert downward pressure on interest margins. In Wealth Management Americas, interest income declined by CHF 105 million, or 13%, to CHF 695 million due to lower investment portfolio interest income, partly offset by higher income from securities-backed lending. Net trading income in Wealth Management Americas declined CHF 193 million to CHF 570 million, partly due to lower municipal trading income.

Net interest and trading income in the Corporate Center increased and included a CHF 745 million gain on the valuation of our option to acquire the SNB StabFund's equity compared with a CHF 117 million gain in the prior year.

Credit loss expenses

In 2010, we reported net credit loss expenses of CHF 66 million. This included CHF 172 million of impairment charges taken on reclassified and acquired securities, partially offset by recoveries on certain loan positions. The net credit loss expenses in 2009 amounted to CHF 1,832 million.

The net credit loss expenses of the Investment Bank were nil in 2010, compared with net credit loss expenses of CHF 1,698 million in 2009. Credit loss expenses of CHF 172 million in relation to reclassified and acquired securities were primarily related to impairments on our student loan auction rate securities inventory, offset by recoveries on certain loan positions.

Wealth Management & Swiss Bank reported net credit loss expenses of CHF 64 million for 2010, compared with CHF 133 million in 2009.

➔ Refer to the "Risk, treasury and capital management" 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 was CHF 17,160 million, compared with CHF 17,712 million in the previous year. Income declined slightly in all major fee categories except for portfolio management and advisory fees, as outlined below:

- *Underwriting fees* were CHF 1,912 million compared with CHF 2,386 million in the prior year, due to a decline in both equity and debt underwriting fees. The decrease in equity underwriting fees resulted from an overall market slowdown. Debt underwriting fees declined due to lower revenues in the Investment Bank's debt capital market business.
- *Mergers and acquisitions and corporate finance fees* were CHF 857 million, a decrease from CHF 881 million in the prior year. This was due to reduced market activity as deal appetite remained subdued in the first half of 2010.
- *Net brokerage fees* fell 8% to CHF 3,837 million mainly due to low transaction volumes and margin compression in 2010.
- *Investment fund fees* were CHF 3,898 million, a 3% decrease compared with the prior year. Lower asset based commission fees on UBS funds were partly offset by higher fees on third-party funds and sales-based commission income.
- *Portfolio management and advisory fees* increased 2% to CHF 5,959 million, mainly due to higher portfolio management fees in our Wealth Management Americas business division. This was partly offset by lower portfolio management fees in Global Asset Management, primarily resulting from lower performance fees in its alternative and quantitative investments business, and by lower portfolio management and advisory fees in Wealth Management & Swiss Bank and the Investment Bank.
- *Other commission expense* fell 10% to CHF 964 million, mainly due to lower commissions paid for payment transactions, other services and management advisory.

Other income

Other income was CHF 1,214 million in 2010, compared with CHF 599 million in the previous year. Other income in 2010 included a CHF 180 million gain from the sale of investments in associates owning real estate in New York, a gain of CHF 158 million from the sale of a property in Zurich, gains of CHF 324 million from the disposal of loans and receivables (including sales and issuer redemptions of auction rate securities), a CHF 69 million demutualization gain from our stake in the Chicago Board Options Exchange, and a negative CHF 45 million valuation adjustment on a property fund held by Wealth Management & Swiss Bank.

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

Operating expenses

Total operating expenses were CHF 24,539 million in 2010, compared with CHF 25,162 million in 2009. Operating expenses in 2010 included CHF 113 million of net restructuring charges, while operating expenses in 2009 included goodwill impairment charges of CHF 1,123 million and restructuring charges of CHF 791 million.

Personnel expenses

Personnel expenses were CHF 16,920 million, up from CHF 16,543 million in the prior year. Personnel expenses recorded in 2010 included discretionary variable compensation expenses of CHF 4.1 billion, of which CHF 1.5 billion relates to variable compensation brought forward from prior years. The discretionary bonus pool granted to employees for the performance year 2010 was CHF 4.2 billion, 11% lower than in the previous year. Of this amount, CHF 2.6 billion is recognized in the income statement in 2010, and CHF 1.6 billion will be deferred to future periods. Other personnel expenses in 2010 included a charge of CHF 0.2 billion for the UK bank payroll tax.

Other variable compensation was CHF 230 million in 2010 compared with CHF 699 million in 2009. The decrease was mainly due to restructuring-related severance costs recognized in 2009.

➔ Refer to "Note 6 Personnel expenses" and "Note 30 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 6,585 million in 2010 compared with CHF 6,248 million in 2009. Marketing and public relations expenses increased primarily due to the costs associated with sponsoring and branding campaigns related to the global re-launch of the UBS brand. Other general and administrative expenses increased due to higher litigation provisions, partially offset by lower restructuring provisions. Costs of outsourcing IT and other services as well as travel and entertainment were higher compared with the prior year. These increases were partly offset by reduced spending on occupancy, rent and maintenance of IT and other equipment, communication and market data services, administration and professional fees.

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

Depreciation, amortization and impairment of goodwill

Depreciation was CHF 918 million in 2010, compared with CHF 1,048 million in 2009. Amortization of intangible assets was CHF 117 million compared with CHF 200 million in the prior year. No goodwill impairment charges were recorded in 2010. A goodwill impairment charge of CHF 1,123 million relating to the sale of UBS Pactual was recorded in 2009.

Income tax

We recognized a net income tax benefit in our income statement of CHF 381 million for 2010. This included a deferred tax benefit of CHF 605 million and current tax expenses of CHF 224 million.

The deferred tax benefit reflects the recognition of additional deferred tax assets in respect of tax losses and temporary differences in a number of foreign locations including the US (tax benefit of CHF 1,161 million) and Japan (tax benefit of CHF 98 million), taking into account the updated taxable profit forecast assumptions over the five-year time horizon used for recognition purposes. This was partly offset by a Swiss net deferred tax expense. Swiss tax losses, for which deferred tax assets have previously been recognized, were used against profits for the year (tax expenses of CHF 1,409 million). This was partly offset by an upward revaluation of Swiss deferred tax assets taking into account revised profit forecast assumptions (tax benefit of CHF 741 million).

The current tax expenses relate to tax expenses in respect of taxable profits of Group entities, partially offset by tax benefits arising from the agreement on prior year positions with tax authorities in various locations.

During 2009, we recognized a net income tax benefit in our income statement of CHF 443 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 2010 was CHF 304 million, compared with CHF 610 million for 2009. This decrease was primarily the consequence of the attribution in 2009, rather than in 2010, of CHF 132 million of net profit to non-controlling interests in connection with certain dividends payable in 2010 on hybrid capital instruments classified as non-owner equity. This attribution was made out of 2009's net profit following a determination that a triggering event had occurred that caused the 2010 dividend payments to become obligatory under the terms of these hybrid capital instruments. The triggering event was the cash payment made by UBS in 2009 to the

Swiss Confederation in consideration of the Confederation's waiver of its right to receive future coupon payments on the mandatory convertible notes due in 2011.

Had the 2010 dividend payments been applied to net profit in 2010 rather than in 2009, the net profit attributed to non-controlling interests would have been CHF 478 million in 2009 and CHF 436 million in 2010.

Comprehensive income attributable to UBS shareholders

Comprehensive income attributable to UBS shareholders in 2010 was CHF 5,875 million, including net profit attributable to UBS shareholders of CHF 7,534 million, partially offset by other comprehensive income attributable to UBS shareholders of negative CHF 1,659 million.

OCI attributable to UBS shareholders was negative in 2010 due to: (i) losses in the currency translation account of CHF 909 million (net of tax) related to the Swiss franc carrying value of investments in subsidiaries whose reporting currencies are other than Swiss francs; (ii) fair value losses on financial investments available-for-sale of CHF 607 million (net of tax); and (iii) changes in the replacement values of interest rate swaps designated as hedging instruments of negative CHF 143 million (net of tax). Foreign currency translation-related OCI losses attributable to UBS shareholders of CHF 1,501 million (net of tax) in 2010 largely resulted from the strengthening of the Swiss franc against the US dollar, British pound and euro. We have foreign operations conducted through entities with these functional currencies. These losses in foreign currency translation were partially offset by an out-of-period credit of CHF 592 million resulting from the correction of prior period misstatements. Fair value losses on financial investments available-for-sale predominantly relate to our fixed-interest bearing long-term bond portfolio, which consists of US and UK government bonds. During the fourth quarter, the fair value of this portfolio decreased, mostly due to rising market interest rates. On a net basis, the fair value movement of US dollar, euro and British pound fix-receiver and fixed-payer interest rate swaps designated in cash flow hedges was slightly negative during the year.

➔ **Refer to the "Statement of comprehensive income" and "Note 1 Summary of significant accounting policies" in the "Financial information" section of this report for more information**

Invested assets

Total invested assets were CHF 2,152 billion on 31 December 2010, a decrease of 4% from CHF 2,233 billion on 31 December 2009. Positive market developments were more than offset by negative currency effects and net new money outflows.

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

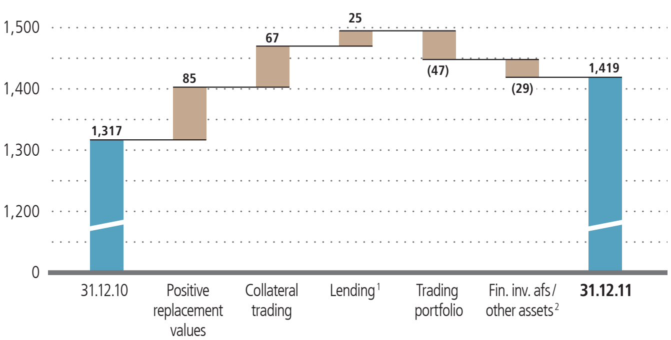
Balance sheet

Balance sheet

				% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Assets				
Cash and balances with central banks	**40,638**	26,939	20,899	51
Due from banks	**23,218**	17,133	16,804	36
Cash collateral on securities borrowed	**58,763**	62,454	63,507	(6)
Reverse repurchase agreements	**213,501**	142,790	116,689	50
Trading portfolio assets	**181,525**	228,815	232,258	(21)
of which: pledged as collateral	***39,936***	*61,352*	*44,221*	*(35)*
Positive replacement values	**486,584**	401,146	421,694	21
Cash collateral receivables on derivative instruments	**41,322**	38,071	53,774	9
Financial assets designated at fair value	**10,336**	8,504	10,223	22
Loans	**266,604**	262,877	266,477	1
Financial investments available-for-sale	**53,174**	74,768	81,757	(29)
Accrued income and prepaid expenses	**6,327**	5,466	5,816	16
Investments in associates	**795**	790	870	1
Property and equipment	**5,688**	5,467	6,212	4
Goodwill and intangible assets	**9,695**	9,822	11,008	(1)
Deferred tax assets	**8,526**	9,522	8,868	(10)
Other assets	**12,465**	22,681	23,682	(45)
Total assets	**1,419,162**	1,317,247	1,340,538	8
Liabilities				
Due to banks	**30,201**	41,490	31,922	(27)
Cash collateral on securities lent	**8,136**	6,651	7,995	22
Repurchase agreements	**102,429**	74,796	64,175	37
Trading portfolio liabilities	**39,480**	54,975	47,469	(28)
Negative replacement values	**473,400**	393,762	409,943	20
Cash collateral payables on derivative instruments	**67,114**	58,924	66,097	14
Financial liabilities designated at fair value	**88,982**	100,756	112,653	(12)
Due to customers	**342,409**	332,301	339,263	3
Accrued expenses and deferred income	**6,850**	7,738	8,689	(11)
Debt issued	**140,617**	130,271	131,352	8
Other liabilities	**61,692**	63,719	72,344	(3)
Total liabilities	**1,361,309**	1,265,384	1,291,905	8
Equity				
Share capital	**383**	383	356	0
Share premium	**34,614**	34,393	34,824	1
Treasury shares	**(1,160)**	(654)	(1,040)	77
Equity classified as obligation to purchase own shares	**(39)**	(54)	(2)	(28)
Retained earnings	**23,603**	19,444	11,910	21
Cumulative net income recognized directly in equity, net of tax	**(3,955)**	(6,693)	(5,034)	(41)
Equity attributable to UBS shareholders	**53,447**	46,820	41,013	14
Equity attributable to non-controlling interests	**4,406**	5,043	7,620	(13)
Total equity	**57,852**	51,863	48,633	12
Total liabilities and equity	**1,419,162**	1,317,247	1,340,538	8

2011 asset development

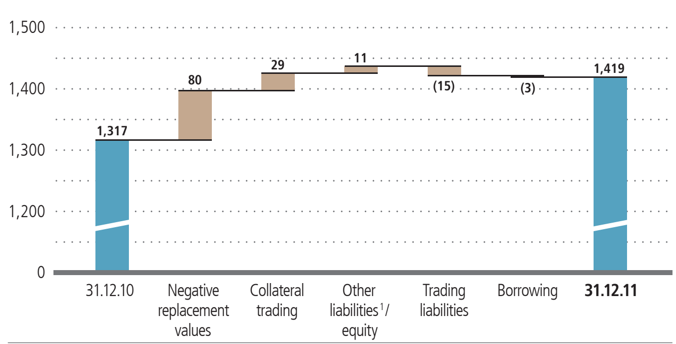
CHF billion



1 Including cash and balances with central banks. 2 Including cash collateral receivables on derivative instruments.

2011 liabilities and equity development

CHF billion



1 Including cash collateral payables on derivative instruments.

Balance sheet development

31.12.11 vs. 31.12.10

Our total assets stood at CHF 1,419 billion on 31 December 2011, up CHF 102 billion or 8% from CHF 1,317 billion on 31 December 2010. The increase occurred mainly in positive replacement values, which grew by CHF 85 billion to CHF 487 billion.

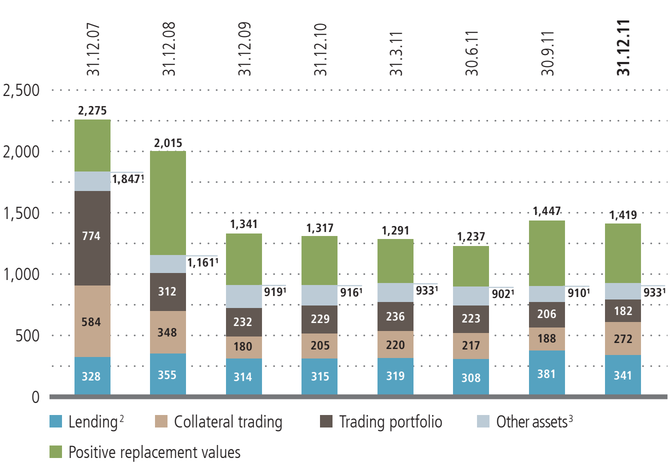
Our funded assets volume, which excludes positive replacement values, rose by CHF 16 billion to CHF 933 billion. Collateral trading assets grew by CHF 67 billion to CHF 272 billion, while lending assets, which include cash deposits at central banks, rose by CHF 25 billion to CHF 341 billion. These increases were partially offset by lower trading portfolio assets, which dropped CHF 47 billion to CHF 182 billion, reduced financial investments available-for-sale positions, which fell by CHF 22 billion to CHF 53 billion, and prime brokerage receivables in other assets, which declined by CHF 10 billion to CHF 6 billion.

Currency movements between 31 December 2010 and 31 December 2011 had only a small effect on our funded balance sheet assets, which led to a net increase of CHF 2 billion.

To a large extent, the total asset increase occurred in the Investment Bank, as the abovementioned change in positive replacement values and collateral trading assets significantly contributed to the business division's CHF 107 billion increase to CHF 1,074 billion. Wealth Management and Wealth Management Americas increased their lending activities resulting in balance sheet assets growth of CHF 7 billion to CHF 101 billion and CHF 4 billion to CHF 54 billion, respectively. The Corporate Center's balance sheet

Balance sheet development – assets

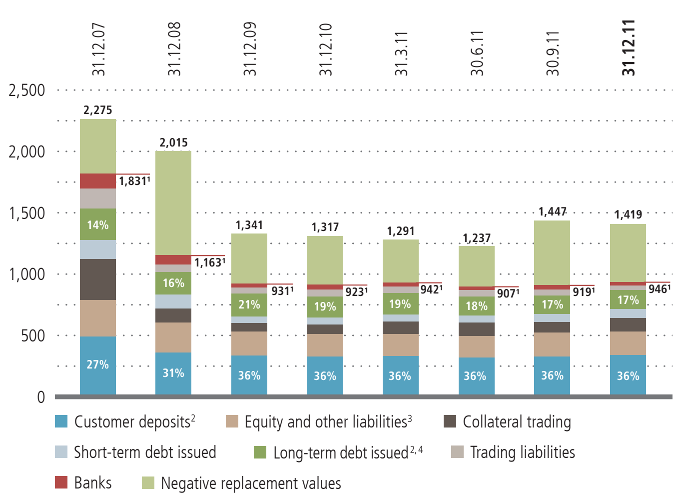
CHF billion



1 Total balance sheet excluding positive replacement values. 2 Including cash and balances with central banks. 3 Including cash collateral receivables on derivative instruments.

Balance sheet development – liabilities and equity

CHF billion



1 Total balance sheet excluding negative replacement values. 2 Percentages based on total balance sheet size excluding negative replacement values. 3 Including cash collateral payables on derivative instruments. 4 Including financial liabilities designated at fair value.

declined by CHF 10 billion to CHF 27 billion following the sale of our strategic investment portfolio in the third quarter of 2011. Retail & Corporate's assets declined by a net CHF 4 billion to CHF 149 billion, as the reduction in cash deposits at central banks outweighed the growth in the lending book. The balance sheet size of Global Asset Management remained relatively stable at CHF 15 billion.

Balance sheet positions disclosed in this section represent year-end positions. Intra-quarter balance sheet positions may be different.

➔ 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 2011 and 2010

Lending and borrowing

Lending (including cash and balances with central banks)

Cash and balances with central banks was CHF 41 billion on 31 December 2011, an increase of CHF 14 billion from the prior year-end. Interbank lending rose by CHF 6 billion to CHF 23 billion, mainly on higher short-term lending activities by the Investment Bank. Loans to customers increased by a net CHF 4 billion to CHF 267 billion, predominantly in our wealth management businesses, which contributed a CHF 14 billion volume growth across several products, including fixed term, Lombard and call loans as well as LIBOR-based mortgages. This increase was partly offset by the continued sale of our Investment Bank's residual risk positions of approximately CHF 10 billion.

➔ Refer to the "Risk, treasury and capital management" section for more information

Borrowing

Overall, our unsecured funding remained relatively stable, declining by CHF 3 billion to CHF 602 billion, however with some shifts in products.

Reduced balances were recorded in the following categories: (i) financial liabilities designated at fair value with a decrease of CHF 12 billion to CHF 89 billion on 31 December 2011 on lower valuations of equity-linked notes issued and to a lesser extent on maturities of credit-linked notes issued; (ii) short-term interbank borrowings (Due to banks), which was CHF 30 billion on 31 December 2011, were down CHF 11 billion from 31 December 2010 due to lower bank borrowings by the Investment Bank; and (iii) long-term debt declined CHF 5 billion to CHF 69 billion, as maturing senior bonds and lower tier 2 subordinated bonds outweighed new covered bond issuances.

These declines were almost offset by higher client deposits (Due to customers) and increased money market paper issuances. Client deposits amounted to CHF 342 billion on 31 December 2011, a net increase of CHF 10 billion compared with 31 December 2010 due to cash deposits inflows in our wealth management and retail businesses of CHF 23 billion mainly in current, savings and personal accounts, partly offset by lower wholesale client deposits in the Investment Bank of CHF 11 billion. Money market paper issued was CHF 71 billion at year-end 2011, an increase of CHF 15 billion from the prior year-end, mainly due to a higher level of outstanding commercial paper and increased issuance of yield enhancement products for our wealth management clients.

➔ Refer to the "Liquidity and funding management" section for more information on long-term debt issuance

Trading portfolio

Trading portfolio assets dropped by CHF 47 billion to stand at CHF 182 billion on 31 December 2011. The Investment Bank reduced certain debt instruments and increased liquid collateral trading investments. The following products were reduced: CHF 20 billion of money market papers mainly in Swiss and Japanese government bills, CHF 12 billion of corporate and bank debt instruments and CHF 10 billion of equity instruments, mainly due to lower valuations on equity-linked notes issued hedges.

Reverse repurchase agreements and cash collateral on securities borrowed

Cash collateral on securities borrowed and reverse repurchase agreements increased by CHF 67 billion to CHF 272 billion, mainly due to the aforementioned shift from trading portfolio assets and general higher trading activities in the Investment Bank.

Replacement values

The positive and the negative replacement values of derivative instruments rose by similar amounts on both sides of the balance sheet, increasing by CHF 85 billion (21%) and CHF 80 billion

(20%), respectively, and ending 2011 at CHF 487 billion and CHF 473 billion, respectively. Increases in positive replacement values occurred mainly in interest rate contracts, which rose by CHF 92 billon due to a flattening of the interest yield curves, and credit derivative contracts, which rose by CHF 11 billion due to a general widening of credit spreads. These increases were partially offset by lower foreign exchange contracts, which declined by CHF 16 billion, mainly due to currency movements.

Financial investments available-for-sale

Financial investments available-for-sale declined by CHF 22 billion to CHF 53 billion in 2011, primarily reflecting the sale of our strategic investment portfolio in the third quarter of 2011.

Other assets / other liabilities

Prime brokerage receivables declined by CHF 10 billion to CHF 6 billion, mainly due to continued client concerns related to the eurozone and other uncertainties. Cash collateral payables on derivatives increased by CHF 8 billion on higher current accounts arising from over-the-counter derivatives.

Equity

On 31 December 2011, equity attributable to UBS shareholders was CHF 53.4 billion, representing an increase of CHF 6.6 billion compared with 31 December 2010. This increase reflected (i) annual net profit of CHF 4.2 billion; (ii) net positive effects recognized in equity of CHF 2.7 billion related to fair value gains of CHF 1.5 billion on interest rate swaps designated as cash flow hedges, currency translation effects of CHF 0.7 billion and fair value gains of CHF 0.5 billion on financial investments available-for-sale; and (iii) a net increase of CHF 0.2 billion in share premium, mainly related to equity compensation plans. These increases were partially offset by net treasury share repurchases of CHF 0.5 billion. Equity attributable to non-controlling interests decreased by CHF 0.6 billion to CHF 4.4 billion, mainly related to the redemption of trust preferred securities.

➔ **Refer to the "Statement of changes in equity" in the "Financial information" section, and to "Comprehensive income attributable to UBS shareholders" in the "UBS results" section of this report for more information**

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 (financial assets), 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, retained or contingent interests in assets transferred to non-consolidated entities and obligations and liabilities (including contingent obligations and liabilities) from retained interests in non-consolidated entities.

When we, through these arrangements, incur an obligation or become entitled to an asset, we recognize them 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). As of 31 December 2011, there were no holdings which required reconsideration of the consolidation assessment.

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 21 Provisions and contingent liabilities", "Note 23 Derivative instruments and hedge accounting" and "Note 25 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 involvements.

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 "Involvements in non-consolidated SPE held by UBS". As of 31 December 2011, the carrying value of our purchased and retained interests relating to non-consolidated SPE and CDO totaled CHF 10.7 billion, of which CHF 7.1 billion was held in *Trading portfolio assets* and measured at fair value and CHF 3.6 billion was held at amortized cost within *Loans.* In addition, we had involvements in SPE in the form of net *Negative replacement values,* mainly interest rate swaps and credit default swaps, of CHF 0.6 billion as of 31 December 2011. 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 our involvements in the non-consolidated SPE.

During 2011 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 involvements in these special purpose entities, which are included in the disclosure on the next page. UBS did not consolidate these special purpose entities as of 31 December 2011 as we did not control them.

- ➔ **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 2011 securitization activities, we also continue to hold involvement in earlier securitization issuances, mainly legacy positions, which were originated by UBS or by third-parties. The volume and size of these positions, a majority of which are linked to the US mortgage market, have been further reduced as of 31 December 2011 when compared with the prior year.

Our involvement in non-consolidated securitization vehicles and collateralized debt obligations disclosed in this section are typically managed on a portfolio basis alongside hedges and other offsetting financial instruments. The numbers presented do not include these offsetting factors.

Purchased and retained trading portfolio assets included in the table on the next page exclude residential and commercial mortgage-backed securities which are backed by a US government agency or instrumentality or US government-sponsored enterprise (for example the Government National Mortgage Association, the Federal National Mortgage Association, or the Federal Home Loan Mortgage Corporation). These positions are excluded due to the comprehensive involvement of the US government in these organizations and their significantly lower risk profile.

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 or US 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. Refer to "Note 28b Reclassified financial assets" in the "Financial information" section of this report for further 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 scopes, mainly exclusion of certain government-backed and synthetic securitization transactions from the table below, (ii) a different measurement basis in certain cases, 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 for the transaction (i.e. sponsored). For Basel 2.5 Pillar 3 disclosures, originated and sponsored activities are presented separately.

Liquidity facilities and similar obligations

On 31 December 2011 and 2010, we had no significant exposure through liquidity facilities and guarantees to structured investment vehicles, conduits and other similar types of SPE. Losses resulting from such obligations were not significant in 2011 and 2010.

Support 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

Non-consolidated securitization vehicles and collateralized debt obligations

CHF billion	Involvements 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 2011	Carrying value	Fair value	Nominal value	Original principal outstanding	Current principal outstanding	Delinquency amounts
Originated by UBS						
CDO						
Residential mortgage	0.0	0.0	0.7	9.6	3.2	0.0
Commercial mortgage	0.4	0.0	1.2	7.1	5.3	0.0
Other ABS	0.1	0.0	0.0	7.8	7.4	0.0
Securitizations						
Residential mortgage	0.0	0.0	1.3	19.9	4.0	1.1
Commercial mortgage	0.2	0.0	0.0	61.1	42.9	3.2
Other ABS	0.0	0.0	0.0	1.2	0.5	0.1
Total	**0.7**	**0.0**	**3.2**	**106.7**	**63.3**	**4.4**
Not originated by UBS						
CDO						
Residential mortgage	0.4	0.0	0.0	39.9	18.1	0.3
Commercial mortgage	1.4	0.0	0.0	79.4	75.9	0.3
Other ABS	1.7	0.1	0.9	49.8	52.7	0.1
Securitizations						
Residential mortgage	0.9	(0.7)	2.6	427.5	105.0	23.5
Commercial mortgage	3.2	0.0	0.4	1,007.3	622.5	54.7
Other ABS	2.5	0.0	0.0	397.7	191.8	4.3
Total	**10.0**	**(0.6)**	**3.9**	**2,001.6**	**1,066.0**	**83.2**

1 Includes loans and receivables measured at amortized cost in the amount of CHF 0.1 billion originated by UBS and CHF 3.5 billion not originated by UBS as well as trading assets measured at fair value in the amount of CHF 0.6 billion originated by UBS and CHF 6.5 billion not originated by UBS. 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.

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 markets 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 there were regulatory requirements, legal requirements or other exceptional circumstances. Throughout 2011 we have continued to reduce our positions in these acquired fund units or assets, and as of 31 December 2011 the carrying value of fund units acquired and assets purchased from such funds totaled CHF 0.3 billion.

Direct acquisitions of fund units were not material in 2011. Purchases of assets from the funds that we manage and guarantees granted to third parties in the context of such non-consolidated funds were also not material. Collateralized financing provided in the ordinary course of business to non-consolidated investment funds was CHF 0.7 billion as of 31 December 2011. Net losses incurred on fund units, which are generally accounted as financial investments available-for-sale, were not material in 2011.

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 2011.

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 2011, the exposure to credit risk (gross values less sub-participations) for credit guarantees and similar instruments was CHF 17.4 billion compared with CHF 15.4 billion as of 31 December 2010. Fee income from issuing guarantees was not significant to total revenues in 2011.

Guarantees represent irrevocable assurances, subject to the satisfaction of certain conditions, that we will make 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 2011, we recognized net credit loss recoveries of CHF 22 million, compared with net credit loss expenses of CHF 43 million for the year ended 31 December 2010, related to obligations incurred for guarantees and loan commitments. Provisions recognized for guarantees and loan commitments were CHF 93 million as of 31 December 2011, and CHF 130 million as of 31 December 2010.

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 otherwise be exposed to additional financial obligations as a result. 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 2011 to 30 June 2012, 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 2011, we consider the probability of a material loss from our obligation to be remote.

Underwriting commitments

Gross equity underwriting commitments on 31 December 2011 and 31 December 2010 amounted to CHF 1.1 billion and CHF 0.4 billion, respectively. Gross debt and private equity underwriting commitments on 31 December 2011 and 31 December 2010 were not material.

Financial instruments not recognized on the balance sheet

The table below shows the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

	31.12.11			31.12.10		
CHF million	**Gross**	**Sub-participations**	**Net**	Gross	Sub-participations	Net
Guarantees						
Credit guarantees and similar instruments	**8,671**	**(315)**	**8,356**	8,612	(401)	8,212
Performance guarantees and similar instruments	**3,337**	**(493)**	**2,845**	3,362	(506)	2,856
Documentary credits	**6,897**	**(737)**	**6,160**	4,561	(255)	4,306
Total guarantees	**18,905**	**(1,545)**	**17,360**	16,535	(1,162)	15,374
Commitments						
Loan commitments	**58,192**	**(1,640)**	**56,552**	56,851	(1,475)	55,376
Underwriting commitments	**1,160**	**(278)**	**882**	404	(196)	208
Total commitments	**59,352**	**(1,918)**	**57,434**	57,255	(1,671)	55,584
Forward starting transactions[1]						
Reverse repurchase agreements	**27,113**			39,036		
Securities borrowing agreements	**502**			454		
Repurchase agreements	**21,134**			22,468		
Securities lending agreements	**0**			0[2]		

1 Cash to be paid in the future by either UBS or the counterparty. 2 In 2011, we corrected the value presented on the line securities lending agreements by CHF 783 million.

Contractual obligations

The table below includes contractual obligations by period as of 31 December 2011.

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 25 Operating lease commitments" in the "Financial information" section of this report.

The following liabilities are recognized on the balance sheet and are excluded from the table: (i) provisions (as disclosed in "Note 21 Provisions and contingent liabilities" in the "Financial information" section of this report); (ii) current and deferred tax liabilities (refer to "Note 22 Income taxes" in the "Financial information" section of this report for more information); (iii) liabilities to employees for equity participation plans; (iv) settlement and clearing accounts; and (v) amounts due to banks and customers.

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).

Contractual obligations

	Payment due by period			
CHF million	< 1 year	1–3 years	3–5 years	> 5 years
Long-term debt obligations	31,315	45,073	28,041	53,793
Finance lease obligations	46	30		
Operating lease obligations	819	1,332	977	2,591
Purchase obligations	1,010	827	199	3
Other liabilities	492	2	2	2
Total	**33,682**	**47,264**	**29,219**	**56,389**

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 2011, we have refined our definition of cash and cash equivalents to restrict it to balances with an original maturity of three months or less. Prior period amounts have been restated.

➔ **Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" in the "Financial information" section of this report for more information**

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 used (before changes in operating assets and liabilities and income taxes paid, net of refunds) totaled CHF 0.7 billion in 2011, compared with net cash flow generated in 2010 of CHF 8.8 billion.

In 2011, net cash of CHF 47.3 billion was utilized by an overall increase in operating assets. This cash consumption was mainly due to an increase in secured collateral trading positions (reverse repurchase agreements and cash collateral on securities borrowed) of CHF 67.0 billion and an increase in net due from/to banks of CHF 14.3 billion. These outflows were partially offset by cash inflows from operating assets of CHF 34.0 billion resulting from lower net trading portfolio, net replacement values and financial assets designated at fair value as well as reduced net loans/due to customers and accrued income, prepaid expenses and other assets including prime brokerage activities.

Net cash inflows of CHF 33.8 billion resulted from an overall increase in operating liabilities including net payments for income taxes, mainly reflecting an increase in repurchase agreements and cash collateral on securities lent (secured collateral trading) of CHF 29.1 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 flow from UBS's funding activities was CHF 2.7 billion, reflecting net cash inflow from 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.

2010

As of 31 December 2010, cash and cash equivalents increased to CHF 79.9 billion, CHF 7.0 billion higher than CHF 72.9 billion at the end of 2009.

Operating activities

Operating activities generated a cash inflow of CHF 13.4 billion in 2010 compared with a cash inflow of CHF 86.7 billion in 2009. Operating cash inflows (before changes in operating assets and liabilities and income taxes paid, net of refunds) totaled CHF 8.8 billion in 2010, a decrease of CHF 1.0 billion from 2009. Net profit improved CHF 10.0 billion compared with 2009.

Cash inflow of CHF 3.8 billion was generated by the net decrease in operating assets and cash inflow of CHF 1.3 billion was generated from the net increase in operating liabilities. Net payments to tax authorities related to income taxes were CHF 0.5 billion in 2010, almost unchanged from the previous year.

Investing activities

Net cash flow from investing activities was CHF 4.1 billion compared with cash flow used in investing activities of CHF 78.8 billion in 2009.

The net divestment of financial investments available-for-sale was CHF 4.2 billion.

Financing activities

In 2010, financing activities generated net cash inflows of CHF 1.8 billion. This reflected the cash outflow for redemptions and dividends paid on preferred securities reflected in non-controlling interests of CHF 2.1 billion, the issuance of CHF 78.4 billion of long-term debt and long-term debt repayments that totaled CHF 77.5 billion. Net short-term debt issued generated a net cash inflow of CHF 4.5 billion. In 2009, UBS had a net cash outflow of CHF 54.2 billion from financing activities.

Wealth Management & Swiss Bank

Business division reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	31.12.10
Net interest income	**4,296**	4,159	4,533	3
Net fee and commission income	**5,537**	6,142	6,259	(10)
Net trading income	**1,211**	895	819	35
Other income	**776**[1]	94	(88)	726
Income	**11,820**[1]	11,291	11,523	5
Credit loss (expense) / recovery	**(90)**	(64)	(133)	41
Total operating income	**11,730**[1]	11,226	11,390	4
Personnel expenses	**4,924**	4,778	5,197	3
General and administrative expenses	**2,026**	2,101	2,017	(4)
Services (to) / from other business divisions	**(152)**	(61)	(90)	(149)
Depreciation of property and equipment	**300**	309	289	(3)
Amortization of intangible assets	**37**	19	67	95
Total operating expenses	**7,135**[2]	7,147	7,480	0
Business division performance before tax	**4,596**[1]	4,080	3,910	13
Key performance indicators[3]				
Pre-tax profit growth (%)	**12.6**	4.3	(35.0)	
Cost / income ratio (%)	**60.4**	63.3	64.9	
Additional information				
Average attributed equity (CHF billion)[4]	**10.0**	9.0	9.0	11
Return on attributed equity (RoaE) (%)	**46.0**	45.3	43.4	
BIS risk-weighted assets, Basel II (CHF billion)[5]	**41.8**	43.4	48.6	(4)
BIS risk-weighted assets, Basel 2.5 (CHF billion)[5]	**41.8**	N/A	N/A	
Return on risk-weighted assets, Basel II, gross (%)[5]	**28.1**	24.3	21.7	
Goodwill and intangible assets (CHF billion)	**1.4**	1.5	1.6	(7)
Invested assets (CHF billion)	**883**	904	960	(2)
Client assets (CHF billion)	**1,723**	1,799	1,844	(4)
Loans, gross (CHF billion)	**210.4**	201.9	197.2	4
Due to customers (CHF billion)	**288.1**	268.5	282.7	7
Personnel (full-time equivalents)	**27,334**	27,752	27,548	(2)

1 Includes revenues from the sale of our strategic investment portfolio of CHF 722 million. 2 Operating expenses include restructuring charges of CHF 114 million. Refer to "Note 37 Reorganizations and disposals" in the "Financial information" section of this report for more information. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 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 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010 and 31 December 2009. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information.

Wealth Management

Business unit reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	31.12.10
Net interest income	**1,968**	1,737	1,853	13
Net fee and commission income	**4,363**	4,964	5,137	(12)
Net trading income	**878**	647	625	36
Other income	**425**[1]	(3)	(189)	
Income	**7,634**[1]	7,345	7,427	4
Credit loss (expense) / recovery	**11**	11	45	0
Total operating income	**7,645**[1]	7,356	7,471	4
Personnel expenses	**3,258**	3,153	3,360	3
General and administrative expenses	**1,192**	1,264	1,182	(6)
Services (to) / from other business divisions	**318**	449	428	(29)
Depreciation of property and equipment	**165**	163	154	1
Amortization of intangible assets	**37**	19	67	95
Total operating expenses	**4,969**[2]	5,049	5,191	(2)
Business division performance before tax	**2,676**[1]	2,308	2,280	16
Key performance indicators[3]				
Pre-tax profit growth (%)	**15.9**	1.2	(37.2)	
Cost / income ratio (%)	**65.1**	68.7	69.9	
Net new money (CHF billion)[4]	**23.5**	(12.1)	(87.1)	
Gross margin on invested assets (bps)[5]	**101**	92	91	10
Swiss wealth management				
Income	**1,585**	1,543	1,488	3
Net new money (CHF billion)[4]	**1.1**	0.8	(7.2)	
Invested assets (CHF billion)	**126**	137	140	(8)
Gross margin on invested assets (bps)	**121**	112	110	8
International wealth management				
Income	**6,049**	5,802	5,939	4
Net new money (CHF billion)[4]	**22.4**	(12.9)	(79.9)	
Invested assets (CHF billion)	**624**	631	685	(1)
Gross margin on invested assets (bps)[5]	**97**	88	88	10
Additional information				
Average attributed equity (CHF billion)[6]	**5.0**	4.4	4.4	14
Return on attributed equity (RoaE) (%)	**53.5**	52.5	51.8	
BIS risk-weighted assets, Basel II (CHF billion)[7]	**16.6**	16.9	17.9	(2)
BIS risk-weighted assets, Basel 2.5 (CHF billion)[7]	**16.6**	N/A	N/A	
Return on risk-weighted assets, Basel II, gross (%)[7]	**45.7**	41.4	37.4	
Goodwill and intangible assets (CHF billion)	**1.4**	1.5	1.6	(7)
Invested assets (CHF billion)	**750**	768	825	(2)
Client assets (CHF billion)	**875**	920	1,005	(5)
Loans, gross (CHF billion)	**75.1**	67.1	61.9	12
Due to customers (CHF billion)	**170.2**	156.8	182.6	9
Personnel (full-time equivalents)	**15,904**	15,663	15,408	2
Client advisors (full-time equivalents)	**4,202**	4,172	4,286	1

1 Includes revenues from the sale of our strategic investment portfolio: Wealth Management CHF 433 million, of which CHF 79 million relate to Swiss wealth management and CHF 354 million relate to International wealth management. 2 Operating expenses include restructuring charges of CHF 82 million. Refer to "Note 37 Reorganizations and disposals" in the "Financial information" section of this report for more information. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 4 Excludes interest and dividend income. 5 Excludes any effect on profit or loss from a property fund (2011: loss of 22 million, 2010: loss of CHF 45 million, 2009: loss of CHF 155 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 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010 and 31 December 2009. 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

2011

Results

Pre-tax profit was CHF 2,676 million in 2011 compared with CHF 2,308 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 associated with our cost reduction program. When adjusted for these two items, pre-tax profit was CHF 2,325 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 for more information on our cost reduction program and the sale of our strategic investment portfolio**

Operating income

Operating income was CHF 7,645 million compared with CHF 7,356 million. When adjusted for the sale of our strategic investment portfolio, total operating income declined 2% to CHF 7,212 million.

Net interest income increased 13% which included higher treasury-related income, partially due to interest income stemming 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%. 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. A deterioration in client activity, primarily in the second half of the year, impacted fee income. Trading income increased 36%, 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 abovementioned sale of our strategic investment portfolio.

Operating expenses

Operating expenses were down 2% from the prior year, or 3% excluding restructuring charges associated with our cost reduction program.

Personnel expenses increased 3% compared with the prior year. Excluding restructuring costs, personnel expenses were up 1%, primarily reflecting a 4% increase in average headcount, which was partially offset by lower bonus accruals. General and administrative expenses were CHF 1,192 million compared with CHF 1,264 million in 2010, which included a CHF 40 million litigation provision 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 in 2010, mainly due to the impairment of intangible assets related to a past acquisition in the UK.

Development of invested assets

Net new money

Net new money improved significantly, with net inflows of CHF 23.5 billion compared with net outflows of CHF 12.1 billion in 2010, due to improvements in all regions and client segments. International wealth management net new money was CHF 22.4 billion compared with outflows of CHF 12.9 billion in the prior year. 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 net inflows of CHF 1.1 billion in 2011 compared with CHF 0.8 billion net inflows the year before.

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 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.

2010

Results

In 2010, pre-tax profit increased 1% to CHF 2,308 million from CHF 2,280 million in 2009, mainly due to a 3% decrease in operating expenses. Operating income was down 2%, and was negatively affected by low market interest rates and the strengthening of the Swiss franc against major currencies.

Operating income

Total operating income was CHF 7,356 million, down 2% from CHF 7,471 million one year earlier. Interest income was down 6% due to pressure from the low interest rate environment and the decrease in value of the euro and US dollar against the Swiss franc. Fee income decreased 3% primarily due to lower asset-based fees, reflecting a 4% lower average asset base. Lower interest income was partly offset by a shift of treasury-related revenues from Retail & Corporate to Wealth Management in the second quarter of 2010, impacting interest and trading income. Other income improved from negative CHF 189 million in 2009 to negative CHF 3 million in 2010 as CHF 155 million of revaluation adjustments on a property fund were included in 2009. Credit loss recoveries were CHF 11 million in 2010, down from CHF 45 million in 2009.

Operating expenses

Operating expenses declined 3% to CHF 5,049 million from CHF 5,191 million. Personnel expenses decreased 6% reflecting a reduction of average personnel levels by 9% and restructuring expenses of CHF 190 million in 2009. General and administrative expenses, at CHF 1,264 million, were up CHF 82 million from CHF 1,182 million a year earlier, mainly due to a CHF 40 million charge to reimburse the Swiss government for costs incurred in connection with the US cross-border matter, CHF 40 million litigation provision, and higher sponsorship and branding costs related to the global re-launch of the UBS brand. Charges for services from other business divisions, at CHF 449 million in 2010, were slightly up from CHF 428 million in the previous year. Depreciation was CHF 163 million compared with CHF 154 million a year earlier. Amortization of intangible assets was CHF 19 million, down from CHF 67 million, mainly reflecting the impairment of intangible assets related to invested asset outflows in UBS (Bahamas) Ltd. in 2009.

➔ Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of our Annual Report 2010 for more information on allocation of additional Corporate Center costs to the business divisions in 2010

Development of invested assets

Net new money

During 2010, all regions and client segments saw an improvement in net new money as net outflows declined to CHF 12.1 billion from CHF 87.1 billion in 2009. International wealth management net new money outflows declined significantly to CHF 12.9 billion from CHF 79.9 billion. While Europe saw ongoing net outflows, partially due to discussions regarding tax treaties, net inflows were recorded in the Asia Pacific region as well as globally from ultra high net worth clients. Swiss wealth management reported net inflows of CHF 0.8 billion in 2010 compared with CHF 7.2 billion net outflows the year before. Net new money for 2010 included inflows of CHF 3.7 billion resulting from transfers of Investment Bank clients to Wealth Management, as part of the Global Family Office initiative.

Invested assets

Invested assets were CHF 768 billion on 31 December 2010, a decrease of CHF 57 billion from 31 December 2009, as positive equity market performance was more than offset by adverse currency effects including a 16% decline in value of the euro and an 11% decline in value of the US dollar against the Swiss franc, and net new money outflows in 2010. In Wealth Management, 31% of invested assets were denominated in euro and 31% in US dollars at the end of 2010.

Gross margin on invested assets

The gross margin on invested assets increased 1 basis point to 92 basis points, reflecting 3% lower income (excluding any effect on profit or loss from a property fund), compared with a 4% decline in average invested assets.

Retail & Corporate

Business unit reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	31.12.10
Net interest income	**2,328**	2,422	2,681	(4)
Net fee and commission income	**1,175**	1,178	1,121	0
Net trading income	**333**	249	194	34
Other income	**350**[1]	97	100	261
Income	**4,186**[1]	3,946	4,096	6
Credit loss (expense) / recovery	**(101)**	(76)	(178)	33
Total operating income	**4,085**[1]	3,870	3,918	6
Personnel expenses	**1,666**	1,625	1,836	3
General and administrative expenses	**834**	836	835	0
Services (to) / from other business divisions	**(470)**	(509)	(518)	8
Depreciation of property and equipment	**136**	146	136	(7)
Amortization of intangible assets	**0**	0	0	
Total operating expenses	**2,166**[2]	2,098	2,289	3
Business division performance before tax	**1,919**[1]	1,772	1,629	8
Key performance indicators[3]				
Pre-tax profit growth (%)	**8.3**	8.8	(31.6)	
Cost / income ratio (%)	**51.7**	53.2	55.9	
Impaired loans portfolio as a % of total loans portfolio, gross (%)[4]	**0.7**	0.9	1.1	
Additional information				
Average attributed equity (CHF billion)[5]	**5.0**	4.6	4.6	9
Return on attributed equity (RoaE) (%)	**38.4**	38.5	35.4	
BIS risk-weighted assets, Basel II (CHF billion)[6]	**25.2**	26.5	30.8	(5)
BIS risk-weighted assets, Basel 2.5 (CHF billion)[6]	**25.2**	N/A	N/A	
Return on risk-weighted assets, Basel II, gross (%)[6]	**16.5**	13.7	12.3	
Goodwill and intangible assets (CHF billion)	**0.0**	0.0	0.0	
Invested assets (CHF billion)	**134**	136	135	(1)
Client assets (CHF billion)	**848**	879	840	(4)
Loans, gross (CHF billion)	**135.3**	134.8	135.2	0
Due to customers (CHF billion)	**117.9**	111.7	100.1	6
Personnel (full-time equivalents)	**11,430**	12,089	12,140	(5)

1 Includes revenues from the sale of our strategic investment portfolio of CHF 289 million. 2 Operating expenses include restructuring charges of CHF 32 million. Refer to "Note 37 Reorganizations and disposals" in the "Financial information" section of this report for more information. 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 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010 and 31 December 2009. 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

2011

Results

Pre-tax profit for 2011 was CHF 1,919 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. When adjusted for these two items, pre-tax profit was CHF 1,662 million, down from CHF 1,772 million in 2010, primarily as a result of lower interest income caused by the ongoing low interest rate environment.

➔ Refer to the "Certain items affecting our results in 2011" sidebar in this section of this report 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 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 impacted 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 reflected 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 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, which were booked mainly in the third quarter of 2011.

➔ Refer to the "Interest rate and currency management" section of this report for more information on our replication portfolio

➔ 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

Operating expenses were CHF 2,166 million compared with CHF 2,098 million, partially impacted by the abovementioned restructuring charges. Excluding these charges, operating expenses increased by 2%. Personnel expenses increased to CHF 1,666 million from CHF 1,625 million. Excluding restructuring charges, personnel expenses were CHF 1,637 million, broadly unchanged from 2010 as salary increases were mostly offset by a 4% reduction in average personnel during 2011 and lower variable compensation accruals compared with 2010. 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.

2010

Results

In 2010, pre-tax profit increased 9% to CHF 1,772 million compared with CHF 1,629 million in 2009, mainly due to an 8% decrease in operating expenses. Operating income was slightly lower compared with the previous year as reduced interest income was only partly offset by lower credit loss expenses.

Operating income

Total operating income in 2010 was CHF 3,870 million, down 1% from CHF 3,918 million a year earlier. Interest income was down 10%, mainly as low market interest rates continued to exert downward pressure on interest margins. In addition, interest income decreased as approximately 30% of treasury related revenues were allocated from Retail & Corporate to Wealth Management starting in the second quarter of 2010. These effects were only partially compensated by higher volumes in certain products and improved margins on new mortgage loans. Fee and commission income increased 5% to CHF 1,178 million from CHF 1,121 million, partly reflecting pricing initiatives initiated in 2010. Trading income increased from CHF 194 million to CHF 249 million, largely due to higher treasury related income. Net credit loss expenses were CHF 76 million in 2010, a decline of CHF 102 million.

Operating expenses

Operating expenses declined 8% to CHF 2,098 million from CHF 2,289 million due to cost-cutting measures initiated in 2009. Personnel expenses decreased 11%, reflecting a 4% reduction in average personnel levels and related restructuring expenses in 2009. General and administrative expenses were stable at CHF 836 million. Net charges to other business divisions were down 2% to CHF 509 million from CHF 518 million the previous year, largely due to business realignments between Wealth Management and Retail & Corporate. Depreciation was CHF 146 million compared with CHF 136 million.

➔ **Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of our Annual Report 2010 for more information on allocation of additional Corporate Center costs to the business divisions in 2010**

Wealth Management Americas

Business division reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	31.12.10
Net interest income	**729**	695	800	5
Net fee and commission income	**4,018**	4,244	3,948	(5)
Net trading income	**450**	570	763	(21)
Other income	**103**	56	36	84
Income	**5,300**	5,565	5,546	(5)
Credit loss (expense) / recovery	**(6)**	(1)	3	(500)
Total operating income	**5,295**	5,564	5,550	(5)
Personnel expenses	**3,840**	4,225	4,231	(9)
Financial advisor compensation[1]	**1,982**	2,068	1,828	(4)
Compensation commitments and advances related to recruited financial advisors[2]	**536**	599	599	(11)
Salaries and other personnel costs	**1,322**	1,558	1,804	(15)
General and administrative expenses	**783**	1,223	1,017	(36)
Services (to) / from other business divisions	**(9)**	(6)	4	(50)
Depreciation of property and equipment	**99**	198	170	(50)
Impairment of goodwill	**0**	0	34	
Amortization of intangible assets	**48**	55	62	(13)
Total operating expenses	**4,760**[3]	5,694	5,518	(16)
Business division performance before tax	**534**	(130)	32	
Key performance indicators[4]				
Pre-tax profit growth (%)[5]	**N/A**	N/A	N/A	
Cost / income ratio (%)	**89.8**	102.3	99.5	
Net new money (CHF billion)[6]	**12.1**	(6.1)	(11.6)	
Net new money including interest and dividend income (CHF billion)[7]	**30.4**	13.0	8.7	
Gross margin on invested assets (bps)	**79**	80	81	(1)
Additional information				
Average attributed equity (CHF billion)[8]	**8.0**	8.0	8.8	0
Return on attributed equity (RoaE) (%)	**6.7**	(1.6)	0.4	
BIS risk-weighted assets, Basel II (CHF billion)[9]	**24.4**	23.8	22.8	3
BIS risk-weighted assets, Basel 2.5 (CHF billion)[9]	**26.1**	N/A	N/A	
Return on risk-weighted assets, Basel II, gross (%)[9]	**22.3**	23.8	23.5	
Goodwill and intangible assets (CHF billion)	**3.7**	3.7	4.2	0
Invested assets (CHF billion)	**709**	689	690	3
Client assets (CHF billion)	**746**	738	737	1
Loans, gross (CHF billion)	**27.9**	22.5	21.5	24
Due to customers (CHF billion)	**38.9**	35.8	39.4	9
of which: deposit accounts (CHF billion)	***28.5***	*26.0*	*28.2*	*10*
Personnel (full-time equivalents)	**16,207**	16,330	16,925	(1)
Financial advisors (full-time equivalents)	**6,967**	6,796	7,084	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. 2 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. 3 Operating expenses include restructuring charges of CHF 10 million. Refer to "Note 37 Reorganizations and disposals" in the "Financial information" section of this report for more information. 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. 6 Excludes interest and dividend income. 7 For purposes of comparison with a US peer. 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 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010 and 31 December 2009. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information.

Business division reporting (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	31.12.10
Business division reporting excluding PaineWebber acquisition costs[1]				
Business division performance before tax	**620**	(21)	155	
Cost / income ratio (%)	**88.3**	100.4	97.3	
Average attributed equity (CHF billion)[2]	**5.1**	4.6	5.2	11

1 Acquisition costs represent goodwill and intangible assets funding costs and intangible asset amortization costs related to UBS's 2000 acquisition of the PaineWebber retail brokerage business. 2 Refer to the "Capital management" section of this report for more information about the equity attribution framework.

Business performance

2011

Results

Wealth Management Americas reported a pre-tax profit of CHF 534 million in 2011 compared with a pre-tax loss of CHF 130 million in 2010. This improved performance resulted from a 12% increase in revenue in US dollar terms due to increases in fees and commissions, interest income and gains on investments in our available-for-sale portfolio. Operating expenses declined 1% in US dollar terms as a result of significantly lower litigation provision charges and lower restructuring charges. In 2011, Wealth Management Americas incurred restructuring charges of CHF 10 million, while 2010 included restructuring charges of CHF 162 million. In addition, 2011 included a pre-tax gain of CHF 30 million, net of compensation charges related to a change in accounting estimates for certain mutual fund fees on an accrual basis.

Operating income

Operating income decreased 5% to CHF 5,295 million from CHF 5,564 million in 2010, but increased 12% in US dollar terms. Net fee and commission income decreased CHF 226 million to CHF 4,018 million, but increased 12% in US dollar terms. Recurring fees increased 15% in US dollar terms due to higher fees on managed accounts and mutual funds corresponding to higher invested asset levels. In addition, recurring fees included CHF 45 million related to the abovementioned change in accounting estimates for certain mutual fund fee income recognition. Transaction-based revenues declined 10%, but increased 6% in US dollar terms, due to higher income from insurance and annuities, alternative investments, and equities products. Interest income increased 5% to CHF 729 million, or 24% in US dollar terms, 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 CHF 20 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 21% to CHF 450 million, or 7% in US dollar terms, due to lower taxable fixed income and municipal trading income, partly offset by higher trading income from structured notes. Other income increased 84% to CHF 103 million due to a CHF 81 million increase in realized gains on sales of financial investments held in UBS Bank USA's available-for-sale portfolio, compared with CHF 4 million in the prior year. These gains resulted from rebalancing the investment portfolio for risk adjustment purposes within the parameters of our investment policy during the year. In addition, other income in 2010 included a CHF 7 million demutualization gain from Wealth Management Americas' stake in the Chicago Board Options Exchange.

Operating expenses

Operating expenses decreased 16% to CHF 4,760 million from CHF 5,694, 1% in US dollar terms, due to lower non-personnel expenses. In 2011, operating expenses included CHF 10 million in restructuring charges compared with CHF 162 million in restructuring charges in 2010.

Personnel expenses were CHF 3,840 million, down 9% from CHF 4,225 million. Personnel expenses included CHF 5 million in restructuring charges compared with CHF 35 million in 2010. In US dollar terms, personnel expenses increased 7% 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. Salaries and other personnel costs declined 15%, but were broadly flat compared with 2010 in US dollar terms. Compensation advance balances were CHF 3,584 million as of 31 December 2011, up 15% from 31 December 2010, or 14% in US dollar terms. This increase included scheduled payments in early 2011 related to the second tranche of the GrowthPlus program. Compensation advances continue to be expensed over the life of the employees' agreements on a straight-line amortization basis.

Non-personnel expenses decreased 37% to CHF 920 million from CHF 1,470 million, or 26% in US dollar terms. Non-personnel-related restructuring charges were CHF 5 million compared with CHF 127 million. General and administrative costs declined 36%, or 24% in US dollar terms, due to lower litigation provisions, which decreased to CHF 70 million from CHF 320 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 50%, or 41% in US dollar terms, due to lower restructuring charges related to the impairment of real estate assets and lower allocations from shared services areas in the Corporate Center.

Development of invested assets

Net new money

Net new money inflows were CHF 12.1 billion compared with outflows of CHF 6.1 billion in 2010. This turnaround was due to improved net inflows from net recruiting of financial advisors, including higher inflows from recruitment of experienced financial advisors, and 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. Including interest and dividend income, Wealth Management Americas had net new money inflows of CHF 30.4 billion in 2011 compared with CHF 13.0 billion in 2010.

Invested assets

Wealth Management Americas had CHF 709 billion in invested assets on 31 December 2011, up 3% from CHF 689 billion on 31 December 2010. In US dollar terms, invested assets increased 2% due to positive net new money including interest and dividend income, partly offset by negative market performance. As of 31 December 2011, managed account assets were 7% higher than one year earlier at CHF 190 billion. In US dollar terms, managed account assets increased 6% and comprised 27% of invested assets compared with 26% on 31 December 2010.

Gross margin on invested assets

The gross margin on invested assets was 79 basis points in 2011, down from 80 basis points in 2010. This reflected a 5% decrease in income compared with a 3% decrease in average invested assets. In US dollar terms, the gross margin on invested assets increased by 2 basis points to 80 basis points in 2011, reflecting a 12% increase in income compared with a 10% increase in average invested assets. Growth in net interest income, net fee and commission income, and other income each contributed a 1 basis point increase to the gross margin, partly offset by a decline of 1 basis point attributable to lower trading income.

2010

Results

Wealth Management Americas reported a pre-tax loss of CHF 130 million in 2010 compared with a pre-tax profit of CHF 32 million in 2009. In 2010, Wealth Management Americas incurred restructuring charges of CHF 162 million, while 2009 included restructuring charges of CHF 152 million and net goodwill impairment charges of CHF 19 million related to the sale of UBS Pactual. Excluding these items, pre-tax performance would have declined to a profit of CHF 32 million in 2010 from CHF 203 million in 2009, primarily resulting from a significant increase in litigation provisions in 2010 to CHF 320 million from CHF 54 million in 2009.

Operating income

Operating income of CHF 5,564 million was essentially flat compared with CHF 5,550 million in 2009, but increased 4% in US dollar terms. Net fee and commission income increased 7%, 12% in US dollar terms, to CHF 4,244 million due to a 15% rise in recurring fees, as a result of higher fees from managed accounts and mutual funds related to higher invested assets, and a 6% increase in transaction-based revenue. Interest income declined 13% to CHF 695 million, a decrease of 10% in US dollar terms, due to lower investment portfolio interest income, partly offset by higher income from securities-backed lending. Net trading income declined 25% to CHF 570 million, 22% in US dollar terms, due to lower municipal trading income. Other income increased 56% to CHF 56 million, and included a reclassification of revenues from net trading income as well as a CHF 7 million demutualization gain from Wealth Management Americas' stake in the Chicago Board Options Exchange.

Operating expenses

Operating expenses increased 3% to CHF 5,694 million from CHF 5,518 million. In 2010, operating expenses included CHF 162 million in restructuring charges compared with CHF 152 million in 2009. Additionally, 2009 included CHF 34 million in goodwill impairment charges related to the sale of UBS Pactual (of which CHF 15 million was charged to the Corporate Center, as this was related to foreign exchange exposures managed by Group Treasury).

Personnel expenses were CHF 4,225 million in 2010, down slightly from CHF 4,231 million in the previous year. In US dollar terms, personnel expenses increased 4%. Excluding CHF 35 million in restructuring charges in 2010 and CHF 71 million in restructuring charges in 2009, personnel expenses would have increased 1% from the previous year. This increase was due primarily to higher financial advisor compensation related to higher revenue production and the introduction of the GrowthPlus incentive compensation program in 2010, partly offset by lower salaries and other personnel costs, resulting from restructuring initiatives in 2010 and 2009. Expenses for compensation commitments and advances related to recruited financial advisors were flat from 2009, but increased 4% in US dollar terms. Compensation advance balances were CHF 3,112 million as of 31 December 2010, down 4% from 31 December 2009, but increased 7% in US dollar terms.

Non-personnel expenses increased 14% to CHF 1,470 million from CHF 1,287 million, principally due to higher litigation provisions, which increased to CHF 320 million from CHF 54 million. Non-personnel expenses included CHF 127 million in restructuring charges in 2010 related to real estate writedowns, while 2009 included restructuring charges of CHF 82 million and the abovementioned goodwill impairment charges. In addition, non-personnel costs included a shift of expenses from the Corporate Center to the business divisions in 2010.

➔ Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of our Annual Report 2010 for more information on allocation of additional Corporate Center costs to the business divisions in 2010

Development of invested assets

Net new money

Net new money outflows for Wealth Management Americas were CHF 6.1 billion compared with CHF 11.6 billion in the prior year.

We experienced net new money outflows during the first half of 2010, mainly due to financial advisor attrition and limited recruiting of experienced financial advisors. Net new money turned positive in the second half of 2010 due to improved financial advisor retention and improved net new money inflows from financial advisors employed with UBS for more than one year. Including interest and dividend income, net new money inflows of CHF 13.0 billion in 2010 improved from CHF 8.7 billion in 2009.

In 2010, Wealth Management Americas recorded CHF 2.2 billion of net new money inflows related to the inclusion of invested assets of certain retirement plan assets not custodied at UBS, as discussed below in the "Invested assets" section.

Invested assets

Invested assets were CHF 689 billion on 31 December 2010, broadly flat compared with CHF 690 billion on 31 December 2009. In US dollar terms, invested assets increased 12%, primarily due to positive market performance in the second half of 2010. During the course of the year, Wealth Management Americas conducted a review of its invested assets reporting and determined that, going forward, certain retirement plan assets custodied away from UBS should be included in invested assets. As a result, invested assets increased by CHF 22 billion at year end and net new money inflows increased by CHF 2.2 billion. Managed account assets increased 5% to CHF 177 billion as of 31 December 2010, from CHF 168 billion on 31 December 2009. In US dollar terms, managed account assets increased 18% and comprised 26% of invested assets compared with 24% on 31 December 2009.

Gross margin on invested assets

The gross margin on invested assets was 80 basis points, down from 81 basis points, as income increased only slightly, while average invested assets increased 2%. In US dollar terms, the gross margin on invested assets decreased 3 basis points to 78 basis points, as income growth of 4% was outpaced by an 8% rise in average invested assets. This margin decrease was due to declines in net trading income and interest of 3 basis points and 2 basis points, respectively, partly offset by an increase of 2 basis points from net fees and commissions.

Global Asset Management

Business division reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	31.12.10
Net management fees[1]	**1,704**	1,918	1,904	(11)
Performance fees	**99**	141	233	(30)
Total operating income	**1,803**	2,058	2,137	(12)
Personnel expenses	**955**	1,096	996	(13)
General and administrative expenses	**375**	400	387	(6)
Services (to) / from other business divisions	**(1)**	(5)	(74)	80
Depreciation of property and equipment	**38**	43	36	(12)
Impairment of goodwill	**0**	0	340	
Amortization of intangible assets	**8**	8	13	0
Total operating expenses	**1,375**[2]	1,542	1,698	(11)
Business division performance before tax	**428**	516	438	(17)
Key performance indicators[3]				
Pre-tax profit growth (%)	**(17.1)**	17.8	(67.1)	
Cost / income ratio (%)	**76.3**	74.9	79.5	
Information by business line				
Income				
Traditional investments	**1,097**	1,259	1,319	(13)
Alternative and quantitative investments	**253**	325	405	(22)
Global real estate	**263**	258	185	2
Infrastructure and private equity[4]	**24**	14	13	71
Fund services	**165**	202	214	(18)
Total operating income	**1,803**	2,058	2,137	(12)
Gross margin on invested assets (bps)				
Traditional investments	**23**	25	26	(8)
Alternative and quantitative investments	**76**	88	102	(14)
Global real estate	**72**	68	47	6
Infrastructure and private equity[4]	**83**	130	114	(36)
Total gross margin	**33**	36	37	(8)
Net new money (CHF billion)[5]				
Traditional investments	**0.0**	4.2	(40.6)	
Alternative and quantitative investments	**(0.8)**	(3.2)	(6.7)	
Global real estate	**1.6**	0.6	1.4	
Infrastructure and private equity[4]	**3.5**	0.1	0.1	
Total net new money	**4.3**	1.8	(45.8)	
Net new money excluding money market flows	**9.0**	8.2	(33.7)	
of which: from third parties	***12.2***	*16.2*	*(6.8)*	
of which: from UBS's wealth management businesses	***(3.1)***	*(8.1)*	*(26.9)*	
Money market flows	**(4.7)**	(6.4)	(12.1)	
of which: from third parties	***0.2***	*2.0*	*1.7*	
of which: from UBS's wealth management businesses	***(5.0)***	*(8.3)*	*(13.8)*	

1 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. 2 Operating expenses include restructuring charges of CHF 26 million. Refer to "Note 37 Reorganizations and disposals" in the "Financial information" section of this report for more information. 3 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 4 With effect from 2011, the Infrastructure and private equity fund of funds businesses were transferred from Alternative and quantitative investments to Infrastructure. Following the transfer it was renamed Infrastructure and private equity. As the amounts were not material, prior periods were not restated. 5 Excludes interest and dividend income.

Business division reporting (continued)

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	31.12.10
Invested assets (CHF billion)				
Traditional investments	**497**	487	502	2
of which: money market funds	***92***	*96*	*111*	*(4)*
Alternative and quantitative investments	**31**	34	41	(9)
Global real estate	**38**	36	39	6
Infrastructure and private equity[1]	**8**	1	1	700
Total invested assets	**574**	559	583	3
Assets under administration by fund services				
Assets under administration (CHF billion)[2]	**375**	390	406	(4)
Net new assets under administration (CHF billion)[3]	**(5.5)**	(0.8)	(59.7)	
Gross margin on assets under administration (bps)	**4**	5	5	(20)
Additional information				
Average attributed equity (CHF billion)[4]	**2.5**	2.5	2.8	0
Return on attributed equity (RoaE) (%)	**17.1**	20.6	15.9	
BIS risk-weighted assets, Basel II (CHF billion)[5]	**3.6**	3.5	4.1	3
BIS risk-weighted assets, Basel 2.5 (CHF billion)[5]	**3.6**	N/A	N/A	
Return on risk-weighted assets, Basel II, gross (%)[5]	**50.6**	56.8	37.7	
Goodwill and intangible assets (CHF billion)	**1.5**	1.5	1.7	0
Personnel (full-time equivalents)	**3,750**	3,481	3,471	8

1 With effect from 2011, the Infrastructure and private equity fund of funds businesses were transferred from Alternative and quantitative investments to Infrastructure. Following the transfer it was renamed Infrastructure and private equity. As the amounts were not material, prior periods were not restated. 2 This includes UBS and third-party fund assets, for which the fund services unit provides legal fund set-up and registration services, valuation, accounting and reporting and shareholder services. 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 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010 and 31 December 2009. 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

2011

Results

Pre-tax profit for 2011 was CHF 428 million compared with CHF 516 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 1,375 million in 2011 compared with CHF 1,542 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 955 million in 2011 compared with CHF 1,096 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.

Development of invested assets

Net new money

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 & Swiss Bank 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 & Swiss Bank continues 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, which was partly offset by negative market performance. As agreed prior to the acquisition, portions of the acquired invested assets are being sold or redeemed in the first half of 2012. These further actions are expected to result in a net divestment of approximately half of the acquired invested assets in the first half of 2012.

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 nil 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 & Swiss Bank.

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 with effect from 1 July 2011 was partially offset by the abovementioned transfer from Wealth Management & Swiss Bank.

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 68 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 & Swiss Bank.

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 & Swiss Bank and to the transfer within Global Asset Management of infrastructure and private equity fund of funds businesses from alternative and quantitative investments with effect from 1 July 2011.

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.

Investment performance

Widespread macro-economic uncertainty led to heightened market volatility in 2011, making it a challenging year for fundamentally-based managers. Our actively-managed traditional strategies struggled in this environment, but alternative strategies generally performed well.

Core / value equity strategies generally underperformed their benchmarks in 2011, largely as most were less favorably positioned for the market stresses that dominated in the third quarter. Key global, European and US large cap strategies performed below benchmarks and peer averages. By contrast, the concentrated pan-European strategy beat its benchmark and peer average, as did most Asian and emerging markets strategies. Notably, concentrated pan-European, emerging markets and global sustainable and responsible strategies all exceeded their benchmarks in each of the last three calendar years. Among small cap strategies, Australia performed especially well in 2011 and, in common with European and Swiss small cap equity, also exceeded benchmark in each of the last three calendar years. Over three years, on an annualized basis, key global, global ex-US, pan-European, Asian, emerging markets and Australian large cap equity capabilities were clearly ahead of their benchmarks, while US large cap was behind.

After performing well in 2010, the majority of *growth equity* strategies struggled to match those gains in 2011. The flagship

US large cap growth select strategy finished well ahead of peers in 2011, despite being modestly behind its benchmark for the year. A notable leader versus benchmark and peers was US small cap growth, which has exceeded its benchmark in each of the last three calendar years. The majority of key growth equity strategies were well ahead of benchmarks over three years to end of 2011.

Performance of *structured equity* strategies was mixed in 2011, with some global, US, UK and Japan active strategies beating benchmarks. US active, a quantitative large cap strategy, comfortably outperformed both benchmark and peers, and exceeded its benchmark in each of the last three calendar years. US market neutral, an alternative fundamentally-based large cap strategy, provided a solid positive return above cash for the year. The majority of active structured equity strategies were ahead of benchmarks over three years. Passive strategies and exchange traded funds met their objectives in 2011 by maintaining high tracking accuracy despite volatile markets.

During the year, uncertainty surrounding peripheral European sovereigns was a dominant factor in *fixed income* markets. Many of our fixed income strategies underperformed their benchmarks for the year but remained relatively strong over three years. The one-year underperformance was consistent across most regions and strategies and was evident in both traditional global and local bond strategies (such as Australian, Canadian, Swiss, UK and US) and in some extended sectors (such as emerging markets, high yield and Asian bonds). Some higher alpha strategies (such as global fixed income opportunities and US core plus) as well as some individual regional strategies (such as euro corporates and Japanese bond) outperformed benchmarks for the year. Many strategies lagged peer averages over the year, although three-year peer rankings were better. Money market funds continued to achieve their capital preservation objectives.

Absolute performance of key multi-asset strategies managed by *global investment solutions* was negative in 2011 and relative performance was slightly negative versus benchmark. Longer-term track records remained strong and, over three years, key strategies were predominantly in the first quartile versus peers. After a solid first half of 2011, the strategies were positioned defensively in the second half of the year, leading to relative underperformance when markets rebounded. The stand-alone active currency strategy posted negative returns for the year but was positive over longer periods.

Absolute return strategies managed by global investment solutions continued to strengthen their position and were in the first quartile versus peers over three years. Business cycle-driven strategies delivered solid, close-to-flat one-year performance and were in the first quartile versus peers. For convertibles, the strategies had a difficult year overall in both absolute and relative terms, although longer-term track records remained strong.

In *alternative and quantitative investments*, hedge funds continued to navigate a challenging market environment. Core O'Connor single manager funds posted positive returns and outperformed most peers on an absolute and risk-adjusted basis. In the multi-manager business, returns were mixed across strategies. Non-market neutral portfolios were slightly negative, while relative value and fixed income arbitrage-oriented portfolios were positive for the year.

In *global real estate*, the majority of direct European strategies generated positive absolute returns for 2011. The Swiss composite outperformed its benchmark for the year. The flagship UK fund outperformed its benchmark for the year and retained its upper quartile position versus peers. US real estate and farmland strategies produced strong positive absolute returns for 2011. In Japan, the flagship J-REIT underperformed its benchmark. In real estate securities strategies, the global strategy underperformed benchmark while the Swiss flagship strategy outperformed. Multi-manager strategies produced positive absolute returns for the year.

In *infrastructure and private equity*, the acquisition in June 2011 of a material stake in Gassled, the world's largest offshore gas transmission system, meant the flagship direct infrastructure strategy was close to fully invested. The strategy performed in line with its return objectives. Infrastructure fund of funds performance continued to improve throughout the year. Private equity fund of funds strategies performed broadly in line with expectations.

2010

Results

Pre-tax profit for 2010 was CHF 516 million compared with CHF 438 million in 2009. Excluding a net goodwill impairment charge of CHF 191 million related to the sale of UBS Pactual in 2009, pre-tax profit decreased by CHF 113 million.

Operating income

Total operating income was CHF 2,058 million compared with CHF 2,137 million. Lower performance fees and revenues following the sale of UBS Pactual were partly offset by reduced co-investment losses in real estate and lower operational losses.

Operating expenses

Total operating expenses were CHF 1,542 million compared with CHF 1,698 million. Excluding the abovementioned goodwill impairment and restructuring charges of CHF 48 million in 2009, operating expenses increased by CHF 83 million in 2010, mainly due to increased personnel expenses. This increase was partly offset by reduced non-personnel expenses as a result of cost-saving initiatives in 2009 and lower expenses following the sale of UBS Pactual. In addition, non-personnel costs included an additional allocation of expenses to the business divisions from the Corporate Center in 2010.

Personnel expenses were CHF 1,096 million compared with CHF 996 million, mainly due to increased expenses for deferred variable compensation in prior years, partly offset by lower fixed compensation costs as a result of headcount reductions in 2009 and reduced expenses following the sale of UBS Pactual.

General and administrative expenses were CHF 400 million compared with CHF 387 million, mainly due to higher sponsoring and branding costs. The increase was partly offset by lower expenses following the sale of UBS Pactual.

Net charges to other business divisions were CHF 5 million compared with CHF 74 million. Excluding a charge to the Corporate Center of CHF 149 million in 2009, we recorded net charges from other business divisions of CHF 75 million. The total 2009 goodwill impairment charge related to the sale of UBS Pactual was CHF 340 million, of which CHF 149 million was charged to the Corporate Center.

➔ Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of our Annual Report 2010 for more information on allocation of additional Corporate Center costs to the business divisions in 2010

Development of invested assets

Net new money

Excluding money market flows, net new money inflows from third parties were CHF 16.2 billion in 2010 compared with net outflows of CHF 6.8 billion in 2009, and net outflows from clients of UBS's wealth management businesses were CHF 8.1 billion compared with CHF 26.9 billion. The flows from UBS's wealth management businesses included a CHF 2.5 billion transfer of investment management responsibility for the US hedge fund of funds business from Wealth Management Americas to Global Asset Management's alternative and quantitative investments business.

Money market net inflows from third parties were CHF 2.0 billion compared with CHF 1.7 billion, and money market net outflows from clients of UBS's wealth management businesses were CHF 8.3 billion compared with CHF 13.8 billion in 2009.

Invested assets

Total invested assets were CHF 559 billion on 31 December 2010 compared with CHF 583 billion on 31 December 2009. Negative currency effects were only partly offset by positive market movements and net new money inflows.

Gross margin on invested assets

The gross margin was 36 basis points in 2010 compared with 37 basis points in 2009, reflecting lower performance fees primarily in alternative and quantitative investments, partly offset by lower co-investment losses in real estate and lower operational losses.

Results by business line

Traditional investments

Revenues were CHF 1,259 million compared with CHF 1,319 million, as lower operational losses were more than offset by decreased revenues following the sale of UBS Pactual in 2009.

The *gross margin* was 25 basis points compared with 26 basis points in the prior year, mainly due to lower performance fees and decreased revenues following the sale of UBS Pactual.

Net new money inflows were CHF 4.2 billion compared with net outflows of CHF 40.6 billion in the prior year. Excluding money market flows, net new money inflows were CHF 10.6 billion compared with net outflows of CHF 28.4 billion in the prior year. Equities net inflows were CHF 7.5 billion compared with net outflows of CHF 8.2 billion. Fixed income net inflows were CHF 9.7 billion compared with net outflows of CHF 5.6 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 6.6 billion compared with net outflows of CHF 14.6 billion.

Invested assets were CHF 487 billion on 31 December 2010 compared with CHF 502 billion on 31 December 2009. The net decrease reflects negative currency effects, partly offset by positive market movements and net new money inflows.

Alternative and quantitative investments

Revenues were CHF 325 million compared with CHF 405 million due to lower performance fees, which also resulted in a *gross margin* of 88 basis points compared with 102 basis points.

Net new money outflows were CHF 3.2 billion compared with net outflows of CHF 6.7 billion. Net new money in 2010 included CHF 2.5 billion related to the transfer of investment management responsibility for US hedge fund business from Wealth Management Americas to alternative and quantitative investments. These assets are reported as invested assets in both business divisions as Wealth Management Americas continues to advise the clients of these funds.

Invested assets were CHF 34 billion on 31 December 2010 compared with CHF 41 billion on 31 December 2009 due to negative currency effects and net new money outflows, partly offset by positive market movements.

Global real estate

Revenues were CHF 258 million compared with CHF 185 million, mainly due to lower co-investment losses and higher performance fees. As a result, the *gross margin* was higher at 68 basis points compared with 47 basis points.

Net new money inflows were CHF 0.6 billion compared with net inflows of CHF 1.4 billion.

Invested assets were CHF 36 billion on 31 December 2010, a decrease of CHF 3 billion from 31 December 2009, due to negative currency effects and market movements, partly offset by net new money inflows.

Infrastructure

Revenues were CHF 14 million compared with CHF 13 million.

Net new money inflows were CHF 0.1 billion, unchanged from the prior year.

Invested assets were CHF 1 billion on 31 December 2010, mostly unchanged from 31 December 2009.

Fund services

Revenues were CHF 202 million compared with CHF 214 million, mainly due to lower administrative fees due to lower average assets under administration and lower interest income.

The *gross margin* on assets under administration was 5 basis points, unchanged from the prior year.

Net new assets under administration outflows were CHF 0.8 billion compared with net outflows of CHF 59.7 billion in 2009.

Total *assets under administration* were CHF 390 billion compared with CHF 406 billion, due to negative currency effects and net new assets outflows, partly offset by positive market movements.

Investment Bank

Business division reporting

	As of or for the year ended				% change from
		Excluding unauthorized trading incident			
CHF million, except where indicated	**31.12.11**[1]	31.12.11[2]	31.12.10	31.12.09	31.12.10
Investment banking	**1,371**		2,414	2,466	(43)
Advisory revenues	**964**		846	858	14
Capital market revenues	**1,329**		1,994	2,514	(33)
Equities	**574**		1,020	1,609	(44)
Fixed income, currencies and commodities	**755**		974	904	(22)
Other fee income and risk management	**(921)**		(426)	(906)	(116)
Securities	**7,969**		10,144	4,390	(21)
Equities	**3,698**		4,469	4,937	(17)
Fixed income, currencies and commodities	**4,271**		5,675	(547)	(25)
Total income	**9,340**		12,558	6,856	(26)
Credit loss (expense) / recovery[3]	**12**		0	(1,698)	
Total operating income excluding own credit and unauthorized trading incident	**9,352**		12,558	5,158	(26)
Own credit[4]	**1,537**		(548)	(2,023)	
Total operating income excluding unauthorized trading incident	**10,889**	10,889			
Unauthorized trading incident	**(1,849)**				
Total operating income as reported	**9,040**		12,010	3,135	(25)
Personnel expenses	**5,801**		6,743	5,568	(14)
General and administrative expenses	**2,637**		2,693	2,628	(2)
Services (to) / from other business divisions	**161**		64	(147)	152
Depreciation of property and equipment	**254**		278	360	(9)
Impairment of goodwill	**0**		0	749	
Amortization of intangible assets	**34**		34	59	0
Total operating expenses	**8,886**[5]	8,886	9,813	9,216	(9)
Business division performance before tax	**154**	2,003	2,197	(6,081)	(93)
Business division performance before tax excluding own credit	***(1,383)***	*466*	*2,745*	*(4,058)*	

Key performance indicators[6]

Pre-tax profit growth (%)[7]	**(93.0)**		N/A	N/A	
Cost / income ratio (%)	**98.4**	81.7	81.7	190.7	
Return on attributed equity (RoaE) (%)	**0.5**	6.4	8.7	(24.1)	
Return on assets, gross (%)	**0.9**	1.1	1.2	0.4	
Average VaR (1-day, 95% confidence, 5 years of historical data)	**75**	N/A	56	55	34

1 Income and expenses related to the SNB StabFund investment management team, who are employed by UBS, were transferred from the Investment Bank to the Corporate Center. The impact on performance from continuing operations before tax is not material in the current or any prior period. Comparative prior periods have not been adjusted. 2 Excludes the impact from the unauthorized trading incident of CHF 1,849 million in the income statement, and its risk-weighted assets impact of CHF 10.1 billion on both a Basel II and Basel 2.5 basis. 3 Includes credit loss (expense) / recovery on reclassified and acquired securities (2011: recovery of CHF 9 million; 2010: credit loss expense of CHF 172 million). 4 Represents own credit changes on financial liabilities designated at fair value through profit or loss. The cumulative own credit gain for such debt held on 31 December 2011 amounts to CHF 1.9 billion; the cumulative own credit gain for such debt held at 31 December 2010 amounts to CHF 0.2 billion. The gains have reduced the fair value of financial liabilities designated at fair value through profit or loss recognized on our balance sheet. Refer to "Note 26 Fair value of financial instruments" in the "Financial information" section of this report for more information. 5 Operating expenses include restructuring charges of CHF 216 million. Refer to "Note 37 Reorganizations and disposals" in the "Financial information" section of this report for more information. 6 For the definitions of our key performance indicators, refer to the "Measurement of performance" section of this report. 7 Not meaningful and not included if either the reporting period or the comparison period is a loss period.

Business division reporting (continued)

	As of or for the year ended				% change from
		Excluding unauthorized trading incident			
CHF million, except where indicated	**31.12.11**[1]	31.12.11[2]	31.12.10	31.12.09	31.12.10
Additional information					
Total assets (CHF billion)[3]	**1,073.6**		966.9	992.0	11
Average attributed equity (CHF billion)[4]	**31.3**		25.3	25.3	24
BIS risk-weighted assets, Basel II (CHF billion)[5]	**119.1**	109.0	119.3	122.4	0
BIS risk-weighted assets, Basel 2.5 (CHF billion)[5]	**155.7**	145.6	N/A	N/A	N/A
Return on risk-weighted assets, Basel II, gross (%)[5]	**7.2**	9.0	9.7	3.1	
Goodwill and intangible assets (CHF billion)	**3.2**		3.2	3.5	0
Compensation ratio (%)	**64.2**		56.1	115.2	
Impaired loans portfolio as a % of total loans portfolio, gross (%)	**3.8**		7.2	10.0	
Personnel (full-time equivalents)	**17,256**		16,860	15,666	2

1 Income and expenses related to the SNB StabFund investment management team, who are employed by UBS, were transferred from the Investment Bank to the Corporate Center. The impact on performance from continuing operations before tax is not material in the current or any prior period. Comparative prior periods have not been adjusted. 2 Excludes the impact from the unauthorized trading incident of CHF 1,849 million in the income statement, and its risk-weighted assets impact of CHF 10.1 billion on both a Basel II and Basel 2.5 basis. 3 Based on third-party view, i.e. without intercompany balances. 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 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010 and 31 December 2009. 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

2011

Results

Pre-tax profit of CHF 154 million was recorded in 2011 compared with a pre-tax profit of CHF 2,197 million in 2010. Excluding an own credit gain of CHF 1,537 million and a loss relating to the unauthorized trading incident of CHF 1,849 million in 2011 and an own credit loss of CHF 548 million in 2010, pre-tax profit was CHF 466 million compared with a profit of CHF 2,745 million in 2010. This was due to lower revenues across all business areas and the strengthening of the Swiss franc.

Total operating income as reported

Total operating income was CHF 9,040 million compared with CHF 12,010 million in the prior year, a decrease of 25%, or 11% 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.

Credit loss expense / recovery

Net credit loss recoveries in 2011 were CHF 12 million compared with a net credit loss expense of zero in 2010. In 2011, recoveries mainly related to reclassified and similar acquired securities.

➔ **Refer to the "Risk management and control" section of this report for more information on our risk management approach, method of credit risk measurement and the development of credit risk exposures**

Own credit

An own credit gain on financial liabilities designated at fair value of CHF 1,537 million was recorded in 2011, mainly due to a widening of our credit spreads during the year. An own credit loss of CHF 548 million was recorded in 2010, mainly due to a tightening of our credit spreads.

➔ **Refer to "Note 26 Fair value of financial instruments" in the "Financial information" section of this report for more information on own credit**

Operating income by business area

In 2011, we implemented two structural changes in our business division: allocating risk management premiums from equities and fixed income, currencies and commodities (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 33%.

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 7,969 million compared with CHF 10,144 million in 2010. In US dollar terms, revenues decreased 7%.

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 equity-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 2010.

Fixed income, currencies and commodities

FICC revenues decreased 25% to CHF 4,271 million in 2011 from CHF 5,675 million in 2010, primarily due to the strengthening of the Swiss franc. In US dollar terms, revenues declined 11%. The combined revenues from credit, macro and emerging markets decreased 11% to CHF 4,558 million from CHF 5,093 million, but rose 6% in US dollar terms due to improved results in macro.

In credit, revenues decreased to CHF 1,548 million from CHF 2,304 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 2,615 million from CHF 2,268 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 395 million from CHF 521 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 were negative CHF 288 million in 2011 and positive CHF 581 million in 2010 largely due to losses from residual risk positions. Revenues in 2011 included negative CHF 296 million from residual risk positions due to a widening in credit valuation adjustment spreads and increased credit valuation adjustments following an agreement in principle with a monoline insurer on a potential commutation, compared with positive CHF 737 million in 2010.

➔ Refer to “Note 32 Events after the reporting period” in the “Financial information” section of this report for more information

In 2011, we recorded a gain of CHF 244 million from debit valuation adjustments on our derivatives portfolio compared with a gain of CHF 155 million from debit valuation adjustments as UBS’s credit default swap spreads widened in both periods.

Operating expenses

Total operating expenses decreased 9% to CHF 8,886 million from CHF 9,813 million, mostly due to the strengthening of the Swiss franc. Excluding restructuring costs of CHF 216 million associated with our cost reduction program, operating expenses decreased 12%. In US dollar terms, operating expenses increased 4%.

Personnel expenses decreased 14% to CHF 5,801 million from CHF 6,743 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 decreased to CHF 2,637 million from CHF 2,693 million due to the strengthening Swiss franc and UK value added tax releases, partially offset by the UK bank levy of CHF 106 million.

Net charges from other business divisions were CHF 161 million compared with CHF 64 million due to transfer of approximately 280 personnel to Wealth Management & Swiss Bank as part of forming the Investment Products & Services unit in early 2011.

Depreciation decreased 9% to CHF 254 million from CHF 278 million, largely due to lower charges for IT hardware.

Amortization of intangible assets was in line with 2010 at CHF 34 million.

2010

Results

In 2010, we recorded a pre-tax profit of CHF 2,197 million compared with a pre-tax loss of CHF 6,081 million in 2009, primarily as a result of increased revenues in FICC, a significant reduction in net credit loss expenses and lower own credit losses on financial liabilities designated at fair value.

Total operating income as reported

Total operating income in 2010 was CHF 12,010 million compared with CHF 3,135 million in the prior year. This was mainly a result of increased revenues in the FICC business, a significant reduction in net credit loss expense and lower own credit losses on financial liabilities designated at fair value, and was partly offset by lower revenues in the equities business.

Credit loss expense / recovery

The net credit loss expense in 2010 was nil compared with net credit loss expense of CHF 1,698 million in 2009. In 2010, we recorded CHF 172 million credit loss expenses related to reclassified and acquired securities which were offset by recoveries on certain legacy leveraged finance and asset backed loan positions.

➔ Refer to the "Risk management and control" section of our Annual Report 2010 for more information on our risk management approach, method of credit risk measurement and the development of credit risk exposures

Own credit

The own credit on financial liabilities designated at fair value reduced significantly to a loss of CHF 548 million from a loss of CHF 2,023 million. While our credit spreads tightened in both years, the effect in 2010 was less pronounced than in 2009.

➔ Refer to "Note 26 Fair value of financial instruments" in the "Financial information" section of this report for more information

Operating income by business area

Investment banking

Investment banking revenues were CHF 2,414 million in 2010, marginally down from CHF 2,466 million in the previous year.

Advisory revenues decreased slightly to CHF 846 million from CHF 858 million. While the overall market fee pool increased year on year, our market share declined.

Capital markets revenues were down 21% to CHF 1,994 million from CHF 2,514 million. Equity capital markets revenues were CHF 1,020 million, down 37% from CHF 1,609 million due to reduced market activity in the first half of 2010 following uncertainty over sovereign risk in Europe, and lower revenues in Asia Pacific as domestic Chinese banks took a greater share of fees than in 2009. Fixed income capital market revenues were CHF 974 million, up 8% from CHF 904 million, mainly due to a strong leverage capital market fees pool and market share gain.

Other fee income and risk management revenues were negative CHF 426 million compared with negative CHF 906 million, primarily due to the absence in 2010 of large losses recorded in 2009 in relation to an overall stabilization of the credit markets.

Securities

Securities revenues were CHF 10,144 million, compared with CHF 4,390 million in 2009. Revenues of equities and FICC are analyzed in the respective sections below.

Equities

Revenues in equities were CHF 4,469 million, down 9% from CHF 4,937 million in 2009.

Cash revenues were CHF 1,776 million, compared with CHF 1,959 million due to lower commission income as a result of decreased client activity in the US, offsetting stronger performance in Europe, the Middle East and Africa.

Derivatives and equity-linked revenues were CHF 1,580 million, in line with last year. Derivatives revenues were up as a result of improved client flows and structured products performance in Asia Pacific, partly offset by lower revenues in Europe, the Middle East and Africa due to the sovereign debt crisis, creating a lack of both liquidity and client flow. Equity-linked revenues were down after a strong performance in 2009.

Within the prime services business, revenues were CHF 1,036 million compared with CHF 1,058 million. Prime brokerage revenues declined due to lower average spreads while exchange-traded derivatives revenues marginally improved.

Other equities revenues were CHF 77 million compared with CHF 341 million, largely due to lower proprietary trading revenues partially offset by reduced funding and hedging costs.

Fixed income, currencies and commodities

Revenues were positive CHF 5,675 million in 2010 compared with negative CHF 547 million in 2009, when the FICC business was materially affected by losses on residual risk positions.

In credit, revenues rose significantly to positive CHF 2,304 million, up from negative CHF 1,932 million. The turnaround was largely due to the rebuild across the trading and sales businesses, particularly in structured credit and client solutions, as well as lowering of negative revenues from the legacy risk portfolio (the exposure to which was also reduced during this period), and the selective re-entry into previously exited products.

In macro, revenues of CHF 2,268 million were down from CHF 2,933 million in 2009. The decrease mainly stemmed from lower revenues in the rates and foreign exchange businesses, which were affected by a significant decline in market spreads, low interest rate volatility, reduced client activity and general de-risking, particularly in the second half of 2010.

Emerging markets revenues decreased to CHF 521 million from CHF 1,162 million as divesture of UBS Pactual, spread compression experienced across foreign exchange and credit markets, and uncertainties over European sovereign debt impacted liquidity and overall client volumes.

Other FICC revenues were positive CHF 581 million compared with negative CHF 2,710 million. The 2010 revenues included CHF 737 million from residual risk positions due to a reduced credit valuation adjustment requirement and net gains on sale.

Operating expenses

Operating expenses increased 6% to CHF 9,813 million in 2010 from CHF 9,216 million in the previous year.

Personnel expenses increased 21% to CHF 6,743 million from CHF 5,568 million, mainly due to increased variable compensation as a result of amortization of prior years' awards, increased number of employees and a UK bank payroll tax charge of CHF 190 million.

General and administrative expenses increased to CHF 2,693 million in 2010 from CHF 2,628 million in 2009. This was largely due to an increase in legal provisions as well as higher sponsoring and branding costs related to the global re-launch of the UBS brand. These costs were partially offset by a reduction in professional fees.

Net charges from other business divisions were CHF 64 million, compared with a net charge to other business divisions of CHF 147 million.

Depreciation reduced 23% to CHF 278 million in 2010 from CHF 360 million in 2009. Depreciation in 2009 included costs associated with a restructuring charge.

Goodwill impairment charges were nil in 2010 compared with a charge of CHF 749 million in 2009, related to the sale of UBS Pactual.

Amortization of intangible assets was CHF 34 million compared with CHF 59 million in 2009.

In addition, non-personnel costs included an additional allocation of expenses from the Corporate Center to the business divisions in 2010.

➔ **Refer to "Note 1 Summary of significant accounting policies" in the "Financial information" section of our Annual Report 2010 for more information on allocation of additional Corporate Center costs to the business divisions in 2010**

Corporate Center

Treasury activities and other corporate items reporting

	As of or for the year ended			% change from
CHF million, except where indicated	**31.12.11**[1]	31.12.10	31.12.09	31.12.10
Income	**(80)**	1,135	394	
Credit loss (expense) / recovery	**(1)**	0	(5)	
Total operating income	**(80)**	1,135	389	
Personnel expenses	**71**	78	551	(9)
General and administrative expenses	**139**	168	199	(17)
Services (to) / from other business divisions	**3**	8	306	(63)
Depreciation of property and equipment	**70**	89	193	(21)
Amortization of intangible assets	**0**	0	0	
Total operating expenses	**283**[2]	343	1,250	(17)
Performance from continuing operations before tax	**(363)**	793	(860)	
Performance from discontinued operations before tax	**0**	2	(7)	
Performance before tax	**(363)**	795	(867)	

Additional information

BIS risk-weighted assets, Basel II (CHF billion)[3]	**9.7**	8.9	8.5	9
BIS risk-weighted assets, Basel 2.5 (CHF billion)[3]	**13.7**	N/A	N/A	
Personnel (full-time equivalents)	**19,270**	19,472	20,054	(1)
Allocations to business divisions (full-time equivalents)	**(18,996)**	(19,278)	(18,430)	1
Personnel after allocations (full-time equivalents)	**274**	194	1,624	41

Corporate Center expenses before service allocation to business divisions[4]

Personnel expenses	**3,684**	3,870	4,043	(5)
General and administrative expenses	**3,351**	3,523	3,516	(5)
Depreciation of property and equipment	**728**	809	943	(10)
Total operating expenses before service allocation to business divisions	**7,762**	8,202	8,501	(5)
Net allocations to business divisions	**(7,479)**	(7,859)	(7,251)	5
Total operating expenses	**283**	343	1,250	(17)

1 Income and expenses related to the SNB StabFund investment management team, who are employed by UBS, were transferred from Investment Bank to Corporate Center in 2011. The impact on performance from continuing operations before tax is not material in the current or any prior period. Comparative prior periods have not been adjusted. 2 Operating expenses include restructuring charges of CHF 15 million. Refer to "Note 37 Reorganizations and disposals" in the "Financial information" section of this report for more information. 3 Capital management data as of 31 December 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for 31 December 2010 and 31 December 2009. The comparative information under the Basel II framework is therefore provided. Refer to the "Capital management" section of this report for more information. 4 Please note that some of the comparative figures in this table may differ from those originally published in quarterly and annual reports (for example due to adjustments following organizational changes).

2011

Results

The Corporate Centre recorded a pre-tax loss of CHF 363 million in 2011 compared with a gain of CHF 795 million in 2010. This mostly reflects a decline in the value of our option to acquire the SNB StabFund's equity and lower proceeds from the sale of real estate in 2011.

Operating income

The Corporate Center's operating income was negative CHF 80 million in 2011 compared with positive CHF 1,135 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, reflecting lower forecast cash flows and increased risk premia for the fund's assets, compared with a gain of CHF 745 million in 2010.

➔ **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**

Treasury income remaining in the Corporate Center after allocations to the business divisions amounted to a gain of CHF 38 million in 2011, compared with a gain of CHF 152 million in 2010. Furthermore, 2011 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.

Operating expenses

On a gross basis before service allocations to the business divisions, the Corporate Center reported operating expenses of CHF 7,762 million, down from CHF 8,202 million in 2010. This decrease was due to favorable currency effects of CHF 647 million 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 of approximately CHF 400 million resulting from the execution of the UBS real estate consolidation strategy and lower IT costs. This was partially offset by restructuring charges of CHF 196 million as well as an increase of approximately CHF 400 million 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 186 million to CHF 3,684 million, primarily due to favorable currency effects of CHF 298 million, partially offset by CHF 55 million 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 172 million to CHF 3,351 million due to favorable currency effects of CHF 300 million, partly offset by restructuring charges of CHF 113 million 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 81 million to CHF 728 million, primarily due to favorable currency effects of CHF 49 million and the reversal of an impairment loss. These decreases were partly offset by CHF 28 million in restructuring charges, mainly related to the abovementioned real estate consolidation in 2011.

The business divisions were charged net CHF 7,479 million for shared services, a decrease of CHF 380 million. Total operating expenses remaining after allocations to the business divisions were CHF 283 million compared with CHF 343 million in the prior year. This decrease was due to a value added tax provision release of CHF 22 million and a discretionary compensation accrual release of CHF 19 million in 2011. Furthermore, 2011 included lower litigation provisions, partially offset by additional expenses related to the SNB StabFund investment management team transferred from the Investment Bank and the "too-big-to-fail" program.

Personnel

At the end of the year 2011, the Corporate Center employed 19,270 personnel, of which 18,996 were allocated to the business divisions based on the services used. The reduction of 202 personnel from the prior year 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 274 personnel remaining in the Corporate Center were related to Group governance functions and other corporate items. The increase of 80 personnel compared with the prior year was mainly due to the SNB StabFund investment management team transferred from the Investment Bank and the "too-big-to-fail" program.

2010

Results

The pre-tax result in 2010 was a gain of CHF 795 million, compared with a loss of CHF 867 million in 2009, mainly due to a higher revaluation gain of our option to acquire the SNB StabFund's equity as well as lower operating expenses as a result of additional charges to the business divisions reflecting a change in allocation methodology.

Operating income

The Corporate Center's operating income was positive CHF 1,135 million in 2010 compared with positive CHF 389 million in 2009. The revaluation of our option to acquire the SNB StabFund's equity resulted in a gain of CHF 745 million in 2010, compared with a gain of CHF 117 million in 2009.

➔ **Refer to the discussion of "Non-trading portfolios – valuation and sensitivity information by instrument category" in the "Risk management and control" section of our Annual Report 2010 for more information on changes in the value of our option to acquire the SNB StabFund's equity**

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 was recorded in 2010. In comparison, 2009 included own credit related allocations of negative revenues to the Corporate Center and a CHF 498 million loss on the closing of the UBS Pactual sale in 2009, which was largely related to foreign exchange losses. These losses were partly offset by a net gain of CHF 297 million on the valuation of the mandatory convertible notes issued in December 2008 and converted in August 2009, an additional foreign exchange gain of CHF 430 million due to the de-consolidation and liquidation of subsidiaries and a gain of CHF 304 million on the buyback of subordinated debt.

Operating expenses

Total operating expenses decreased to CHF 343 million from CHF 1,250 million in 2009, mainly due to a goodwill impairment charge of CHF 492 million in 2009 relating to the sale of UBS Pactual, which was reallocated to the Corporate Center from the business divisions, partly offset by the credit related to the UBS Pactual operating result which was transferred from the business divisions. In addition, from 2010 onwards, almost all costs incurred by the Corporate Center related to shared services and control functions were allocated to the reportable segments, which directly and indirectly receive the value of the services, either based on a full cost recovery or on a periodically agreed flat fee. Up to and including 2009, certain costs incurred by the Corporate Center were presented as Corporate Center expenses and not charged to the business divisions. This change in allocation policy has been applied prospectively and prior year numbers have not been restated. The incremental charges to the business divisions made in 2010 mainly relate to control functions. If figures of 2009 had been presented on the basis of the allocation methodology applied for 2010, the estimated impact on operating expenses and performance before tax would have been CHF 640 million.

In 2010, the Corporate Center was able to reduce its cost base excluding variable compensation before allocation by CHF 605 million from the previous year, primarily as a result of lower personnel costs in IT and lower real estate-related costs. The business divisions fully benefited from the reduced cost base through lower allocations.

Personnel

At the end of the year 2010, the Corporate Center employed 19,472 personnel, of whom 19,278 were allocated to the business divisions based on the services used. The reduction of 582 personnel mainly related to the restructuring program in 2009. The remaining 194 personnel related to Group governance functions and other corporate items. The decrease of 1,430 personnel compared with the prior year was due to the abovementioned change in allocation methodology, mainly related to control functions.

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

During 2011 we continued to focus on aligning the firm's risk profile with our client-centric strategy. In the second half of 2011, we took measures to reduce market risk exposures significantly. Value-at-risk decreased by almost half to CHF 36 million on 31 December 2011 from CHF 68 million the prior year. Credit risk exposure saw a modest rise, reflecting increased lending within our international wealth management businesses, particularly in Asia Pacific. We also made further progress in reducing our exposures to monoline insurers and student loan auction rate securities. During 2011 while our risk under a number of stress scenarios was reduced in line with these reduced positions, we still remain significantly exposed to the impact of potential stress scenarios on our market, credit, operational and business risk.

Disciplined risk management and control are essential to our success. In 2011, we continued to make significant investments in our infrastructure, processes, methodologies and people to ensure that our risk frameworks are sufficiently robust to support our business aspirations and risk appetite. Our risk appetite is established within our risk capacity as determined by a complementary set of firm-wide risk metrics, and is approved under Board of Directors (BoD) authority. It is administered and enforced by a detailed framework of portfolio and position limits at both Group and business division levels. Each element of our risk control framework plays a key role in the decision-making processes within the firm. All material risks are reported to the respective authority holders at least monthly.

The unauthorized trading incident underscored the importance of ensuring a robust operational risk framework. A number of weaknesses identified in the wake of the incident have been fully or largely remediated, but there is more to be done to improve the broader internal control environment. We initiated a programme in 2011 to enhance our operational risk framework and internal controls; this extensive programme will continue through 2012.

Summary of key developments in 2011

The most important developments that took place in 2011 with regard to risk management and control include the following:

- Our year-end value-at-risk reduced to CHF 36 million on 31 December 2011 from CHF 68 million on 31 December 2010. This significant decrease was mainly attributed to concerted risk reductions within our trading business, in line with our strategy of running a more focused, less complex and less capital-intensive Investment Bank, but also reflected market conditions prevalent at the end of 2011.
- Residual risk exposures in the Investment Bank were further reduced during 2011. This followed the commutation of monoline insurance combined with sales of the underlying assets, predominantly collateralized loan obligations, and the sales of certain student loan auction rate securities portfolios. Net exposure to monoline insurers relating to negative basis trades and after credit valuation adjustments reduced to USD 1.0 billion from USD 1.6 billion. Our student loan auction rate securities portfolio reduced to USD 5.7 billion from USD 9.8 billion.
- New credit loss expenses minus credit loss recoveries for the Group totaled CHF 84 million, up from CHF 66 million in 2010. The change resulted primarily from an increase in collective loan loss allowances in the third quarter 2011, mainly due to heightened 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.
- Our impaired loan portfolio decreased by CHF 2.0 billion to CHF 2.1 billion on 31 December 2011, primarily due to sales of residual risk exposures.
- We continued to make significant investments in our risk IT platforms during 2011, particularly in the Investment Bank, where we refined our new platform for risk aggregation. The roll-out of standardized methodologies, processes and tools for credit monitoring across our wealth management locations also progressed well, and we completed the deployment of a third-party risk measurement application within Global Asset Management.
- Significant developments of the UBS Advanced Measurement Approach model for operational risk were approved by the Swiss Financial Market Supervisory Authority (FINMA) in the first quarter of 2011 and have been implemented for regulatory capital reporting.
- We established a dedicated firm-wide treasury risk control function with a direct reporting line into the Group Chief Risk Officer.
- FINMA conducts semi-annual macro-economic stress tests on the two large Swiss banks. Their scenario assumes a severe global recession together with very sharp, specific shocks for certain countries. The most recent assessment was done in the third quarter of 2011, when FINMA analyzed the impact of the stress test on our capital ratios and confirmed that we exceeded their regulatory minimum requirements under the specified scenario.
- Over the course of last year, we further embedded risk considerations within our compensation framework. In particular and

in line with evolving industry practice, we adapted our approach to identifying our key risk-takers, individuals in our organization who, by the nature of their role, can materially set, commit or control the firm's resources, or exert influence over the firm's risk profile.

→ **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 the level of individual exposures, at specific portfolio levels and at an aggregate firm-wide level across all risk types.
2. Reputation protection through a sound risk culture characterized by a holistic and integrated view of risk, performance and reward, and by full compliance with our standards and principles, particularly our Code of Business Conduct and Ethics.
3. 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.
5. Comprehensive and transparent disclosure of risks to senior management, the BoD, shareholders, regulators, rating agencies and other stakeholders.

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

Audited

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 management oversight 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 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 and operational risks. 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.
- 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 of firm-wide treasury risks and for implementing the risk management and control framework for tax.
- 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, consequential risks and business risks. Primary and consequential risks result from our business activities and are subject to independent risk control. Primary risks consist of credit risk, country risk, market risk, issuer risk and investment risk. Consequential risks consist of operational risk, which includes legal, compliance and tax risks, and liquidity and funding risks. Certain business risks arise from the commercial, strategic and economic risks inherent in our business activities. These are overseen and managed by the firm's respective business and group management.

Definitions of primary and consequential risks are the following:

Audited

- Credit risk: the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations.

Audited

- 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.
- Market risk, issuer risk and investment risk: the risk of loss resulting from changes in market variables, whether to our trading positions or financial investments.
- Operational risk: the risk of loss resulting from inadequate or failed internal processes, people and systems, or the risk of a loss resulting from external causes, whether deliberate, accidental or natural. This includes risks related to legal, compliance and tax matters.
- Liquidity and funding risk: the risk of being unable either to meet our payment obligations when due or to borrow funds in the market at an acceptable price to fund actual or proposed commitments.

➔ Refer to the "Credit risk", "Market risk", "Operational risk" and "Liquidity and funding management" sections of this report for a description of the control frameworks for these risk categories

Risk measurement

Audited

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 CRO and Group CFO organizations.

The base measures are position level market risk sensitivities and credit risk exposures which, on aggregate, provide an overview of our risk across trades. 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 characterized by past events but also include forward-looking elements. The stress scenarios for trading risks capture the liquidity characteristics of different markets and positions. Our stress frameworks include, for example 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 severe global recession triggered by severe market events similar to those observed in 2008. Other topical forward-looking scenarios developed over the past two years include a eurozone crisis. These stress tests are based on forward-looking market event 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, consequential 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 are 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 with respect to earnings and capital levels that we seek to maintain, even after experiencing severe losses over a defined time horizon. In order to monitor our risk profile against our risk appetite, we use our two complementary firm-wide risk measurement frameworks: EaR (together with its extension, capital-at–risk (CaR)) and CST. Both frameworks seek to capture risks across all of our business divisions and from all major risk categories, including primary risks, consequential risks and business risks. These measures are significant components of our risk control, capital management and business planning processes, which are described in more detail below:

- 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%.
- Combined stress testing complements EaR and CaR. As described in the "Stress loss" section above, our firm-wide stress tests evaluate the potential impact of stress scenarios across our risk portfolios, and thereby on our earnings and capital, based on specified stress scenarios.

Audited

Our risk appetite is approved by the BoD. Risk appetite is based on our risk capacity, which is in turn based on our capital and forecasted earnings resources. Our overall risk appetite is set as an upper limit covering the aggregate risk exposure for each risk appetite objective, taking into account inherent limitations in the precision of risk exposure measures focusing on extreme market and economic events. The risk limit framework takes into account a comparison of the firm's risk exposure with our risk capacity under prevailing operating conditions and according to prospective business plans. This comparison is a key tool supporting management decisions on potential adjustments to the risk profile of our firm.

➔ **Refer to the "Credit risk" and "Market risk" sections of this report for more information on our risk exposures**

Risk concentrations

Audited

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.

If we identify a risk concentration, we assess it to determine whether it should be reduced or mitigated, and we also evaluate the available means to do so. Once identified, risk concentrations are subject to increased monitoring.

Based on our assessment of portfolios and asset classes with the potential for material loss in a stress scenario relating to the current environment, we believe that our exposures to monoline insurers and student loan auction rate securities shown and discussed in the following sections were considered risk concentrations as of 31 December 2011, in accordance with the abovementioned definition.

➔ **Refer to the discussions of "Exposure to student loan auction rate securities" and "Exposure to monoline insurers" within the "Composition of credit risk – business divisions" section of the report for more information**

Audited

It is possible that material losses could occur on asset classes, positions and hedges other than those previously mentioned, 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. We are also exposed to price risk on our option to acquire the SNB StabFund's equity. In addition, we have lending, counterparty and country risk exposures that could result in significant losses if economic conditions were to worsen.

➔ **Refer to the discussion of credit risk, market risk and operational risk below 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

Audited
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

Audited
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 can 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 & Swiss Bank and the Investment Bank expose us to credit risk. Credit risk exposures from Wealth Management Americas and Global Asset Management are less material.

Credit risk control

Limits and controls

Audited
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.

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

Audited
We actively manage the credit risk in our portfolios by taking collateral against exposures and utilizing credit hedging. In Wealth Management & Swiss Bank, 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. We also have two-way collateral agreements with major market participants 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. For certain counterparties like hedge funds we may also use two-way collateral agreements. 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.

Primarily in the Investment Bank, we actively manage the credit risk of our portfolios with the aim of reducing concentrations of

Audited

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 benefit 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

Audited

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, 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 our retail and corporate banking business in Switzerland, 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, Wealth Management & Swiss Bank 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 loan-to-value ratios and debt service capacity of the obligor into account. 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.

The ratings of the major credit rating agencies, and their mapping to our internal rating masterscale, are shown in the "UBS internal rating scale and mapping of external ratings" table. 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 compared to 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.

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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

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 margin. 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 against 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 address 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, exposure at default 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.

➔ **Refer to the discussion on "Impairment and default – distressed claims" below for more information**

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 the statistical uncertainty on the defaulting counterparties and to systematic default relationships among counterparties within, and between segments. It 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 and use them to monitor our portfolios and identify potential risk concentrations. For certain portfolios and segments, stress loss may also be subject to limits.

➔ **Refer to the discussion on stress loss in this section for more information**

Composition of credit risk – UBS 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" table shows a breakdown of our banking and traded product exposures before and after allowances and provisions for credit losses, credit valuation adjustment (CVA) on traded products and specific credit hedges. Portfolio hedges, such as index CDS, are not included in this analysis. Banking product exposures are shown on an amortized cost or notional basis, without applying credit conversion factors. Exposures to OTC derivatives are generally shown in the table 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 business saw increased levels in 2011, following material client deleveraging in the prior year.

Total credit exposure before deductions amounted to CHF 476 billion on 31 December 2011 compared with CHF 445 billion at the end of 2010. Our banking product exposures increased to CHF 394 billion from CHF 356 billion, mainly due to increases in the balances with central banks and in the loan books of Wealth Management & Swiss Bank and Wealth Management Americas. Our traded products exposures, which arise largely in our Investment Bank, declined by CHF 7 billion to CHF 82 billion. The largest component of our credit exposure before deductions as of 31 December 2011 was our loan portfolio, accounting for CHF 257 billion or 54% of our total credit exposure. Of this, CHF 210 billion was attributable to Wealth Management & Swiss Bank.

Additional information on the composition and credit quality of Wealth Management & Swiss Bank's loan portfolio and the Investment Bank's banking products and OTC derivatives portfolios is provided further on in this section. Analysis of our Investment Bank and Wealth Management & Swiss Bank portfolios is based on net exposure (i.e. after deduction of credit hedges, allowances and provisions, CVA) because we actively utilize credit hedging to manage our risks in these portfolios.

➔ **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 23 Derivative instruments and hedge accounting" and "Note 28c Measurement categories of financial assets and liabilities" in the "Financial information" section of this report for further information on IFRS required disclosures on derivatives and credit risk**

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Credit exposure by business division

	Wealth Management & Swiss Bank		Wealth Management Americas		Investment Bank		Other[1]		UBS	
CHF million	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10
Balances with central banks	**3,370**	10,727	**2,161**		**31,743**	13,732	**1,290**		**38,565**	24,459
Due from banks	**4,395**	2,678	**1,594**	2,157	**18,182**	13,924	**655**	315	**24,826**	19,075
Loans	**210,375**	201,942	**27,894**	22,472	**18,552**[2]	17,679[2]	**155**	158	**256,977**[2]	242,250[2]
Guarantees	**11,797**	10,505	**406**	370	**5,551**	4,820	**129**	123	**17,884**	15,819
Loan commitments	**7,955**	7,276	**1,076**	1,066	**46,927**	46,216			**55,958**	54,558
Banking products[3]	**237,893**	233,128	**33,131**	26,065	**120,955**	96,371	**2,229**	596	**394,209**	356,161
OTC derivatives	**5,709**	4,048	**74**	56	**45,759**	47,452	**330**	284	**51,871**	51,840
Exchange-traded derivatives	**984**	978	**877**	1,114	**7,938**	14,599			**9,799**	16,691
Securities financing transactions			**155**	156	**20,051**	20,279			**20,206**	20,435
Traded products	**6,693**	5,026	**1,106**	1,326	**73,748**	82,330	**330**	284	**81,877**	88,966
Total credit exposure	**244,585**	238,155	**34,238**	27,391	**194,703**	178,701	**2,559**	880	**476,086**	445,127
Total credit exposure, net[4]	**243,476**	236,488	**34,235**	27,389	**163,057**	143,364	**2,559**	876	**443,328**	408,117

1 Includes Global Asset Management and Corporate Center. 2 Does not include reclassified securities and similar acquired securities. 3 Excludes loans designated at fair value. 4 Net of allowances, provisions, CVA and hedges.

Composition of credit risk – business divisions

Wealth Management & Swiss Bank

The total gross banking products exposure of Wealth Management & Swiss Bank was CHF 238 billion on 31 December 2011, compared with CHF 233 billion on 31 December 2010. The high quality of this portfolio is illustrated by the rating and loss given default distributions shown in the table "Wealth Management & Swiss Bank: distribution of net banking products exposure across UBS internal rating and loss given default buckets". Approximately 75% of Wealth Management & Swiss Bank's banking product portfolio is rated investment grade, with over 85% of this portion categorized in the lowest LGD bucket of 0–25%. The table below shows a shift from sub-investment to investment grade, mainly due to the introduction of a new rating methodology for the retail mortgage segment in 2011.

Wealth Management & Swiss Bank's gross loan portfolio increased to CHF 210 billion, from CHF 202 billion in the prior year. The increase came mainly from our Wealth Management business in the Asia Pacific region and in Switzerland. Of Wealth Management & Swiss Bank's loan portfolio, 93% was secured by collateral, of which 75% was secured by real estate and the remaining 25% by marketable securities, guarantees and other forms of collateral. The majority of the real estate exposure is secured by Swiss residential property (single and multi-family homes), which have typically exhibited a low risk profile.

Wealth Management & Swiss Bank's gross unsecured loan portfolio amounted to CHF 14.9 billion, 45% of which was rated investment grade. Furthermore, 67% of the unsecured portfolio related to cash-flow-based lending to corporate counterparties, and 20% to public authorities, mainly in Switzerland.

Wealth Management Americas

The total gross banking products exposure of Wealth Management Americas increased to CHF 33 billion on 31 December 2011 compared with CHF 26 billion on 31 December 2010. This exposure arose from three main product categories: loans secured by marketable securities, residential mortgage loans and credit cards.

The majority of loans secured by marketable securities were of high quality, with 88% (93% in 2010) 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 1.8 billion as of 31 December 2011 from CHF 1.1 billion the prior year. The overall quality of this portfolio remains high 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 135 million on 31 December 2011.

Wealth Management & Swiss Bank: distribution of net banking products exposure across internal UBS ratings and loss given default buckets

CHF million, except where indicated			31.12.11						31.12.10	
				LGD buckets						
Internal UBS ratings	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–	177,355	154,085	22,520	740	10	13	140,194	16
Sub-investment grade			58,232	48,453	7,531	1,238	1,010	15	89,888	12
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	*55,257*	*45,921*	*7,112*	*1,214*	*1,010*	*15*	*86,867*	*11*
of which: 10–12	*B2 to Caa*	*B to CCC*	*2,686*	*2,249*	*414*	*23*		*15*	*2,967*	*17*
of which: 13	*Ca & lower*	*CC & lower*	*289*	*283*	*5*	*1*		*6*	*55*	*20*
Total non-defaulted			**235,587**	**202,538**	**30,051**	**1,978**	**1,020**	**13**	230,082	14
Defaulted[1]			*1,196*						*1,379*	
Net banking products exposure[2]			**236,783**						231,461	

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 709 million (31 December 2010: CHF 817 million) and credit hedges of CHF 400 million (31 December 2010: CHF 849 million) is CHF 237,893 million (31 December 2010: CHF 233,128 million).

Wealth Management & Swiss Bank: composition of loan portfolio, gross

CHF million, except where indicated	31.12.11		31.12.10	
Secured by residential property	124,639	59.2%	122,815	60.8%
Secured by commercial / industrial property	21,347	10.1%	20,766	10.3%
Secured by securities[1]	49,521	23.5%	42,993	21.3%
Unsecured loans	14,867	7.1%	15,367	7.6%
Total loans, gross	**210,375**	**100.0%**	201,942	100.0%
Total loans, net of allowances and credit hedges	**209,572**		201,012	

1 Includes guarantees and other collateral.

Wealth Management & Swiss Bank: unsecured loans by industry sector

CHF million	31.12.11	31.12.10
Construction	120	252
Financial institutions	919	642
Hotels and restaurants	327	59
Manufacturing	2,542	2,172
Private households	1,785	1,842
Public authorities	2,938	4,895
Real estate and rentals	1,112	889
Retail and wholesale	1,715	1,551
Services	3,113	2,776
Other	296	288
Total	**14,867**	15,367

Investment Bank

The "Investment Bank: banking products and OTC derivatives exposure" table shows the Investment Bank's credit exposures to banking products and OTC derivatives before and after allowances and provisions, CVA and specific hedges based on our internal risk view. Portfolio hedges, such as index CDS, are not included 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" table.

Approximately 94% of the Investment Bank's net OTC derivative 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. Approximately 67% of the Investment Bank's net banking products portfolio was rated investment grade, with the majority of the exposures related to its lending activities associated with corporates and other non-banks.

The tables shown on the next page provide additional analysis of the portfolio by our internal rating and LGD, industry sector and geographical region.

Investment Bank: banking products and OTC derivatives exposure[1]

CHF million	Banking products		OTC derivatives	
	31.12.11	31.12.10	**31.12.11**	31.12.10
Total exposure, before deduction of allowances and provisions, CVA and hedges	**75,380[2]**	70,885[2]	**45,759**	47,452
Less: allowances, provisions and CVA	***(93)***	*(124)*	***(2,917)***	*(2,224)*
Less: credit protection bought (credit default swaps, notional)	***(22,886)***	*(29,154)*	***(5,637)***	*(3,683)*
Net exposure after allowances and provisions, CVA and hedges	**52,401**	41,608	**37,205**	41,546

1 Banking products: risk view, excludes balances with central banks, due from banks, reclassified and similar acquired securities 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 120,955 million (31 December 2010: CHF 96,371 million).

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

CHF million, except where indicated			**31.12.11**						31.12.10	
				LGD buckets						
Internal UBS ratings	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–	**35,017**	**10,426**	**15,269**	**4,101**	**5,221**	**43**	25,603	43
Sub-investment grade			**17,384**	**8,363**	**6,002**	**1,728**	**1,291**	**31**	16,005	33
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***9,717***	***4,406***	***2,852***	***1,322***	***1,137***	***35***	*6,812*	*36*
of which: 10–12	*B2 to Caa*	*B to CCC*	***7,121***	***3,544***	***3,073***	***357***	***146***	***27***	*8,285*	*31*
of which: 13 & defaulted	*Ca & lower*	*CC & lower*	***547***	***413***	***77***	***49***	***7***	***21***	*908*	*35*
Net banking products exposure, after application of credit hedges[1]			**52,401**	**18,790**	**21,271**	**5,829**	**6,511**	**39**	41,608	39

1 Banking products: risk view, excludes balances with central banks, due from banks, reclassified and similar acquired securities 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			**31.12.11**						31.12.10	
				LGD buckets						
Internal UBS ratings	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–	**34,898**	**8,096**	**23,966**	**1,925**	**912**	**32**	37,552	36
Sub-investment grade			**2,307**	**420**	**1,126**	**152**	**607**	**51**	3,994	54
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***1,650***	***258***	***697***	***115***	***580***	***56***	*2,302*	*55*
of which: 10–12	*B2 to Caa*	*B to CCC*	***356***	***24***	***294***	***30***	***7***	***48***	*889*	*53*
of which: 13 & defaulted	*Ca & lower*	*CC & lower*	***301***	***138***	***135***	***7***	***20***	***32***	*803*	*70*
Net OTC derivatives exposure, after application of credit hedges[1]			**37,205**	**8,516**	**25,092**	**2,077**	**1,519**	**33**	41,546	39

1 OTC derivatives: net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking Law.

The Investment Bank's net banking products exposure increased to CHF 52.4 billion as of 31 December 2011 from CHF 41.6 billion at the end of 2010. The Investment Bank continued to actively manage the credit risk of this portfolio and, as of 31 December 2011, held CHF 23 billion of single-name CDS hedges against its exposures to corporates and other non-banks.

The Investment Bank's net banking products exposure to corporates and other non-banks continued to be diversified across industry sectors. Based on our assessment, the vast majority of the sub-investment grade exposures in this portfolio had an LGD of 0–50% on 31 December 2011.

➔ **Refer to "Note 28b Reclassification of financial assets" in the "Financial information" section of this report for more information on reclassified securities**

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 2011, the loan had a balance outstanding of USD 4.7 billion compared with USD 5.7 billion on 31 December 2010, taking into account amounts held in escrow. This loan balance is reflected in the Investment Bank's credit exposures shown in the tables of this section. The aggregate notional balance of the RMBS fund's assets collateralizing the loan on 31 December 2011 was USD 11.5 billion. By notional balance, the portfolio primarily comprised of Alt-A (54%) and sub-prime (33%) credit grades. In terms of priority, the portfolio was dominated by senior positions (96%).

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

Investment Bank: net banking products and OTC derivatives exposure by industry sector[1]

	Banking products		OTC derivatives	
CHF million	**31.12.11**	31.12.10	**31.12.11**	31.12.10
Banks	**5,082**	2,608	**10,935**	13,409
Chemicals	**1,866**	1,046	**188**	179
Electricity, gas, water supply	**3,760**	2,380	**252**	155
Non-bank financial institutions	**17,735**	13,054	**16,068**	20,778
Manufacturing	**6,354**	8,021	**626**	524
Mining	**5,990**	3,707	**211**	94
Public authorities	**1,369**	1,611	**7,233**	4,916
Retail and wholesale	**1,791**	1,921	**43**	49
Transport, storage and communication	**4,041**	2,722	**943**	861
Other	**4,413**	4,537	**707**	581
Total	**52,401**	41,608	**37,205**	41,546

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	**31.12.11**	31.12.10	**31.12.11**	31.12.10
Switzerland	**758**	348	**1,263**	1,804
Rest of Europe	**7,943**	5,291	**18,884**	19,874
North America	**38,507**	32,721	**13,003**	15,764
Latin America	**653**	34	**278**	185
Asia Pacific	**4,269**	2,658	**3,345**	3,338
Middle East and Africa	**271**	556	**433**	580
Total	**52,401**	41,608	**37,205**	41,546

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the equity investors in the fund no longer receive the majority of the risks and rewards. 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 2011 did not alter our conclusion that the loan is not impaired and that consolidation is not required.

Exposure to student loan auction rate securities

We continue to regard our inventory of student loan auction rate securities as a "risk concentration". The overall exposure decreased to USD 5.7 billion on 31 December 2011 from USD 9.8 billion on 31 December 2010 following sales during the year.

At the end of 2011, 77% 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.

➔ **Refer to the "Risk concentrations" section of this report for more information**

Exposure to monoline insurers

We continue to regard our exposure to monoline insurers as a "risk concentration". The vast majority of this exposure arises from OTC derivative contracts, mainly credit default swap (CDS) protection purchased to hedge specific positions. The table "Exposure to monoline insurers, by rating" shows this exposure calculated as the sum of the fair values of individual CDS after credit valuation adjustments (CVA).

On 31 December 2011, based on fair values, 41% of the insured assets were commercial mortgage-backed securities (CMBS), 31% were collateralized loan obligations, 21% were other asset-backed securities and 7% were asset-backed securities high-grade collateralized debt obligations of US sub-prime residential mortgage-backed securities.

The total fair value of CDS protection purchased from monoline insurers was USD 1.0 billion after cumulative CVA of USD 1.4 billion. The changes reported in the table "Exposure to monoline insurers, by rating" do not equal the profit or loss associated with this portfolio as a significant portion of the underlying assets are classified as *Loans and receivables* for accounting purposes. In addition to credit protection purchased on the positions detailed in the table, we held direct derivative exposure to monoline insurers of USD 264 million after CVA of USD 216 million, on 31 December 2011.

➔ **Refer to the "Non-trading portfolios – valuation and sensitivity information by instrument category" section below for more information**

➔ **Refer to the "Risk concentrations" section of this report for more information**

Student loan ARS inventory

	Carrying value	
USD million	**31.12.11**	31.12.10
US student loan ARS	**5,683[1]**	9,784
of which rated BB– and above	***5,154***	*8,374*
of which rated below BB–	***529***	*1,410*

1 Includes USD 2.9 billion (CHF 2.7 billion) at carrying value of student loan ARS that were reclassified to Loans and receivables from Held for trading in the fourth quarter 2008. Refer to "Note 28b Reclassification of financial assets" in the "Financial information" section of this report for more information.

Exposure to monoline insurers, by rating[1]

	31.12.11				
	Notional amount[3]	**Fair value of underlying assets**	**Fair value of CDS prior to credit valuation adjustment**	**Credit valuation adjustment**	**Fair value of CDS after credit valuation adjustment**
USD million	**Column 1**	**Column 2**	**Column 3 (=1–2)**	**Column 4**	**Column 5 (=3–4)**
Credit protection on US sub-prime residential mortgage-backed securities (RMBS) CDO high grade, from monolines rated sub-investment grade (BB and below)[2]	**726**	**188**	**538**	**470**	**68**
Credit protection on other assets[2]	**4,392**	**2,585[4]**	**1,807**	**912**	**895**
of which: from monolines rated investment grade (BBB and above)	*658*	*483*	*175*	*48*	*127*
of which: from monolines rated sub-investment grade (BB and below)	*3,734*	*2,103*	*1,631*	*864*	*767*
Total 31.12.11	**5,118**	**2,773**	**2,345**	**1,382**	**963**
Total 31.12.10	11,906	9,206	2,699	1,087	1,612

1 Excludes the benefit of credit protection purchased from unrelated third parties. 2 Categorization based on the lowest insurance financial strength rating assigned by external rating agencies. 3 Represents gross notional amount of credit default swaps (CDS) purchased as credit protection. 4 Includes USD 0.8 billion (CHF 0.7 billion) at fair value / USD 0.9 billion (CHF 0.8 billion) at carrying value of assets that were reclassified to Loans and receivables from Held for trading in the fourth quarter of 2008. Refer to "Note 28b Reclassification of financial assets" in the "Financial information" section of this report.

Impairment and default – distressed claims

With respect to distressed claims resulting from banking products, we distinguish between loans that are "past due" and those that are "impaired". We consider a loan to be past due when a contractual payment has been missed. We consider a loan as impaired if it is probable that we will not fully recover all contractual payments due under the loan as a result of the borrower's inability, or unwillingness, to meet its obligations after realization of available 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. 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. We also assess claims from securities financing transactions for default and impairment using the same principles and processes we use for banking products.

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.

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 obligations where the individual impaired items 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 expected loss for the portfolio over the average period between trigger events and the identification of individual impairment. Collective loan loss allowances of this kind are typically not required for our investment banking businesses because we continuously monitor individual counterparties and exposures to identify impairment events at an early stage.

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 the "Credit risk" section of this report.

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 26a 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 131 million, decreased 33% to CHF 804 million on 31 December 2011 from CHF 1,193 million (excluding collective loan loss allowances of CHF 47 million) at the end of 2010.

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 2,135 million of 31 December 2011 from CHF 4,172 million.

The ratio of the impaired loan portfolio to the total loan portfolio (both measured gross) reduced by half to 0.8% compared with 1.6% on 31 December 2010, mainly due to sales of impaired reclassified assets. For loans excluding securities the ratio was 0.6% compared with 0.9%.

We reclassified loans and receivables with carrying amounts of CHF 186 million and CHF 242 million from impaired to performing during 2011 and 2010, respectively. The 2010 number has been corrected from CHF 39 million to CHF 242 million. 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 past due amounts such that we deemed future principal and interest to be fully collectible in accordance with the original contractual terms.

Collateral held against our impaired loan portfolio mainly consisted of real estate and securities on 31 December 2011.

It is our policy to dispose of foreclosed real estate as soon as practicable. The carrying amount of foreclosed property recorded

Allowances and provisions for credit losses[1]

CHF million, except where indicated	IFRS exposure, gross		Impaired exposure[2]		Specific allowances and provisions for credit losses[3]		Estimated liquidation proceeds of collateral		Impairment ratio (%)	
As of	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10
Group										
Balances with central banks	**38,565**	24,459							**0.0**	0.0
Due from banks	**23,235**	17,158	**20**	21	**17**	24			**0.1**	0.1
Loans	**267,429**	263,964	**2,135**	4,172	**694**	1,039	**893**	2,286	**0.8**	1.6
of which: related to reclassified securities[4]	***4,996***	*11,719*	***450***	*1,574*	***68***	*221*	***389***	*1,376*	***9.0***	*13.4*
of which: related to similar acquired securities	***6,524***	*9,673*	***95***	*351*	***15***	*52*	***81***	*313*	***1.5***	*3.6*
of which: related to other loans	***255,909***	*242,572*	***1,589***	*2,247*	***611***	*766*	***423***	*597*	***0.6***	*0.9*
Guarantees	**18,905**	16,535	**94**	160	**87**	96	**3**	7	**0.5**	1.0
Loan commitments	**58,192**	56,851	**70**	142	**6**	34	**1**	5	**0.1**	0.2
Banking products	**406,326**	378,967	**2,318**	4,495	**804**	1,193	**897**	2,298	**0.6**	1.2
Investment Bank										
Balances with central banks	**31,743**	13,732							**0.0**	0.0
Due from banks	**16,592**	12,007	**11**		**5**				**0.1**	0.0
Loans	**29,005**	39,392	**1,114**	2,838	**157**	348	**642**	1,926	**3.8**	7.2
of which: related to reclassified securities[4]	***4,996***	*11,719*	***450***	*1,574*	***68***	*221*	***389***	*1,376*	***9.0***	*13.4*
of which: related to similar acquired securities	***6,524***	*9,673*	***95***	*351*	***15***	*52*	***81***	*313*	***1.5***	*3.6*
of which: related to other loans	***17,485***	*18,000*	***569***	*913*	***74***	*76*	***172***	*237*	***3.3***	*5.1*
Guarantees	**6,572**	5,536	**69**	67	**61**	43			**1.1**	1.2
Loan commitments	**49,161**	48,509	**67**	95	**1**	26			**0.1**	0.2
Banking products	**133,073**	119,177	**1,261**	3,000	**223**	417	**642**	1,926	**0.9**	2.5
Wealth Management & Swiss Bank										
Balances with central banks	**3,370**	10,727							**0.0**	0.0
Due from banks	**4,395**	2,678	**9**	21	**12**	24			**0.2**	0.8
Loans	**210,375**	201,942	**1,020**	1,333	**537**	689	**251**	360	**0.5**	0.7
Guarantees	**11,797**	10,505	**25**	93	**26**	49	**3**	7	**0.2**	0.9
Loan commitments	**7,955**	7,276	**3**	47	**5**	8	**1**	5	**0.0**	0.6
Banking products	**237,893**	233,128	**1,057**	1,494	**581**	770	**255**	372	**0.4**	0.6
Wealth Management										
Balances with central banks	**1,165**	463							**0.0**	0.0
Due from banks	**555**	456							**0.0**	0.0
Loans	**75,056**	67,104	**45**	166	**42**	126	**6**	45	**0.1**	0.2
Guarantees	**2,641**	2,391							**0.0**	0.0
Loan commitments	**1,220**	983							**0.0**	0.0
Banking products	**80,637**	71,397	**45**	166	**42**	126	**6**	45	**0.1**	0.2
Retail & Corporate										
Balances with central banks	**2,205**	10,265							**0.0**	0.0
Due from banks	**3,840**	2,222	**9**	21	**12**	24			**0.2**	0.9
Loans	**135,320**	134,838	**975**	1,167	**495**	563	**246**	315	**0.7**	0.9
Guarantees	**9,156**	8,114	**25**	93	**26**	49	**3**	7	**0.3**	1.1
Loan commitments	**6,735**	6,293	**3**	47	**5**	8	**1**	5	**0.0**	0.7
Banking products	**157,256**	161,732	**1,012**	1,328	**539**	644	**250**	327	**0.6**	0.8

1 Excludes allowances for securities borrowed. 2 Excludes reclassified securities that are not considered impaired. 3 Excludes CHF 131 million collective loan loss allowances (31 December 2010: CHF 47 million). 4 Refer to "Note 28b Reclassification of financial assets" in the "Financial information" section of this report.

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Impaired assets by type of financial instrument

CHF million	Impaired exposure		Specific allowances, provisions and CVA adjustments		Estimated liquidation proceeds of collateral		Net impaired exposure	
	31.12.11	31.12.10	31.12.11	31.12.10	31.12.11	31.12.10	31.12.11	31.12.10
Impaired loans (incl. due from banks)	2,155	4,193	(711)[1]	(1,064)[1]	(893)	(2,286)	551	844
Impaired guarantees and loan commitments	164	301	(93)	(130)	(4)	(12)	67	159
Defaulted derivatives contracts	2,143	1,915	(1,457)	(1,130)			686	785
Defaulted securities financing transactions	3	59	(3)	(46)		(13)		
Total	4,465	6,468	(2,263)	(2,370)	(897)	(2,310)	1,304	1,788

1 Excludes CHF 131 million collective loan loss allowances (31 December 2010: CHF 47 million).

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in our balance sheet under *Other assets* at the end of 2011 and 2010 amounted to CHF 58 million and CHF 90 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 loan commitments, guarantees 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 4.5 billion on 31 December 2011, mainly due to sales of legacy loan positions.

After deducting allocated specific allowances, provisions and CVA of CHF 2.3 billion and the estimated liquidation proceeds of collateral of CHF 0.9 billion, net impaired assets amounted to CHF 1.3 billion as of 31 December 2011.

➔ Refer to "Note 9a Due from banks and loans" in the "Financial information" section of this report for more information

Past due but not impaired loans

The table below 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 the full amounts due. The loan balances in the table relate entirely to our Wealth Management & Swiss Bank division, where delayed payments are routinely observed. We currently have no past due but not impaired loans in the Investment Bank.

The increase in our past due but not impaired loan exposures resulted primarily from a slight growth in the categories 1–60 days. Our past due but not impaired loans in the greater-than-90-day category related primarily to mortgage loans. However, 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

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Past due but not impaired loans

CHF million	31.12.11	31.12.10
1–10 days	105	62
11–30 days	54	59
31–60 days	57	30
61–90 days	9	20
> 90 days	670	678
of which: mortgage loans	*486*	*468*
Total	895	849

Past due but not impaired mortgage loans

CHF million	31.12.11		31.12.10	
	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	135,237	486	133,343	468

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 is the risk of loss arising from country-specific events. We have a well established country risk control framework to ensure that our exposure to certain countries is commensurate with the credit ratings we assign to them, and that it is not disproportionate to the respective country risk profile.

We assign ratings to all countries where we have exposure. Sovereign ratings express the probability of a country risk event that would lead to impairment of our claims. The default probabilities we use, and our mapping of external ratings of the major rating agencies, are based on our counterparty rating classes as described in the "Probability of default" section above. For all countries rated 3 and below, we set country risk ceilings approved either by the BoD or under delegated authority by the Group CEO or Group Chief Risk Officer. 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.

Losses due to counterparty or issuer defaults resulting from multiple insolvencies (systemic risk) or general prevention or restriction of payments by authorities (transfer risk) are the most significant effects of a country crisis. 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 and equity markets and asset prices or a sharp depreciation of the currency. We use stress testing to assess the potential financial impact of a severe emerging markets crisis. This involves identifying 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 subject to stress tests that cover major global scenarios 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

Product categories
The presentation of exposures follows our internal risk management view without recognizing any expected recovery values.

Banking products are loans (at amortized cost), unfunded loan commitments (notional basis) and financial 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. Trading inventory exposures represent the change in fair value, if the value of a security or, in the case of derivatives, the underlying reference asset, fell instantaneously to zero. As we manage the trading inventory on a net basis, we also net the value of long positions against short positions with the same underlying issuer. This is a conservative approach as the reported sum of net long exposures per legal entity does not recognize the offsetting benefit of certain hedges and short positions across issuers. This is especially relevant when estimating the potential exposure to moves in general country credit spreads.

Country allocation methodology
The basis for the presentation of the country exposure from banking products or traded products exposures is the domicile allocation used in our internal risk view. In general, the country of domicile of the legal entity (parent or subsidiary) that is our contractual counterparty determines the country against which the exposure is shown. For example, a loan to a bank domiciled in country X would be shown against country X, while the exposure to a Y-domiciled subsidiary of that bank would be shown against country Y.

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. In such cases, 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.

Special rules apply for banking products exposures (money market deposits, loans) 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 firm, and additionally in full against the country in which the branch is located.

For derivative exposures, we show the counterparty risk against the country of (risk) domicile of the counterparty within traded products. In addition, we reflect the benefits/liabilities arising from changes in fair value of the derivative due to changes in the value of the underlying reference asset within trading inventory, reflected against the (risk) domicile of the legal entity which issued the relevant reference asset. 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.

Country risk in relation to securities held within trading inventory is allocated based on our internal risk domicile view. In general, the country of domicile of issuer determines the country against which the exposure is shown. For example, an equity issued by a company domiciled in country X would be shown against country X, independent of the exchange on which it is registered. In some cases where the economic substance of an issuer is primarily located in a different country, or in the case where we hold third-party guarantees, the same principles apply to trading inventory exposures as described above for banking products.

Risk mitigants
The risk-reducing effect of collateral, either in the form of cash or portfolios of diversified marketable securities is taken into account when determining the "Exposure before hedges" in the table "Exposure to selected European countries".

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.

Exposures to selected European countries
The table "Exposures to selected European countries" includes all 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 govern-

ment, bank, and other counterparties. The "sovereign" category includes agencies and central banks. Corporates, insurance companies and funds are included within the "other" category. The gross exposures to Andorra, Cyprus, Estonia, Malta, Monaco, Montenegro, San Marino, Slovakia, and Slovenia are grouped into "other" and totaled CHF 185 million on 31 December 2011.

Exposure to emerging market countries

The table "Emerging markets net exposure by major geographical region and product type" shows the five largest emerging market country exposures in each major geographical area by product type on 31 December 2011 compared with 31 December 2010. Based on the main country rating categories, on 31 December 2011,

Exposures to selected European countries

CHF million	Total		Banking products (loans, unfunded commitments, guarantees) Net of collateral			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)
31.12.11		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	**11,505**	**9,861**	**3,147**	**1,714**	***659***	**3,524**	**3,312**	**4,834**
Sovereign, agencies and central banks	3,732	3,611	73	73		784	663	2,874
Local governments	78	78	59	59		1	1	18
Banks	1,499	1,499	627	627		730	730	143
Other	6,197	4,673	2,389	956		2,009	1,918	1,799
Italy	**6,993**	**3,652**	**1,429**	**996**	***544***	**4,311**	**1,404**	**1,252**
Sovereign, agencies and central banks	3,836	951	4	4		3,832	947	0
Local governments	129	113	0	0		89	74	40
Banks	1,474	1,467	589	589		156	149	729
Other	1,554	1,121	837	403		234	234	484
Spain	**4,414**	**3,517**	**2,692**	**1,991**	***168***	**381**	**186**	**1,341**
Sovereign, agencies and central banks	6	6	5	5		0	0	0
Local governments	19	19	0	0		18	18	0
Banks	2,084	2,084	1,825	1,825		77	77	182
Other	2,305	1,409	861	160		286	91	1,158
Austria	**1,867**	**1,586**	**169**	**133**	***84***	**1,325**	**1,081**	**372**
Sovereign, agencies and central banks	1,104	859	0	0		1,101	857	3
Local governments	15	15	0	0		15	15	0
Banks	553	553	59	59		178	178	315
Other	195	159	110	74		31	31	54
Ireland[2]	**1,585**	**1,584**	**581**	**581**	***30***	**532**	**532**	**471**
Sovereign, agencies and central banks	0	0	0	0		0	0	0
Local governments	0	0	0	0		0	0	0
Banks	541	541	429	429		38	38	74
Other	1,044	1,043	152	152		495	494	397
Belgium	**876**	**841**	**312**	**312**	***35***	**528**	**493**	**36**
Sovereign, agencies and central banks	443	409	0	0		443	409	0
Local governments	0	0	0	0		0	0	0
Banks	291	291	227	227		59	59	5
Other	141	141	85	85		25	25	31
Portugal	**363**	**266**	**112**	**15**	***45***	**12**	**12**	**239**
Sovereign, agencies and central banks	0	0	0	0		0	0	0
Local governments	1	1	0	0		0	0	1
Banks	29	29	11	11		4	4	13
Other	334	236	101	3		8	8	225
Greece	**141**	**104**	**57**	**19**	***18***	**47**	**47**	**38**
Sovereign, agencies and central banks	37	37	0	0		5	5	32
Local governments	0	0	0	0		0	0	0
Banks	34	34	19	19		16	16	0
Other	70	32	38	0		26	26	6
Other	**185**	**185**	**92**	**92**	***9***	**45**	**45**	**49**

1 Not deducted are total allowances and provisions of CHF 25 million (of which: Austria CHF 15 million and France CHF 8 million). 2 The majority of the Ireland exposure relates to funds and foreign bank subsidiaries.

86% of our emerging market country exposures were rated investment grade compared with 87% on 31 December 2010.

The overall credit and market risk exposure in the Middle East and North Africa remained modest. Of the CHF 2.5 billion shown for the Middle East and Africa in the table below, CHF 2 billion relate specifically to Middle Eastern and North African countries, which includes the larger positions in Saudi Arabia and the United Arab Emirates.

Debt investments

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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

Emerging markets net exposure[1] by internal UBS country rating category

CHF million	31.12.11	31.12.10
Investment grade	19,341	17,567
Sub-investment grade	3,053	2,521
Total	**22,394**	**20,088**

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 61 million are not deducted (31 December 2010: CHF 40 million).

Emerging market exposures by major geographical region and product type

CHF million	**Total**		**Banking products** (loans, unfunded commitments, guarantees) Net of collateral		**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	
As of	31.12.11	31.12.10	31.12.11	31.12.10	31.12.11	31.12.10	31.12.11	31.12.10
Emerging Europe	2,500	2,177	939	681	337	178	1,224	1,318
Russia	*905*	*1,090*	*355*	*212*	*117*	*29*	*433*	*849*
Turkey	*843*	*249*	*310*	*158*	*45*	*42*	*488*	*49*
Hungary	*159*	*318*	*3*	*20*	*95*	*39*	*61*	*259*
Ukraine	*140*	*87*	*61*	*59*	*0*	*0*	*79*	*28*
Poland	*110*	*156*	*29*	*17*	*52*	*62*	*30*	*77*
Other	*343*	*277*	*182*	*215*	*28*	*6*	*133*	*56*
Emerging Asia	13,671	11,937	5,240	4,905	2,390	2,443	6,041	4,589
Hong Kong	*3,048*	*2,597*	*983*	*950*	*602*	*565*	*1,462*	*1,082*
China	*2,978*	*2,267*	*1,373*	*1,127*	*733*	*605*	*872*	*535*
India	*2,620*	*2,519*	*1,158*	*919*	*172*	*32*	*1,290*	*1,568*
South Korea	*2,037*	*1,495*	*513*	*592*	*432*	*588*	*1,091*	*315*
Taiwan	*1,459*	*1,433*	*458*	*451*	*310*	*343*	*692*	*639*
Other	*1,529*	*1,626*	*754*	*866*	*142*	*310*	*634*	*450*
Emerging Americas	3,692	3,387	656	293	791	620	2,245	2,474
Brazil	*1,538*	*1,699*	*168*	*119*	*527*	*471*	*842*	*1,109*
Colombia	*597*	*61*	*122*	*2*	*37*	*15*	*438*	*44*
Mexico	*487*	*951*	*125*	*59*	*134*	*95*	*228*	*797*
Chile	*258*	*155*	*154*	*42*	*75*	*38*	*29*	*75*
Argentina	*233*	*134*	*39*	*31*	*0*	*0*	*194*	*103*
Other	*580*	*387*	*48*	*40*	*18*	*1*	*514*	*346*
Middle East and Africa	2,531	2,587	1,094	969	807	819	630	799
Saudi Arabia	*649*	*606*	*170*	*110*	*438*	*488*	*41*	*8*
South Africa	*526*	*589*	*137*	*163*	*61*	*39*	*328*	*387*
United Arab Emirates	*451*	*608*	*214*	*223*	*142*	*130*	*95*	*255*
Israel	*149*	*214*	*85*	*125*	*10*	*40*	*55*	*49*
Qatar	*114*	*26*	*47*	*4*	*32*	*3*	*35*	*19*
Other	*642*	*544*	*441*	*344*	*124*	*119*	*77*	*81*
Total	**22,394**	**20,088**	**7,929**	**6,848**	**4,325**	**4,060**	**10,140**	**9,180**

1 Not deducted are total allowances and provisions of CHF 61 million (31 December 2010: CHF 40 million).

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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 financial instruments classified as *Financial investments available-for-sale* decreased to CHF 52.5 billion on 31 December 2011 compared with CHF 73.9 billion on 31 December 2010. These instruments primarily comprised highly liquid short-term securities issued by governments and government-controlled institutions. The reduction is mainly due to the sale of our strategic investment portfolio.

➔ **Refer to "Note 13 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

Most of our market risk arises from trading activities in the Investment Bank, including market-making, facilitating client business and associated position-taking in cash and derivative markets for equities, fixed income, interest rates, foreign exchange and commodities.

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 also 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 BoD.

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 disclosure, VaR is used to quantify market risk exposures in our trading portfolios.

Value-at-risk definition and limitations

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.

Our VaR model is approved by FINMA and ongoing significant revisions of our VaR methodology and model are also subject to regulatory approval.

Audited

The model uses historical data covering a five-year period and is calibrated to a 1-day 95% measure for our internal management purposes. However, in accordance with Basel 2.5 and FINMA requirements, we use a 1-day 99% VaR for backtesting and a 10-day 99% VaR for determining market risk regulatory capital. 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.

As part of a regular update of time series data used in VaR, an improved source of credit spread time series, based on a more comprehensive coverage population and more closely tracking external benchmark series, was introduced in the third quarter of 2011.

Audited

Actual realized losses may differ from those implied by our VaR. All VaR measures are subject to limitations and must be interpreted accordingly. 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 impact of 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.
– 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 continue to review the performance of our VaR implementation, including a review of risks not included in VaR. We will continue to enhance our VaR model in order to capture more accurately the relationships between the market risks associated

Audited

Group: value-at-risk (1-day, 95% confidence, 5 years of historical data)

	For the year ended 31.12.11				For the year ended 31.12.10			
CHF million, except where indicated	Min.	Max.	Average	31.12.11	Min.	Max.	Average	31.12.10
Business divisions								
Investment Bank	30	219	75	34	42	78	56	68
Wealth Management & Swiss Bank	0	0	0	0	0	0	0	0
Wealth Management Americas	1	2	1	2	1	3	2	1
Global Asset Management	0	0	0	0	0	0	0	0
Corporate Center	4	14	7	4	2	22	8	5
Diversification effect	[1]	[1]	(7)	(4)	[1]	[1]	(10)	(7)
Total management VaR, Group	31	222	76	36	42	76	57	68
Diversification effect (%)			(8)	(9)			(15)	(9)
Total management VaR, Group, excluding the effect of unauthorized trading incident	31	97	60	36				

1 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

Audited

Investment Bank: value-at-risk (1-day, 95% confidence, 5 years of historical data)

	For the year ended 31.12.11				For the year ended 31.12.10			
CHF million, except where indicated	Min.	Max.	Average	31.12.11	Min.	Max.	Average	31.12.10
Risk type								
Equities	10	205	34	13	11	37	19	17
Interest rates	13	31	23	19	13	44	24	23
Credit spreads	26	83	54	26	42	70	55	59
Foreign exchange	3	17	8	4	2	15	7	6
Energy, metals and commodities	2	10	4	3	2	8	3	7
Diversification effect	[1]	[1]	(48)	(32)	[1]	[1]	(51)	(43)
Total management VaR, Investment Bank	30	219	75	34	42	78	56	68
Diversification effect (%)			(39)	(49)			(48)	(39)

1 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

with our risk positions, as well as the revenue impact of large market movements on particular trading positions.

Value-at-risk developments in 2011

The tables on the previous page show our management VaR for the Group and the Investment Bank. Positional risks relating to the unauthorized trading incident have been included within the summary figures shown and account for the sizable increase in the average and maximum. An additional total row is provided to show the equivalent summary statistics excluding the effects of the unauthorized trading incident.

Audited

The Group's management VaR decreased to CHF 36 million on 31 December 2011 compared with CHF 68 million on 31 December 2010. This significant decrease was mainly due to concerted risk reduction across businesses in the second half of 2011, in line with our strategy of running a more focused, less complex and capital-intensive Investment Bank, but also reflected market conditions prevalent at the end of 2011. Average management VaR excluding the effects of the unauthorized trading incident in the third quarter of 2011 was CHF 60 million for 2011 compared with CHF 57 million in 2010. Credit spread risk continued to be one of the dominant components of our VaR. Interest rate risk has become an additional significant component of our VaR as a result of the reduced dominance of credit spread risk.

Backtesting

Audited

Backtesting compares 1-day 99% regulatory VaR calculated for positions at the close of each business day with the revenues which actually arise on those positions on the following business day. Our 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 experienced three backtesting exceptions in 2011 compared with one backtesting exception in 2010. All three exceptions occurred in the third quarter 2011 due to extreme market moves and the unauthorized trading incident.

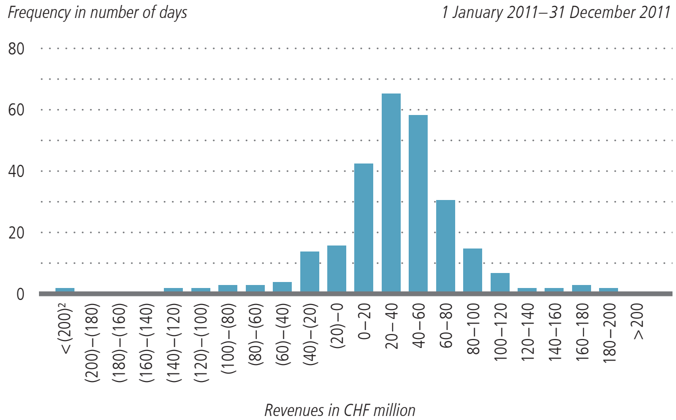
The chart "Investment Bank: development of backtesting revenues against value-at-risk" shows the 12-month development of 1-day 99% VaR against backtesting revenues in the Investment Bank for the whole year of 2011. The histogram "Investment Bank: all revenue distribution" shows the Investment Bank's full trading revenues distribution in 2011.

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 business division Chief Risk Officers.

Audited

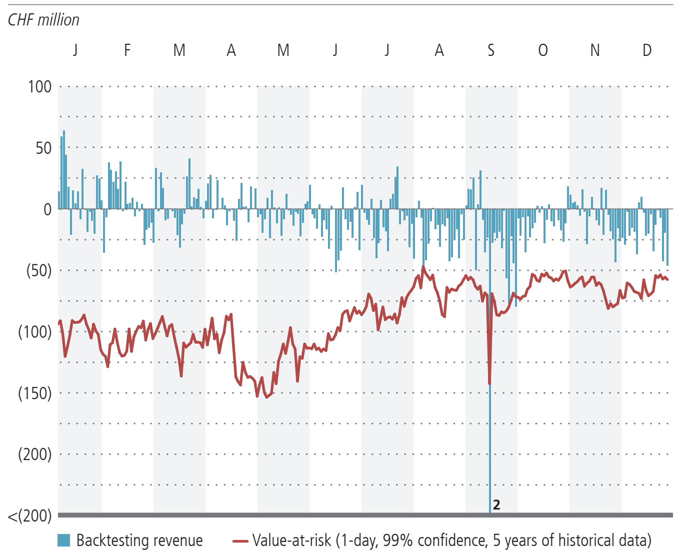
Backtesting exceptions are also reported to internal and external auditors and to the relevant regulators.

Investment Bank: all revenue distribution[1]



1 Includes all revenues from business areas which have trading activities.
2 Due to the unauthorized trading incident.

Investment Bank: 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 Backtesting exception as a result of the unauthorized trading incident.

Non-trading portfolios

For the purposes of our disclosure, the market risks associated with our non-trading portfolios are quantified using sensitivity analysis. This includes an aggregate measure of our exposures to interest rate risk in the banking book and additional information for certain significant portfolios and positions that are not included in our management VaR or in our interest risk in the banking book table.

Interest rate risk in the banking book

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 testing metrics. Interest rate risk sensitivity figures are provided for the impact of a 1-basis-point parallel increase and the +/–100-basis-points parallel moves in yield curves on present values of future cash flows, irrespective of accounting treatment.

Our largest banking book interest rate risk exposures arise primarily from activities such as retail banking and lending in our Wealth Management & Swiss Bank division, as well as our treasury activities, which are mainly hedged.

Interest rate risks arising in Wealth Management & Swiss Bank 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 one of two centralized interest rate risk management units of Group Treasury or the Investment Bank's fixed income, currencies and commodities (FICC) unit. These units manage these risks as part of their risk portfolios within their allocated market risk limits and controls, exploiting the netting potential across interest rate risks from different sources.

The Investment Bank's portfolio of 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.

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 naturally offset risk.

The interest sensitivity of non-contractual maturity products is modeled using historical behavior patterns from a complete interest rate cycle.

Group Treasury manages two main types of interest rate risk positions. One type is the risk transferred from Wealth Management & Swiss Bank's banking operations (mentioned above). The other type arises from investing or funding non-monetary corporate balance sheet items that have indefinite lives, such as equity and goodwill. For these items we have 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 below 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 manages portfolios that aim to economically hedge negative effects on the firm's net interest income stemming from the extraordinarily low yield environment. These activities included our strategic investment portfolio which we sold during the third quarter of 2011. The sale of this portfolio was the main driver behind the decrease in sensitivity compared with year end 2010.

➔ **Refer to the "Interest rate and currency management" section of this report for more information**

The table "Interest rate sensitivity – banking book" shows the impact on present value for an immediate +/–100-basis-points parallel move in yield curves. Due to the low level of interest rates the downward moves are capped to ensure that the resulting interest rates are not negative. This effect, combined with pre-payment risk on US mortgage products and impact of low interest

Impact of a 1-basis-point parallel increase in yield curves on present value of future cash flows[1]

CHF million	**31.12.11**	31.12.10
CHF	**(0.7)**	(0.7)
EUR	**(1.6)**	(2.1)
GBP	**0.1**	(2.9)
USD	**(3.7)**	(10.7)
Other	**(0.1)**	(0.3)
Total impact on interest rate-sensitive banking book positions	**(6.0)**	(16.6)

1 Does not include interest rate sensitivities for CVA on monoline credit protection, US and non-US RLN and our 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 ARS, as from an economic perspective these exposures are not materially affected by parallel shifts in USD interest rates, holding other factors constant.

rates on client deposit behavior, results in non-linear behavior of the exposure.

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 regulatory capital set by regulators.

Interest rate sensitivity of available-for-sale debt investments

Audited

Debt financial instruments classified as *Financial investments available-for-sale* amounted to CHF 52.5 billion on 31 December 2011 compared with CHF 73.9 billion on 31 December 2010. From an accounting perspective, the sensitivity of this position (excluding hedges) to a 1-basis-point parallel increase in the yields of the respective instruments is approximately negative CHF 6 million, which would be posted to other comprehensive income. The interest rate sensitivity of this position including the associated hedges is included within the table "Impact of a 1-basis-point parallel increase in yield curves on present value of future cash flows", some elements of which are additionally disclosed in VaR.

➔ Refer to "Note 13 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

To the extent effective, interest rate swaps designated in cash flow hedges are accounted for at fair value through equity under IFRS. Amounts deferred in equity are released to the income statement on the occurrence of the underlying hedged interest cash flows. 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 2011, the fair value of interest rate swaps amounted to CHF 7.5 billion (positive replacement values) and CHF 3.6 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 25 million. This estimate excludes economically offsetting positions and is included in the above table on interest rate sensitivities in the banking book, together with hedge and funding effects that are partially offsetting.

Non-trading portfolios – valuation and sensitivity information by instrument category

Audited

This section includes 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 excluded from management VaR and the interest rate risk in the banking book as disclosed in the "Risk and treasury management" section of this report. Numbers are stated in US dollar, with the Swiss franc equivalent shown in brackets for comparative purposes.

Credit valuation adjustments on monoline credit protection

Audited

Included within our residual risk positions are negative basis trades, whereby we purchased credit default swap (CDS) protection from monolines 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, and asset-backed securities 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 collateralized loan obligations 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 credit default swaps spreads (e.g. from 1,000 basis points to 1,100 basis points for a specific monoline) was considered. On 31 December 2011, such an increase would have resulted in an increase in the monoline CVA of approximately USD 39 million

Interest rate sensitivity – banking book[1]

CHF million	31.12.11	
	–100 bps	+100 bps
CHF	17.5	(66.9)
EUR	169.6	(160.3)
GBP	(9.4)	13.2
USD	(105.5)	(364.9)
Other	(7.2)	(5.5)
Total impact on interest rate-sensitive banking book positions	65.0	(584.3)

1 Does not include interest rate sensitivities for CVA on monoline credit protection, US and non-US RLN and our 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 ARS, as from an economic perspective these exposures are not materially affected by parallel shifts in USD interest rates, holding other factors constant.

(CHF 37 million) compared with USD 45 million (CHF 42 million) on 31 December 2010. After taking into account the impact of the potential commutation transaction discussed in "Note 32 Events after the reporting period" in the "Financial Information" section, this sensitivity reduces from USD 39 million (CHF 37 million) to USD 33 million (CHF 31 million), respectively.

The sensitivity of the monoline CVA to a decrease of one percentage point in the monoline recovery rate assumptions (e.g. from 30% to 29% for a specific monoline, conditional on default occurring) was estimated to result in an increase of approximately USD 11 million (CHF 10 million) in the CVA, compared with USD 9 million (CHF 8 million) on 31 December 2010. After taking into account the impact of the potential commutation transaction discussed in "Note 32 Events after the reporting period" in the "Financial Information" section, this sensitivity reduces from USD 11 million (CHF 10 million) to USD 3 million (CHF 3 million), respectively. The sensitivity to credit spreads and recovery rates is substantially linear.

US reference-linked notes

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 comprised of USD asset-backed securities. These 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 embedded 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.

On 31 December 2011, the fair value of the US RLN credit protection was approximately USD 319 million (CHF 299 million) compared with USD 629 million (CHF 588 million) on 31 December 2010. The reduction in protection value was due to the reduction of notional of the notes primarily due to writedowns of the reference assets across the RLN deals. This fair value included fair value adjustments which were calculated by applying the shocks described above of approximately USD 22 million (CHF 21 million). This compared with USD 31 million (CHF 29 million) on 31 December 2010. The fair value adjustments may also be considered a measurement of sensitivity.

Non-US reference-linked notes

The same valuation model and 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 2011, the fair value of the non-US RLN credit protection was approximately USD 468 million (CHF 439 million) compared with USD 660 million (CHF 616 million) on 31 December 2010. This fair value included fair value adjustments which were calculated by applying the shocks described above of approximately USD 46 million (CHF 43 million) compared with USD 72 million (CHF 67 million) on 31 December 2010. This adjustment may also be considered a measurement of sensitivity.

Option to acquire equity of the SNB StabFund

Our 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 2011, the fair value (after adjustments) of the call option held by UBS was approximately USD 1,736 million (CHF 1,629 million) compared with USD 1,906 million (CHF 1,781 million) on 31 December 2010. The decline in the value of the option reflected lower forecast cash flows and increased risk premia for the fund's assets.

The model incorporates cash flow projections for all assets within the fund across various scenarios. It is calibrated to market levels by setting the spread above the one-month Libor rates used to discount future cash 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 potential uncertainty in this calibration. On 31 December 2011, this adjustment was USD 131 million (CHF 123 million) compared with USD 250 million (CHF 234 million) on 31 December 2010. The decline in the reserve amount reflects greater convergence of valuations across the scenarios, consistent with lesser dependence of the valuation on projections of future cash flows

On 31 December 2011, a 100-basis-point increase in the discount rate would have decreased the option value by approximately USD 139 million (CHF 130 million) compared with USD 167 million (CHF 156 million) on 31 December 2010; and a 100-basis-point decrease would have increased the option value by approximately USD 155 million (CHF 145 million) compared with USD 188 million (CHF 176 million).

Market risk – stress loss

To complement VaR and other measures of market risk, we run macro stress scenarios, combining various market moves to reflect the most common types of potential stress events, as well as more targeted stress tests for our concentrated exposures and vulnerable portfolios. Targeted stress tests are typically applied to specific asset classes or to specific markets and products. We continued to enhance our market risk stress framework in 2011, in order to increase the scope and detail of the analysis. 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**

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 make investments 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. These may include purchases of illiquid assets such as interests in hedge funds.

We may make direct investments in a variety of entities or buy equity holdings in both listed and unlisted companies, if such investments are illiquid. 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 testing metrics.

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 2011, we held equity investments totaling CHF 2.2 billion, of which CHF 0.7 billion were classified as *Financial investments available-for-sale*, CHF 0.7 billion as *Financial assets designated at fair value* and CHF 0.8 billion as *Investments in associates*.

This compares with 31 December 2010, when we held equity investments totaling CHF 2.6 billion, of which CHF 0.9 billion classified as *financial investments available-for-sale,* CHF 0.9 billion as *financial assets designated at fair value* and CHF 0.8 billion as *investments in associates.*

The vast majority of the CHF 0.7 billion of *Financial assets designated at fair value* represented the assets of trust entities associated with employee compensation schemes. They are broadly offset by liabilities to plan participants included in *Other liabilities*. The equivalent positions on 31 December 2010 amounted to CHF 0.9 billion.

➔ **Refer to "Note 12 Financial assets designated at fair value", "Note 13 Financial investments available-for-sale" and "Note 14 Investments in associates" in the "Financial information" section of this report for more information**

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, causing 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.

It is not possible to eliminate every source of operational risk, but our aim is to provide a framework that supports the identification and assessment of all material operational risks and their potential concentrations in order to achieve an appropriate balance between risk and return. We seek to develop a firm-wide risk-conscious culture where all employees identify, discuss, manage and remediate potential and actual operational risks.

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 the required framework.

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 and a strong risk culture. Controls must be regularly assessed, utilizing both positive and negative evidence to confirm design and operating effectiveness.

Operational risk control provides an independent and objective view on whether management is adequately managing material operational risk. 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 forums 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. This framework was significantly enhanced in 2011, and the implementation process remains ongoing. The major elements of the enhanced framework are described below and are built on four pillars:

1. Identification 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 defines the universe of inherent operational risks that arise as a consequence of our business activities. It provides a clear and logical classification of operational risk and facilitates a common understanding of operational risk across all business divisions. The framework requires that for each element of the operational risk taxonomy, core controls are defined which are linked to key procedural controls within the organization. The completeness of core controls can be tested using scenarios through which the inherent risk, including stress and tail risk, may materialize.

Core controls are the critical controls that, if designed and operating effectively, will materially ensure that our operational risk profile stays within acceptable boundaries. Functions are required to identify key procedural controls relevant to their activities that support the core controls. These key procedural controls are a main aspect of the functional control environment enabling functions to control their assigned roles and responsibilities. Full implementation and integration of scenarios, core and key procedural controls will lead to a complete hierarchy of control from firm-wide inherent risk (operational risk taxonomy) to functionally operated procedural controls. The unauthorized trading incident announced in September 2011 has given added impetus to the implementation of the revised operational risk framework, specifically the need to finalize the work on definition of core controls, linkage to key procedural controls and implementation of quarterly positive evidence based assessment of control operation.

Significant control deficiencies surfaced during the assessment of the design and operational effectiveness of key procedural controls (ICAP) must be reported in the operational risk inventory and remediation instigated. 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 expert opinion, provides a transparent assessment of the current operational risk exposure or residual operational risk. We are currently working to determine the acceptable levels of residual operational risk for each operational risk taxonomy category. The resulting operational risk appetite can be expressed through the establishment of quantitative constraints such as operating limits or qualitative statements in the form of policies. Where the residual operational risk exceeds our operational risk appetite, management must adapt its business activities or adjust the internal control environment accordingly.

The operational risk assessment process also holds management accountable for timely, sufficient and, above all, sustainable remediation. To assess the overall operational risk management performance across UBS and provide effective management incentives, quarterly operational risk performance metrics are produced, which focus on unidentified control deficiencies and insufficient remediation performance.

The assessment processes described above culminate in regular and substantial reporting to various stakeholders and governance bodies of operational risk exposure against the appetite for each operational risk taxonomy category. Financial and non-financial events considered to be the crystallization of existing operational risk are also considered for risk assessment and reporting purposes. Our Group Executive Board and Board of Directors Risk and Audit Committees reporting was extended in 2011 to include reporting of operational risk performance metrics and Group Significant Operational Risk Issues. These are issues which have the largest risk impact on UBS or a high degree of regulatory focus and therefore require prioritization and sponsorship at the top hierarchical level.

Operational risk quantification

The enhanced operational risk framework is aligned to an efficient capital calculation which represents 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 and integration of the operational risk framework and the capital calculation.

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.

Following the unauthorized trading incident an ad-hoc review of the relevant AMA category was completed and this led to an increase of operational risk RWA of CHF 9.5 billion, which was implemented in the fourth quarter of 2011.

Advanced measurement approach model

The AMA model has 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 modelling severities and frequencies separately and combining them. Therefore, it is referred to as a loss distribution approach. It 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 intent is to reach a reasonable estimate of unexpected or tail loss exposure (corresponding to a low frequency / high severity event). We use 20 AMA categories, and for each of these categories three frequency / severity pairs are defined, representing the base, stress and worst cases. Calibration is based on internal extreme losses, loss data from 99 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 risk taxonomies.

Our AMA model adds the sampled losses from the historical and 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 the course of 2010 and 2011, the AMA model was further enhanced by improving data quality, removing the remaining duplication between components, reviewing data-dependencies and by improving / widening the use of subject matter experts for taxonomy assessments.

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

➔ **Refer to the "Certain items affecting our results in 2011" sidebar in the "UBS results" section of this report for more information on the unauthorized trading incident**

Treasury management

Group Treasury oversees the balance sheet and the usage of our critical financial resources including capital, liquidity and funding. Treasury manages key portions of these resources, including interest rate and currency risks arising from balance sheet and capital management activities.

Liquidity management

In 2011, we continued to maintain a sound liquidity position and a diversified portfolio of funding sources, despite the significant market volatility caused by uncertainties regarding the global macroeconomic environment, including European fiscal and sovereign debt concerns and the potential impact of financial regulatory reforms. 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. On 31 December 2011, our provisional net stable funding ratio and liquidity coverage ratio remained generally in line with the minimum Basel III requirements.

Funding management

Our funding activities are planned after 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 prolonged periods of difficult operating conditions.

Our liability portfolio is broadly diversified by market, product and currency, contributing to our funding stability and financial flexibility.

During 2011, we raised CHF 5.8 billion equivalent of public benchmark bonds with an average maturity of 3.5 years, whilst a similar amount of public bonds matured during 2011. We continued to raise medium- and long-term funds through medium-term notes and private placements throughout the year, and recorded CHF 23 billion net cash inflows into our wealth management and retail deposits.

Interest rate and currency management

Group Treasury is responsible for the interest rate risk management of Wealth Management & Swiss Bank transactions executed in the majority of its locations. The consolidation of these flows allows for the optimization of risk management and netting potential arising from different sources of interest rate risk. In response to prolonged low yields, Group Treasury continued to manage measures to improve Wealth Management & Swiss Bank's margin income through income-generating fixed receiver swap portfolios. Additionally, Group Treasury continued to earn interest income on equity through its portfolio of interest rate products and managed the currency effects on equity and key capital ratios. Profits and losses in foreign currencies were hedged to protect shareholder value.

Capital management

On 31 December 2011, our Basel II tier 1 capital ratio stood at 19.6%, compared with 17.8% on 31 December 2010. As a result of changing the relevant capital framework to the enhanced Basel II market risk framework (commonly known as Basel 2.5), our tier 1 ratio on this basis on 31 December 2011 was 15.9%. This was the result of Basel 2.5 risk-weighted assets being significantly higher than under Basel II and due to higher tier 1 deductions. We continued to manage our capital structure toward our target total capital ratio of 19% under Basel III consisting of 13% tier 1 common equity capital and up to 6% loss-absorbing capital.

Equity attribution

We use an equity attribution framework to evaluate the performance of our businesses and to guide our businesses in the allocation of resources to the current and prospective opportunities that are expected to provide the best risk-adjusted profitability. In 2011, the amount of average equity attributed to the business divisions and the Corporate Center increased by CHF 7 billion. This rise was mainly due to the increases in risk-weighted assets related to the implementation of the Basel 2.5 framework, which was included on a forward-looking basis to prepare the businesses for future capital market standards.

Shares

As of 31 December 2011, we had a total of 3,832,121,899 shares issued. In 2011, the issued shares were increased by a total of 1,281,386 shares due to exercises of employee options. We intend to propose a dividend for the financial year 2011 of CHF 0.10 per share.

Financial resource governance

The Group Asset and Liability Management Committee (Group ALCO) ensures that our assets and liabilities are used 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. The Group ALCO manages the business divisions' balance sheet targets, which are set by the BoD. It also manages our capital, liquidity and funding, taking into account the business divisions' actual performance, strategic direction and overall prevailing and prospective risk profile as well as market conditions.

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 without becoming insolvent, 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 Group ALCO and overseen by the BoD 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 BoD 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.

Audited 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.

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 jointly by Group Treasury and the treasury trading and the short term interest rate units in the Investment Bank's fixed income, currencies and commodities (FICC) business. Group Treasury establishes a control framework, while the Investment Bank manages operational cash and collateral within the established limits.

This permits close control of both our cash position and our stock of high-quality liquid securities. Our treasury processes also ensure that the firm's general access to wholesale cash markets is concentrated in the Investment Bank's FICC unit. Funds raised externally are largely channeled into FICC, including the proceeds of debt securities issued by UBS, an activity for which Group Treasury is responsible. FICC in turn meets the Investment Bank's internal demands for funding by channeling funds from units generating surplus cash to those in need of financing.

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 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.
- 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.

Contingency planning

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 both on a Group level to assess the overall global as well as regional situation.

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; available and unutilized liquidity facilities at several major central banks; and contingent reductions of liquid trading portfolio assets.

Liquidity limits and controls

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 and members of our regional and divisional treasuries monitor 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 improve our internal funds transfer pricing system.

Liquidity Regulation

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). Both ratios are subject to an observation period that began in 2011. Both LCR and NSFR will become established standards by 2015 and 2018, respectively. During the observation period, both standards are under review by the Basel Committee on Banking Supervision.

The Swiss liquidity regime that was introduced in 2010 by the Swiss Financial Market Supervisory Authority (FINMA) and the Swiss National Bank (SNB) for large banks is generally aligned with international proposals for liquidity regulations. The core element of the liquidity regime is a severe stress scenario that combines a general financial market crisis with creditors' loss of trust in the bank. The new liquidity regulations require that banks hold high quality liquid assets sufficient to offset any projected outflows under the stress scenario for a period of 30 days.

In 2011, FINMA issued a circular outlining the implementation plan of the new international liquidity standards. In 2012, a national working group will consult and propose new draft legislation, which is expected to become law by 2013. FINMA will introduce test reporting in 2012 for certain institutions, which will become a general reporting requirement for all banks and brokers in 2013. The results of the test reporting will be used to specify the detailed minimum requirements in 2013. The actual requirements are expected to be effective in 2015 (LCR) and 2018 (NSFR), the same as the international timeline.

Our provisional NSFR and LCR ratios at year-end 2011 remained generally in line with the minimum Basel III requirements. Currently, banks employ a wide range of interpretations to calculate the LCR and the NSFR, given that the precise definition of these ratios is still to be finalized. We believe we have adopted a generally conservative approach in estimating these ratios.

➔ Refer to the "Regulatory developments" section of this report for more information

Funding management

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.

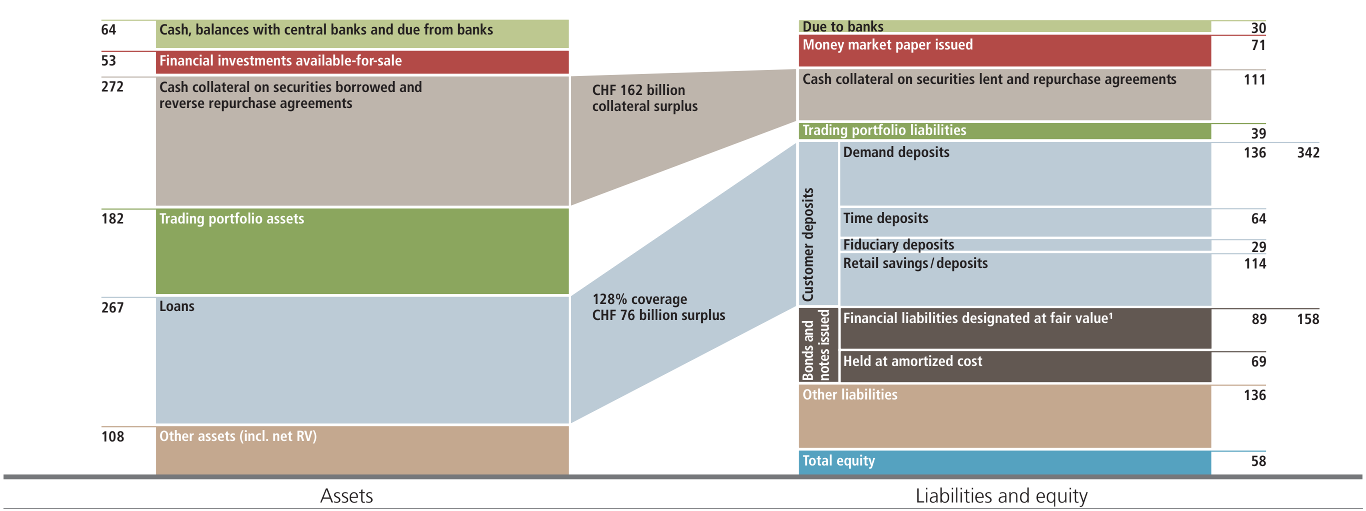
Our liability portfolio is broadly diversified by market, product and currency. Our wealth management businesses represent a significant, cost-efficient and reliable source of funding. In addition, we have numerous short-, medium- and long-term funding programs that issue senior unsecured and structured notes. These programs allow institutional and private investors in Europe, the US and Asia Pacific to customize their investments in UBS's debt securities. 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, contribute to our funding stability and financial flexibility.

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.

UBS asset funding

CHF billion, except where indicated

As of 31.12.11



1 Including compound debt instruments – OTC.

Funding position and diversification

As stated, both of our wealth management business divisions represent valuable and cost-efficient sources of funding. At year-end 2011, these businesses contributed CHF 327 billion, or 95%, of the CHF 342 billion total customer deposits shown in the "UBS asset funding" graph. Compared with the CHF 267 billion of net loans as of 31 December 2011, customer deposits provided 128% coverage compared with 126% on 31 December 2010.

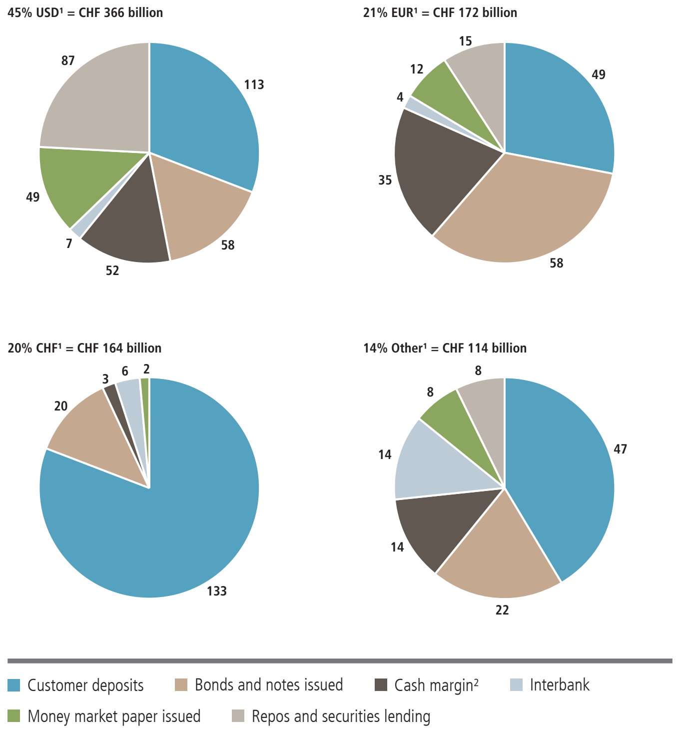
In terms of secured funding (i.e. repurchase agreements and securities lent against cash collateral received), at year-end 2011, we borrowed less cash on a collateralized basis than we lent out, leading to a surplus of net securities sourced – shown as the CHF 162 billion collateral surplus in the "UBS asset funding" graph.

The overall composition of our funding sources at the end of 2011 is shown in the "UBS: funding by product and currency" table and the pie-charts illustrate the funding sources by currency. These funding sources amounted to CHF 817 billion on the balance sheet, up from CHF 782 billion the year before, and comprise repurchase agreements, securities lending against cash collateral received, due to banks, money market paper issued, due to customers and long-term debt including financial liabilities at fair value, cash collateral payables on derivative instruments and prime brokerage payables. Despite the increase in customer deposits, the relative funding composition shifted from unsecured funding to secured funding during the year, as the percentage funding contribution of repurchase agreements and securities lending increased from 10.4% to 13.5% (as shown in the "UBS: funding by product and currency" table). The increase in secured funding mainly related to higher business activities in our Investment Bank. Our overall customer deposits, which

Funding by currency

CHF billion

As of 31.12.11



1 Stated as a percent of the total funding sources of CHF 817 billion as of 31 December 2011, comprising repurchase agreements, securities lending against cash collateral received, due to banks, money market paper issued, due to customers, long-term debt (including financial liabilities at fair value) and cash collateral 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

	All currencies		CHF		EUR		USD		Others	
In %[1]	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10
Securities lending	**1.0**	0.9	**0.0**	0.0	**0.2**	0.2	**0.6**	0.6	**0.2**	0.1
Repurchase agreements	**12.5**	9.6	**0.0**	1.0	**1.7**	1.4	**10.0**	6.4	**0.9**	0.8
Interbank	**3.7**	5.3	**0.7**	1.1	**0.5**	0.6	**0.9**	1.3	**1.7**	2.3
Money market paper	**8.7**	7.2	**0.2**	0.2	**1.4**	0.7	**6.0**	5.7	**1.0**	0.6
Retail savings / deposits	**14.0**	13.4	**9.7**	9.3	**0.7**	0.8	**3.5**	3.3	**0.0**	0.0
Demand deposits	**16.7**	15.6	**6.2**	5.9	**2.9**	3.1	**5.0**	4.5	**2.6**	2.1
Fiduciary	**3.5**	3.9	**0.1**	0.2	**1.0**	1.1	**1.9**	2.1	**0.5**	0.6
Time deposits	**7.8**	9.6	**0.3**	0.5	**1.4**	1.2	**3.5**	5.3	**2.7**	2.6
Long-term debt	**19.4**	22.4	**2.4**	3.2	**7.1**	8.0	**7.1**	8.0	**2.7**	3.2
Cash collateral payables on derivative instruments	**8.2**	7.5	**0.3**	0.2	**3.7**	3.2	**3.4**	3.2	**0.9**	0.9
Prime brokerage payables	**4.5**	4.7	**0.1**	0.1	**0.5**	0.5	**3.0**	3.4	**0.9**	0.7
Total	**100.0**	100.0	**20.1**	21.5	**21.1**	20.7	**44.8**	43.9	**14.0**	13.9

1 Stated as a percent of the total funding sources of CHF 817 billion as of 31 December 2011, comprising repurchase agreements, securities lending against cash collateral received, due to banks, money market paper issued, due to customers, long-term debt (including financial liabilities at fair value) and cash collateral on derivative transactions and prime brokerage payables.

include time, retail savings, demand and fiduciary deposits, increased by CHF 10 billion to CHF 342 billion, while remaining stable at 42% of our funding sources. Cash deposits in Wealth Management & Swiss Bank rose by CHF 20 billion to CHF 288 billion, while Wealth Management Americas deposits were up CHF 3 billion to CHF 39 billion, partially offset by lower wholesale client deposits in the Investment Bank (CHF 11 billion). Wealth management and retail client deposits represented approximately 95% of our total customer deposits, up from 92% at 31 December 2010.

Our outstanding long-term debt, including financial liabilities at fair value, decreased by CHF 17 billion during the year to CHF 158 billion, mainly due to the lower valuation of equity-linked notes issued, and to a lesser extent, matured credit-linked notes issued as well as a decline in long-term debt issued. This resulted in long-term debt decreasing from 22.4% to 19.4% in relation to our funding sources. During 2011, we raised CHF 5.8 billion equivalent of public benchmark bonds with an average maturity of 3.5 years, including CHF 2.6 billion equivalent of covered bond issuance. The amount of public bond issuance roughly offset the CHF 6.0 billion equivalent of public benchmark bonds that matured or were redeemed during 2011, CHF 4.1 billion of which was from public unsecured bonds and CHF 1.9 billion from subordinated/hybrid tier 1 debt. Additionally, we continued to raise medium- and long-term funds through medium-term notes and private placements throughout the year. In January 2012, we successfully issued covered bonds (EUR 1.5 billion 2.25% 5-year and USD 1.5 billion 1.875% 3-year) as well as EUR 1.5 billion 3.125% 4-year senior unsecured public bonds.

Our Investment Bank reduced short-term interbank borrowing year-over-year by CHF 8 billion, which was more than compensated by a CHF 13 billion increase in money market paper issued. Cash collateral payables on derivative instruments and prime brokerage payables remained relatively stable with a one percentage point increase to 13% of our funding sources.

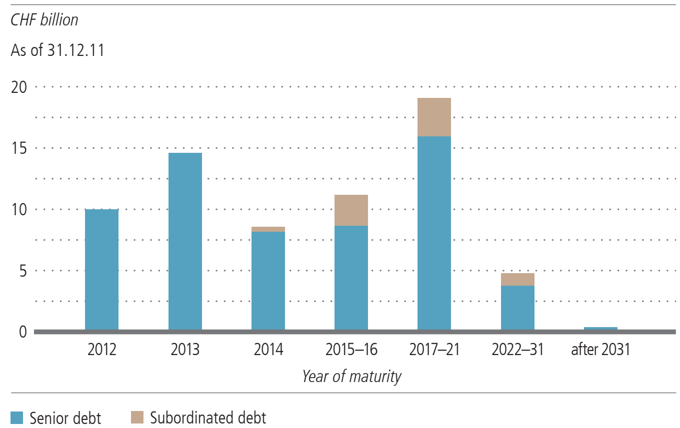
Maturity breakdown of long-term straight debt portfolio

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 67.3 billion on 31 December 2011. It is composed of CHF 60.3 billion of senior debt including both publicly and privately placed notes and bonds as well as Swiss cash bonds, and CHF 7.0 billion of subordinated debt. Of the positions shown in the graph, CHF 9.8 billion, or 15%, will mature within one year. There are no subordinated debt positions with an early-call date during 2012.

The long-term straight debt forms part of the CHF 141 billion shown on the *Debt issued* line on the balance sheet.

➔ **Refer to "Note 19 Financial liabilities designated at fair value and debt issued" in the "Financial information" section of this report for more information**

Long-term straight debt – contractual maturities



Maturity analysis of financial liabilities

Audited

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 2011 presented in the table below 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 2010. 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.

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 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 therefore change at any time.

Following the announcement of the unauthorized trading incident on 15 September 2011, Standard & Poor's and Moody's placed our long-term ratings on negative watch and under review for possible downgrade, respectively. On 13 October 2011, Fitch Ratings downgraded our long-term issuer default rating from "A+" to "A" with a stable outlook based upon its assessment of diminishing government support. This decision was based on

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	18.5	7.3	2.3	1.0	1.1	0.1	30.3
Cash collateral on securities lent	6.1	0.9	1.1				8.1
Repurchase agreements	8.8	86.8	5.1	1.7	0.0	0.1	102.5
Trading portfolio liabilities[3, 4]	39.5						39.5
Negative replacement values[3]	473.4						473.4
Cash collateral payables on derivative instruments	66.9	0.1					67.1
Financial liabilities designated at fair value		5.0	6.4	17.2	37.1	28.7	94.3
Due to customers	235.7	90.0	8.4	7.5	0.7	0.2	342.5
Accrued expenses and deferred income	0.2	2.8	2.1				5.1
Debt issued		39.3	27.1	17.4	41.9	28.5	154.2
Other liabilities	53.2	3.8					57.1
Total 31.12.11	**902.4**	**236.1**	**52.4**	**44.7**	**80.7**	**57.5**	**1,374.1**
Total 31.12.10	762.1	250.2	47.9	64.1	82.2	54.8	1,261.3
Financial liabilities not recognized on balance sheet[5]							
Commitments							
Loan commitments	56.5	1.4	0.1	0.1	0.0	0.0	58.2
Underwriting commitments	0.0	0.3	0.8	0.0	0.1		1.2
Total commitments	56.5	1.7	0.9	0.1	0.1	0.0	59.4
Guarantees	18.8	0.1	0.0	0.0	0.0		18.9
Forward starting transactions							
Reverse repurchase agreements		26.9	0.2	0.1			27.1
Securities borrowing agreements		0.5					0.5
Total 31.12.11	**75.3**	**29.2**	**1.1**	**0.2**	**0.1**	**0.0**	**105.9**
Total 31.12.10	80.4	29.2	0.9	1.9	0.8	0.1	113.3

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), amounts as of 31 December 2011 generally represent undiscounted cash flows of future interest and principal payments. This is a change from prior year, when these amounts represented the carrying values. Although undiscounted cash flow amounts may differ from the carrying values on the balance sheet, amounts as of 31 December 2010 have not been restated as these differences were not material. 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 23 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 36.7 billion due within one month (2010: CHF 53.7 billion); and CHF 2.8 billion due between one month and one year (2010: CHF 1.2 billion). 5 Comprises the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

changes in assumptions that are part of Fitch's rating methodology for banks, and is part of its broader review of changing sovereign support in developed countries.

On 29 November 2011, Standard & Poor's announced rating changes for 37 of the largest rated banks as a consequence of significant changes to its rating methodology for banks. As part of this review process, our long-term senior unsecured debt rating was lowered to "A" (from "A+") with a negative outlook. With this action, Standard & Poor's removed the negative credit watch on our long-term rating, which was introduced on 16 September 2011 after the announcement of the unauthorized trading incident. Our short-term rating of "A–1" was affirmed.

The abovementioned ratings actions by Fitch Ratings and Standard & Poor's 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.

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.

➔ Refer to "Note 23 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 our wealth management business divisions. With the exception of Wealth Management Americas, the inherent interest rate risk exposures are transferred from the originating business into one of two centralized interest rate risk management units: Group Treasury or the Investment Bank's FICC business. These units manage the risks on an integrated basis, which allows 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 & Swiss Bank 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 & Swiss Bank 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 behavior of 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 stress loss. 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.

In addition to its regular risk management activities, Group Treasury executes transactions that aim to economically hedge negative

Audited

effects on our net interest income stemming from the prolonged period of extraordinarily low yields, mainly through income-generating fixed receiver swap portfolios. Further, as part of this strategy, in October and November 2010 we acquired approximately CHF 10 billion face value of US Treasury securities and approximately CHF 5 billion face value of UK Government bonds, with a weighted average maturity at the end of 2010 of approximately 8 years. This strategic investment portfolio was held on the balance sheet and was classified for accounting purposes as available-for-sale. The difference between the market value of these securities and their amortized cost did not affect net profit, but was included in the calculation of comprehensive income and accordingly affected our shareholders' equity and our regulatory capital.

In the third quarter of 2011, we sold these positions following a decline in long-term US dollar interest rates after the announcement of the US Federal Reserve's "Operation Twist" (in this maturity extension program, the Federal Reserve intends to sell USD 400 billion of shorter-term Treasury securities by the end of June 2012 and use the proceeds to buy longer-term Treasury securities). The gain on sale amounted to CHF 722 million and was recognized as other income. Of this gain, CHF 433 million was allocated to Wealth Management and CHF 289 million to Retail & Corporate.

➔ **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. Any significant depreciation of the Swiss franc against these currencies would adversely impact our key ratios. Group Treasury's mandate is to minimize adverse currency impacts on these ratios.

The Group ALCO's target to hedge these key ratios is based on a currency mix of capital that broadly reflects the currency distribution of our consolidated RWA. As the Swiss franc depreciates or appreciates against these currencies, the consolidated RWA increases or decreases relative to our capital. These currency fluctuations also lead to foreign currency translation gains or losses on consolidation, which are recorded through 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 predomi-

Audited

nantly in Swiss francs in order to avoid any significant effects of currency fluctuations on its standalone financial results.

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 2011, 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 10.5 million per basis point; in US dollars with an average duration of approximately four years and a sensitivity of CHF 6.8 million per basis point; in euros with an average duration of approximately three years and a sensitivity of CHF 0.7 million per basis point; and in British pounds with a duration of approximately three years and a sensitivity of CHF 0.3 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.

In 2011, we changed our approach to foreign currency translation risk from match funding to net investment hedge accounting. Net investment hedge accounting is now 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 23 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 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.

Group Treasury: value-at-risk (1-day, 95% confidence, 5 years of historical data)

	Year ended 31.12.11				Year ended 31.12.10			
CHF million	Min.	Max.	Average	31.12.11	Min.	Max.	Average	31.12.10
Interest rates	3	11	5	3	2	18	6	4
Foreign exchange	0	11	3	1	0	18	5	2
Diversification effect	[1]	[1]	0	0	[1]	[1]	(2)	(1)
Total management VaR	4	14	7	4	2	22	8	5

1 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

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. In this process, we manage our capital according to tier 1 and total capital target ratios. 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.

➔ **Refer to the "Risk management and control" section and "Note 1c International Financial Reporting Standards and Interpretations to be adopted in 2012 and later" in the "Financial information" section of this report for more information**

Regulatory requirements

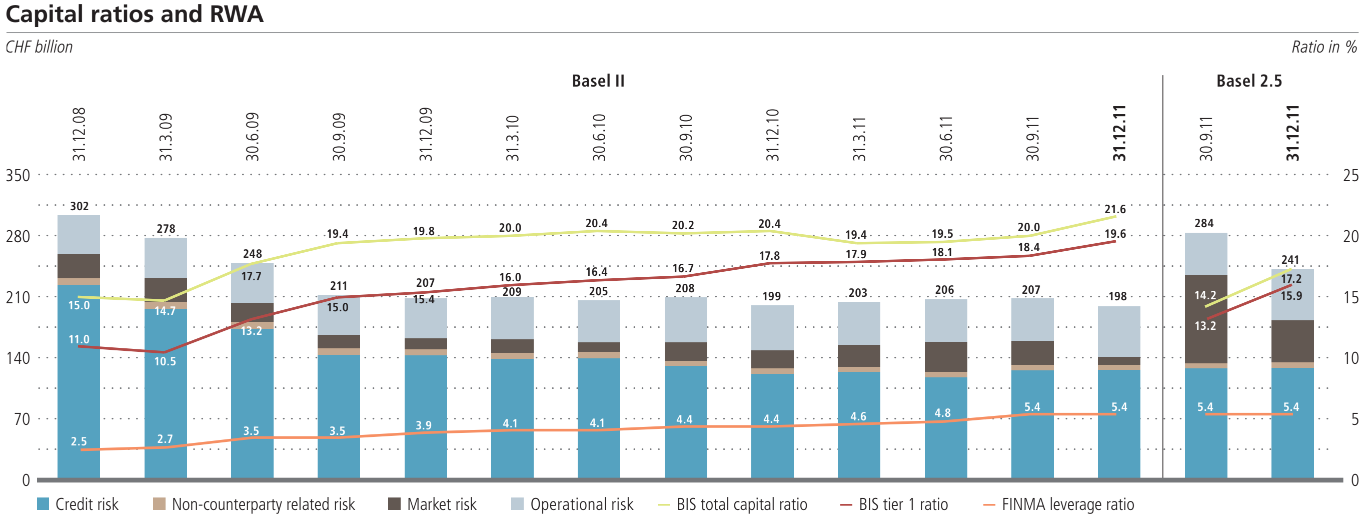
We have published our 31 December 2011 capital and RWA in accordance with the Basel 2.5 market risk framework. These new requirements imposed additional deductions from our Bank for International Settlements (BIS) tier 1 and total capital and higher calculated BIS RWA as of 31 December 2011. The prior-period comparisons are however still shown according to the Basel II framework. To make a comparison possible, we also provide the 31 December 2011 amounts under the Basel II framework.

FINMA regulatory capital requirements result in higher RWA than under the published BIS guidelines. There were no differences in eligible capital between BIS guidelines and FINMA regulations as of 31 December 2011. During 2011, however, we were already subject to the Basel 2.5 framework under the FINMA regulation, which resulted in lower eligible capital than under BIS Basel II guidelines. During 2011, we complied with all externally imposed capital requirements.

The Basel III revisions will have an impact on capital, mainly due to the exclusion of deferred tax assets, pension assets and hybrid tier 1 capital instruments for the calculation of common equity. They will also result in significantly higher RWA. Consequently, our common equity ratio on a Basel III basis would be materially lower than our current Basel 2.5 tier 1 ratio, if those requirements were effective immediately. It is therefore important to also consider the Basel III transitional arrangements, which effectively phase-in certain impacts on capital between 2014–2018.

We continue to manage toward the 19% Swiss total capital requirement applicable in 2019 with a target capital structure consisting of 13% common equity tier 1 capital and 6% loss absorbing capital. As of 31 December 2011, our estimated Basel III common equity tier 1 ratio based on a phased-in calculation stood at 10.8 %. This is expected to further improve by a combination of profit retention and efforts to reduce our RWA.

Capital ratios and RWA



Further, we have issued our first Basel III compliant note in February 2012 (USD 2 billion) or approximately 0.5% of our estimated Basel III RWA of CHF 380 billion as of 31 December 2011, which contributes to the targeted 6% loss absorbing capital.

➔ **Refer to the "Regulatory developments" section of this report for more information**

BIS capital ratios

The BIS capital ratios compare eligible capital with total RWA. On 31 December 2011, our Basel II tier 1 capital ratio stood at 19.6%, compared with 17.8% on 31 December 2010. On a Basel 2.5 basis, our tier 1 ratio was 15.9%. This is the result of Basel 2.5 RWA being significantly higher than under Basel II and due to increased tier 1 deductions for securitization exposures.

➔ **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 2011, our Basel 2.5 RWA were CHF 241.0 billion compared with CHF 198.9 billion on a Basel II basis at the end of 2010, as an increase in RWA of CHF 42.5 billion due to the introduction of Basel 2.5 eclipsed a reduction of CHF 0.4 billion in RWA under Basel II.

Credit risk

The Basel II RWA for credit risk amounted to CHF 124.3 billion on 31 December 2011, compared with Basel II RWA of CHF 119.9 billion on 31 December 2010. This increase of CHF 4.4 billion was mainly attributable to derivatives and the repo-style exposures, partly offset by reduced securitization exposures. The introduction of Basel 2.5 added a further CHF 2.5 billion of RWA due to higher risk weights for securitization positions held for trading that attract banking book capital charges as well as higher risk weights for re-securitization exposures.

➔ **Refer to the "Credit risk" section of this report for more information**

Non-counterparty related assets

The Basel II RWA for non-counterparty related assets amounted to CHF 6.1 billion on 31 December 2011 compared with CHF 6.2 billion on 31 December 2010. The Basel 2.5 framework had no impact on this RWA category.

Market risk

The Basel II market risk RWA decreased by CHF 11.6 billion to CHF 9.2 billion on 31 December 2011, mainly due to reduced credit spread risk. The new Basel 2.5 regulations increased RWA by CHF 40.0 billion to CHF 49.2 billion.

The CHF 40.0 billion RWA increase between the Basel II and Basel 2.5 framework was composed of the following:

(i) a new incremental risk charge for default and rating migration risk of trading book positions (CHF 19.6 billion of RWA);
(ii) an additional stressed VaR requirement, taking into account a one-year observation period relating to significant losses (CHF 13.1 billion of RWA);
(iii) a comprehensive risk measure requirement for correlation trading (CHF 8.6 billion of RWA); and
(iv) a negative adjustment of CHF 1.3 billion for RWA relief in VaR.

➔ **Refer to the "Market risk" section of this report for more information**

Capital adequacy

	Basel 2.5	Basel II	Basel II
CHF million, except where indicated	31.12.11	31.12.11	31.12.10
BIS core tier 1 capital	34,014	34,623	30,420
BIS tier 1 capital	38,370	38,980	35,323
BIS total capital	41,564	42,783	40,542
BIS core tier 1 capital ratio (%)	14.1	17.4	15.3
BIS tier 1 capital ratio (%)	15.9	19.6	17.8
BIS total capital ratio (%)	17.2	21.6	20.4
BIS risk-weighted assets	240,962	198,494	198,875
of which: credit risk[1]	*126,804*	*124,337*	*119,919*
of which: non-counterparty related risk	*6,050*	*6,050*	*6,195*
of which: market risk	*49,241*	*9,240*	*20,813*
of which: operational risk	*58,867*	*58,867*	*51,948*

1 Includes securitization exposures and equity exposures not part of the trading book and capital requirements for settlement risk (failed trades).

Audited

Reconciliation of IFRS equity to BIS capital

	Basel 2.5	Basel II	Basel II
CHF million	**31.12.11**	**31.12.11**	31.12.10
IFRS equity attributable to UBS shareholders	**53,447**	**53,447**	46,820
Treasury shares at cost / equity classified as obligation to purchase own shares	**1,198**	**1,198**	708
Own credit, net of tax[1]	**(1,842)**	**(1,842)**	(205)
Unrealized gains from Financial investments available-for-sale[1]	**(228)**	**(228)**	(181)
Unrealized (gains) / losses from cash flow hedges[1]	**(2,600)**	**(2,600)**	(1,063)
Other[2]	**(798)**	**(798)**	286
BIS core tier 1 capital prior to deductions	**49,177**	**49,177**	46,365
of which: paid-in share capital	***383***	***383***	*383*
of which: share premium, retained earnings, currency translation differences and other elements	***48,794***	***48,794***	*45,982*
Less: treasury shares / deduction for own shares[3]	**(2,131)**	**(2,131)**	(2,993)
Less: goodwill & intangible assets	**(9,695)**	**(9,695)**	(9,822)
Less: securitization exposures[4]	**(2,627)**	**(2,017)**	(2,385)
Less: other deduction items[5]	**(711)**	**(711)**	(744)
BIS core tier 1 capital	**34,014**	**34,623**	30,420
Hybrid tier 1 capital	**4,356**	**4,356**	4,903
of which: non-innovative capital instruments	***1,490***	***1,490***	*1,523*
of which: innovative capital instruments	***2,866***	***2,866***	*3,380*
BIS tier 1 capital	**38,370**	**38,980**	35,323
Upper tier 2 capital	**388**	**388**	110
Lower tier 2 capital	**6,145**	**6,145**	8,239
Less: securitization exposures[4]	**(2,627)**	**(2,017)**	(2,385)
Less: other deduction items[5]	**(711)**	**(711)**	(744)
BIS total capital	**41,564**	**42,783**	40,542

1 IFRS equity components which are not recognized for capital purpose, adjusted for changes in foreign exchange. 2 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 and prudential valuation and anticipated dividend payment. 3 Consists of: i) net long position in own shares held for trading purposes; ii) own shares bought for unvested or upcoming share awards; iii) and accruals built for upcoming share awards. 4 Includes a 50% deduction of the fair value of our option to acquire the SNB StabFund's equity (CHF 1,629 million on 31 December 2011 and CHF 1,781 million on 31 December 2010). 5 Positions to be deducted as 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 loss for equities (simple risk weight method).

Operational risk

Basel II RWA for operational risk increased to CHF 58.9 billion on 31 December 2011 from CHF 51.9 billion on 31 December 2010, as agreed with FINMA. This increase is primarily attributable to changes made to scenario assumptions, following the unauthorized trading incident in the third quarter of 2011, partially offset by enhancements made to our models. The Basel 2.5 framework had no impact on this RWA category.

➔ **Refer to the "Operational risk" section of this report for more information**

Eligible capital

Audited

Eligible capital, the capital available to support RWA, consists of tier 1 and tier 2 capital. To determine eligible tier 1 and total 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 BIS capital" table).

Tier 1 capital

Audited

Our Basel II tier 1 capital amounted to CHF 39.0 billion on 31 December 2011, compared with CHF 35.3 billion on 31 December 2010, an increase of CHF 3.7 billion. The main positive contributor to this increase was the CHF 4.2 billion net profit attributable to UBS shareholders. Further increases were due to positive currency effects, own share related components and a reduction of low rated securitization exposures, mainly resulting from sales. These effects were partially offset by the reversal of own credit gains of CHF 1.5 billion, a redemption of hybrid tier 1 capital of CHF 0.5 billion, dividend accruals, prudential valuation adjustments and other items. The Basel 2.5 framework resulted in additional tier 1 deductions of CHF 0.6 billion.

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.

Audited 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 2011, our hybrid tier 1 instruments amounted to CHF 4.4 billion, down from CHF 4.9 billion as of 31 December 2010, mainly resulting from the redemption of a USD 0.5 billion hybrid tier 1 instrument in June 2011. Under IFRS, these instruments are accounted for as equity attributable to non-controlling interests.

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 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.

Our Basel II tier 2 capital, net of tier 2 deductions amounted to CHF 3.8 billion on 31 December 2011, compared with CHF 5.2 billion on 31 December 2010, a decrease of CHF 1.4 billion. In 2011, we redeemed a floating-rate USD 1.6 billion subordinated bond. The change is further impacted by currency fluctuations, a reduction of low rated securitization exposures, mainly resulting from sales, and an excess of general provisions over expected losses. The Basel 2.5 framework resulted in additional tier 2 deductions of CHF 0.6 billion.

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.

On 22 February 2012, we issued USD 2 billion of tier 2 notes at an initial rate of 7.25%. This 10-year security, which does not dilute the value of the equity held by the bank's shareholders, qualifies as a loss-absorbing instrument that complies with Basel III regulations and counts as progressive buffer capital under the Swiss draft regulations for its systemically relevant banks. The notes will remain as debt throughout their life, subordinate to the bank's senior debt. Their principal amount would be written down to zero if at any time the bank's core tier 1/common equity ratio falls below 5%, if FINMA determines that a writedown is necessary to ensure UBS's viability as defined, or if UBS receives a commitment of governmental support that FINMA determines to be necessary to ensure UBS's viability.

➔ **Refer to the "Regulatory developments" section of this report for more information with regard to regulation on systemically important banks and "Note 32 Events after the reporting period" in the "Financial Information" section of this report for more information on the issuance of these tier 2 notes**

Transfer of capital 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 2011, 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 a Group level and expects that, in normal times, the ratio will be well above this. This target is to be achieved by 1 January 2013 at the latest.

On 31 December 2011, our Group FINMA leverage ratio improved to 5.4%, compared with the 31 December 2010 ratio of 4.4%. During the year, average total assets prior to deductions decreased by CHF 5.5 billion to CHF 1,392.9 billion. The average total adjusted assets fell by CHF 80 billion to CHF 714.2 billion. The table

FINMA leverage ratio

CHF billion, except where indicated	Average 4Q11	Average 4Q10
Total balance sheet assets (IFRS)[1]	**1,392.9**	1,398.5
Less: netting of replacement values[2]	**(436.6)**	(410.1)
Less: loans to Swiss clients (excluding banks)[3]	**(163.6)**	(161.6)
Less: cash and balances with central banks	**(65.8)**	(20.1)
Less: other[4]	**(12.8)**	(12.4)
Total adjusted assets	**714.2**	794.2
FINMA tier 1 capital (at year-end)[5]	**38.4**	35.3
FINMA leverage ratio (%)	**5.4**	4.4

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 of IFRS equity to BIS capital" table for more information on deductions of assets from FINMA tier 1 capital corresponding to Basel 2.5 tier 1 capital on 31 December 2011 and to Basel II tier 1 capital on 31 December 2010. 5 FINMA tier 1 capital corresponds to Basel 2.5 tier 1 capital as of 31 December 2011 and to Basel II tier 1 capital as of 31 December 2010.

"FINMA leverage ratio" shows the FINMA leverage ratio calculation for the Group.

Equity attribution framework

The equity attribution framework reflects our objectives of maintaining a strong capital base and guiding businesses toward activities with the best balance of profit potential, risk and capital usage.

Audited

Within this framework, the BoD attributes equity to the businesses after considering their risk exposure, risk-weighted assets (RWA) usage, asset 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 and units;
- 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; and
- make better comparisons between our businesses and those of our competitors.

Audited

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 ALCO recommends and the BoD makes 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.

Audited

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 and the Corporate Center differs from the Group's actual equity during a given period, the difference (positive or negative) is reflected as a separate line item. Further, the equity attribution framework continues to be forward-looking. Therefore, with regard to the RWA and asset drivers, we will be taking into account the impacts of planned Basel III requirements in 2012.

In November 2011, the BoD approved a refinement in the methodology of equity attribution. The intent of this refinement is to measure the RoaE of each business in a way which is more comparable to the business segments of international competitors and reflects the returns generated by businesses on resources under their direct control.

Accordingly, in the future equity attributed to the Corporate Center is expected to grow due to several factors, including our decision to allocate equity related to our deferred tax assets and deferred pension expenses centrally. This expected increase also includes the capital related to our legacy portfolio assets following the transfer from the Investment Bank to the Corporate Center, as well as capital related to our option to purchase equity in the SNB StabFund.

In addition, with regard to the RWA driver, in the future the Corporate Center will carry incremental common equity not allocated to the business divisions, reflecting additional equity that we have targeted above a 10% Basel III common equity tier 1 ratio.

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.

As outlined in the table "Average attributed equity", the amount of average equity attributed to the Investment Bank, Wealth Management & Swiss Bank and the Corporate Center increased by CHF 5 billion, CHF 1 billion and CHF 1 billion, respectively, from the fourth quarter of 2010 to the fourth quarter of 2011.

The increase in the Investment Bank was influenced by RWA increases related to the implementation of the Basel 2.5 frame-

Average attributed equity

CHF billion	**4Q11**	4Q10
Wealth Management	**5.0**	4.4
Retail & Corporate	**5.0**	4.6
Wealth Management & Swiss Bank	**10.0**	9.0
Wealth Management Americas	**8.0**	8.0
Global Asset Management	**2.5**	2.5
Investment Bank	**32.0**[1]	27.0
Corporate Center	**4.0**	3.0
Average equity attributed to the business divisions and Corporate Center	**56.5**	49.5
Difference	**(3.9)**	(2.2)
Average equity attributable to UBS shareholders	**52.6**	47.3

1 Approximately CHF 4.5 billion of the average equity attributed to the Investment Bank relates to the legacy portfolio that was transferred to the Corporate Center before the end of 2011 and will be managed and reported with effect from the first quarter of 2012 as a separate segment within the Corporate Center.

work. The increase in Wealth Management & Swiss Bank was due to the expectation that the capital requirement for this business division will increase, taking into account current regulatory trends and capital positions of relevant competitors. The increase in the Corporate Center was related to the trends in risk-based capital and RWA seen under this segment.

UBS shares

The majority of our tier 1 capital comprises share premium and retained earnings attributed to UBS shareholders. As of 31 December 2011, total IFRS equity attributable to our shareholders amounted to CHF 53,447 million, and was represented by a total of 3,832,121,899 shares issued, of which 2.2% were held by UBS.

In 2011, shares issued were increased by a total of 1,281,386 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 the shareholders' meeting as well as a proportionate share of distributed dividends. There are no preferential rights for shareholders and no other classes of shares are issued by the Parent Bank.

➔ **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 2011.

Holding of UBS shares

UBS holds own shares for two main purposes: in Group Treasury to cover employee share and option programs; and in the Investment Bank, to a limited extent, for trading purposes where the Investment Bank engages in market-making activities in UBS shares and related derivative products. The holding of treasury shares on 31 December 2011 increased to 84,955,551, or 2.2% of shares issued, from 38,892,031, or 1.0%, on the same date one year prior.

As of 31 December 2011, employee options and stock appreciation rights to receive 10.5 million shares were exercisable. Shares held in treasury or newly shares issued are delivered to the employee at exercise. On 31 December 2011, 75.7 million shares were available for this purpose, and an additional 148.6 million unissued shares in conditional share capital were assigned to

Shareholder-approved issuance of shares

	Maximum number of shares to be issued	Year approved by shareholder general meeting	% of shares issued 31.12.11
Conditional capital			
SNB warrants	100,000,000	2009	2.61
Employee equity participation plans of UBS AG	148,639,326	2006	3.88
Conversion rights / warrants granted in connection with bonds	380,000,000	2010	9.92
Total	628,639,326		16.44

UBS shares

	31.12.11	31.12.10
Shares outstanding		
Ordinary shares issued	**3,832,121,899**	3,830,840,513
of which: issue of shares for employee option plans for the year ended	***1,281,386***	*76,755*
Treasury shares	**84,955,551**	38,892,031
Shares outstanding	**3,747,166,348**	3,791,948,482
Shareholders equity (CHF million)		
Equity attributable to UBS shareholders	**53,447**	46,820
Less: goodwill and intangible assets	**9,695**	9,822
Tangible shareholders' equity	**43,752**	36,998
Book value per share (CHF)		
Total book value per share	**14.26**	12.35
Tangible book value per share	**11.68**	9.76

cover future employee option exercises. At the end of 2011, 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 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 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 2012. We intend to propose a dividend for the financial year 2011 of CHF 0.10 per share.

Share liquidity

During 2011, the daily average volume traded in UBS shares on the SIX Swiss Exchange (SIX) was 15.6 million shares. On the New York Stock Exchange (NYSE), it was 1.0 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.

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 2011	0	0.00	0	0.00
February 2011	19,040,000	18.53	19,040,000	18.53
March 2011	42,870,000	17.48	61,910,000	17.80
April 2011	0	0.00	61,910,000	17.80
May 2011	1,914,494	15.83	63,824,494	17.74
June 2011	34,015,961	15.27	97,840,455	16.88
July 2011	4,200,000	13.06	102,040,455	16.73
August 2011	9,840,000	11.69	111,880,455	16.28
September 2011	13,256,947	9.96	125,137,402	15.61
October 2011	0	0.00	125,137,402	15.61
November 2011	0	0.00	125,137,402	15.61
December 2011	0	0.00	125,137,402	15.61

1 This table excludes market-making and related hedging purchases by UBS. 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 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 378,000 UBS shares during the year and held 2,014,000 UBS shares as of 31 December 2011.

Trading volumes

	For the year ended		
1,000 shares	**31.12.11**	31.12.10	31.12.09
SIX Swiss Exchange total	**3,974,639**	4,166,417	5,105,358
SIX Swiss Exchange daily average	**15,648**	16,403	20,340
NYSE total	**239,713**	296,517	222,052
NYSE daily average	**951**	1,177	881

Source: Reuters

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)
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**
December	11.62	10.60	11.18	12.55	11.33	11.83
November	11.41	9.80	11.18	12.79	10.60	12.47
October	12.23	9.84	11.21	14.21	10.47	12.62
Third quarter 2011	**15.75**	**9.34**	**10.54**	**18.63**	**10.42**	**11.43**
September	11.80	9.34	10.54	14.75	10.42	11.43
August	12.76	9.93	11.67	16.84	13.18	14.48
July	15.75	12.70	13.11	18.63	16.08	16.48
Second quarter 2011	**17.60**	**14.37**	**15.33**	**20.03**	**17.20**	**18.26**
June	16.55	14.37	15.33	19.62	17.20	18.26
May	17.43	15.66	16.34	20.01	17.82	19.32
April	17.60	15.93	17.29	20.03	17.76	20.00
First quarter 2011	**19.13**	**15.43**	**16.48**	**20.08**	**16.11**	**18.05**
March	18.60	16.26	16.48	19.99	17.73	18.05
February	19.13	16.86	18.45	20.08	18.05	19.85
January	17.57	15.43	16.93	18.54	16.11	17.96
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
2007	**71.95**	**42.69**	**46.60**	**66.26**	**43.50**	**46.00**
Fourth quarter 2007	61.05	42.69	46.60	58.01	43.50	46.00
Third quarter 2007	66.88	53.67	55.67	62.34	49.84	53.25
Second quarter 2007	71.55	63.72	65.46	66.26	58.73	60.01
First quarter 2007	71.95	59.76	64.21	64.30	55.40	59.43

1 Historical share price adjusted for the rights issue and stock dividend 2008.

Basel 2.5 Pillar 3

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. The aim of Pillar 3 is 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 in other sections of this annual report.

Basel 2.5

Revisions to the Basel II market risk framework published in July 2009 and the enhancements to the Basel II framework (commonly referred to as Basel 2.5), introduced new capital requirements to increase the amount of regulatory capital in the banking system.

The new measures under Basel 2.5 include:

- a stressed value-at-risk (VaR) requirement taking into account a one year observation period relating to significant losses;
- an incremental risk charge, which accounts for default and rating migration risk of trading book positions;
- a comprehensive risk measure to capture correlated defaults and other complex price risk in the correlation portfolio;
- a revised requirement for the other securitization positions held for trading, in line with the banking book capital charges; and
- higher risk weights for re-securitization exposures across the trading and banking book to better reflect the inherent risk in these products.

Overview of disclosures

The following table provides an overview of our Basel 2.5 Pillar 3 disclosures in our Annual Report 2011:

Basel 2.5 Pillar 3 requirement	Disclosure in the Annual Report 2011
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" section
Investment positions	"Basel 2.5 Pillar 3" section
Market risk	"Risk management and control" and "Basel 2.5 Pillar 3" sections
Securitization	"Basel 2.5 Pillar 3" section
Operational risk	"Risk management and control" section
Interest rate risk in the banking book	"Risk management and control" section

These additional measurements are described and reported below. The first public disclosure of this information was required as of 31 December 2011; comparatives are not required.

Besides introducing these additional charges, Basel 2.5 also had an impact on how VaR is converted into market risk RWA: (i) there is only a single multiplier applied to VaR compared with separate multipliers for general market risk and specific market risk that were applied under Basel II; and (ii) the securitization positions in the trading book captured under the revised treatment, in line with banking book rules, may be excluded from the specific risk calculation in VaR. Each of these led to a reduction in the baseline VaR charge, and therefore also have to be taken into account when looking at the effect of the introduction of Basel 2.5.

Risk exposure measures and derivation of risk-weighted assets

As noted above, measures of risk exposure may differ depending on the purpose for which exposures are calculated: financial accounting under International Financial Reporting Standards (IFRS), determination of our regulatory capital or internal management of the firm. Our Basel 2.5 Pillar 3 disclosures are generally based on the measures of risk exposure that are used to calculate the regulatory capital that is 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 the determination of regulatory capital.

The naming conventions for the exposure segments used in the following tables are based on BIS rules and differ from those under Swiss and EU regulations. For example, "sovereigns" under the BIS naming convention equate to "central governments and central banks" as used under the Swiss and EU regulations. Similarly, "banks" equate to "institutions" and "residential mortgages" equate to "claims secured on residential real estate."

Although we determine published risk-weighted assets (RWA) according to BIS guidelines, our calculation of the regulatory capital requirement is based on the regulations of FINMA, which are more conservative and therefore result in higher RWA.

Generally, the scope of consolidation for purposes of calculating these regulatory capital requirements follows the IFRS consolidation rules for subsidiaries directly or indirectly controlled by UBS AG which are active in the banking and finance business, but excludes subsidiaries in other sectors. The significant operating subsidiaries in the Group consolidated for IFRS purposes are listed in *"Note 33 Significant subsidiaries and associates"* in the "Financial information" section of this report. 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:

– Real estate and commercial companies and investment schemes are not consolidated for regulatory capital purposes but are risk-weighted.
– Insurance companies are not consolidated for regulatory capital purposes but are deducted from capital.
– Securitization vehicles are not consolidated for regulatory capital purposes but are treated under the securitization framework.
– Joint ventures that are controlled by two ventures are fully consolidated for regulatory capital purposes, whereas they are accounted for under the equity method for IFRS.

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 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 BIS 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 VaR. 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.
Securitization exposures	Securitization exposures in the banking book are assessed using 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 the general market risk is determined by the VaR method, whereas the capital charge for the 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 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**

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 differs therefore 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.

For the calculation of derivative exposures to determine our required regulatory capital, we apply the effective expected positive exposure as defined in Annex 4 to the Basel framework. For a small portion of the derivatives portfolio, we also 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 in a segmentation which is consistent with the regulatory capital calculation.

Detailed segmentation of BIS risk-weighted assets

	31.12.11				31.12.10
	Net EaD	Basel 2.5 RWA			Basel II RWA
CHF million		Advanced IRB approach	Standardized approach	Total	Total
Credit risk	556,577	92,688	23,440	116,129	109,096
Sovereigns	*107,479*	*8,959*	*331*	*9,290*	*6,577*
Banks	*63,651*	*11,848*	*2,158*	*14,006*	*14,528*
Corporates	*183,816*	*58,768*	*16,617*	*75,385*	*71,542*
Retail	*201,632*	*13,112*	*4,334*	*17,447*	*16,450*
Residential mortgages	123,650	9,311	1,854	11,164	10,871
Lombard lending	73,681	3,345	0	3,345	3,074
Other retail	4,300	457	2,481	2,937	2,504
Securitization / Re-securitization exposures[1]	19,684	7,287		7,287	7,085
Banking book exposures	*10,165*	*4,147*		*4,147*	*7,085*
Trading book exposures	*9,519*	*3,139*		*3,139*	
Non-counterparty related risk	17,417		6,050	6,050	6,195
Settlement risk (failed trades)	80	21	58	79	47
Equity exposures outside trading book[2]	881	3,310		3,310	3,691
Market risk		49,241		49,241	20,813
Value-at-risk (VaR)		*7,935*		*7,935*	*20,813*
Stressed value-at-risk (sVaR)		*13,117*		*13,117*	
Incremental risk charge (IRC)		*19,564*		*19,564*	
Comprehensive risk measure (CRM)		*8,625*		*8,625*	
Operational risk[3]		58,867		58,867	51,948
Total BIS	594,639	211,414	29,548	240,962	198,875
Additional RWA according to FINMA regulations[4]				15,475	16,135
Total FINMA RWA[5]				256,437	215,010

1 On 31 December 2011, CHF 5.3 billion of the securitization exposures, including CHF 1.6 billion for the option to acquire the SNB StabFund equity, were deducted from capital and therefore did not generate RWA (on 31 December 2010 a total of CHF 4.8 billion of securitization exposures were deducted as well as CHF 1.8 billion for the option to acquire 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 2011, the FINMA tier 1 ratio amounts to 15.0% (15.6% for 2010, Basel II) and the FINMA total capital ratio to 16.2% (18.0% for 2010, Basel II).

Credit risk exposures and RWA

This table shows the average exposure and the derivation of RWA from the regulatory gross credit exposure.

	Exposure				Average regulatory risk weighting[2]	RWA
CHF million	Average regulatory gross credit exposure	Regulatory gross credit exposure	Less: regulatory credit risk offsets and adjustments[1]	Regulatory net credit exposure		
Cash and balances with central banks	38,266	38,550		38,550	3%	1,217
Due from banks	20,026	21,102	(9,185)	11,917	24%	2,827
Loans	254,595	259,474	(3,460)	256,014	14%	36,905
Financial assets designated at fair value	7,373	9,093	(5,090)	4,003	52%	2,084
Off-balance sheet[3]	43,258	43,435	(3,252)	40,184	33%	13,317
Banking products	**363,518**	**371,654**	**(20,986)**	**350,668**	**16%**	**56,350**
Derivatives	75,172	72,558		72,558	50%	36,280
Cash collateral receivables on derivative instruments	8,521	6,633		6,633	16%	1,034
Securities financing	58,614	55,954		55,954	11%	5,947
Traded products	**142,307**	**135,144**		**135,144**	**32%**	**43,260**
Trading portfolio assets	6,874	7,145	(67)	7,077	59%	4,152
Financial investments available-for-sale[4]	57,891	51,589		51,589	3%	1,507
Accrued income and prepaid expenses	6,053	6,040	(53)	5,987	80%	4,778
Other assets	25,000	13,792	(7,680)	6,112	99%	6,081
Other products	**95,818**	**78,565**	**(7,800)**	**70,765**	**23%**	**16,518**
Total 31.12.11	**601,644**	**585,364**	**(28,786)**	**556,577**	**21%**	**116,129**
Total 31.12.10	605,386	573,174	(31,608)	541,565	20%	109,096

1 Mainly includes margin accounts for derivatives. 2 The derivation of RWA is based on the various credit risk parameters of the advanced IRB approach and the standardized approach. 3 Includes guarantees, loan commitments and forward starting transactions. 4 Excludes equity positions.

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 latter distribution is based on the legal domicile of the counterparty.

CHF million	Switzerland	Rest of Europe	North America[1]	Latin America	Asia Pacific	Middle East and Africa	**Total regulatory gross credit exposure**	Total regulatory net credit exposure
Cash and balances with central banks	24,872	6,778	3,572		3,328		**38,550**	38,550
Due from banks	522	10,602	3,835	195	5,770	178	**21,102**	11,917
Loans	160,322	20,900	55,337	5,480	13,825	3,610	**259,474**	256,014
Financial assets designated at fair value		1,885	6,802	54	328	23	**9,093**	4,003
Off-balance sheet[2]	7,097	8,299	23,389	395	3,813	442	**43,435**	40,184
Banking products	**192,814**	**48,464**	**92,936**	**6,124**	**27,064**	**4,253**	**371,654**	**350,668**
Derivatives	6,916	31,227	25,034	836	7,774	772	**72,558**	72,558
Cash collateral receivables on derivative instruments	228	4,451	1,508	28	145	272	**6,633**	6,633
Securities financing	5,004	17,575	27,073	444	4,860	996	**55,954**	55,954
Traded products	**12,148**	**53,253**	**53,615**	**1,308**	**12,778**	**2,041**	**135,144**	**135,144**
Trading portfolio assets		2,260	2,820	126	1,833	107	**7,145**	7,077
Financial investments available-for-sale[3]	319	12,928	29,153	2	9,151	35	**51,589**	51,589
Accrued income and prepaid expenses	402	1,191	4,250	18	167	12	**6,040**	5,987
Other assets	4,498	2,516	6,424	3	319	31	**13,792**	6,112
Other products	**5,219**	**18,895**	**42,647**	**150**	**11,470**	**184**	**78,565**	**70,765**
Total 31.12.11	**210,181**	**120,612**	**189,198**	**7,582**	**51,312**	**6,479**	**585,364**	**556,577**
Total 31.12.10	199,486	127,115	182,340	6,149	51,874	6,209	573,174	541,565

1 Includes the Caribbean. 2 Includes guarantees, loan commitments and forward starting transactions. 3 Excludes equity positions.

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		2	38,166	382	**38,550**	38,550
Due from banks			317	20,785	**21,102**	11,917
Loans	165,269	89,325	4,879		**259,474**	256,014
Financial assets designated at fair value		5,756		3,337	**9,093**	4,003
Off-balance sheet[2]	2,601	38,583	564	1,687	**43,435**	40,184
Banking products	**167,871**	**133,667**	**43,926**	**26,191**	**371,654**	**350,668**
Derivatives	1,653	35,771	17,796	17,338	**72,558**	72,558
Cash collateral receivables on derivative financial instruments		2,762	445	3,426	**6,633**	6,633
Securities financing	168	41,597	4,082	10,107	**55,954**	55,954
Traded products	**1,820**	**80,129**	**22,323**	**30,872**	**135,144**	**135,144**
Trading portfolio assets		4,589	1,847	708	**7,145**	7,077
Financial investments available-for-sale[3]	3	9,140	36,903	5,543	**51,589**	51,589
Accrued income and prepaid expenses	4,050	1,161	173	656	**6,040**	5,987
Other assets	1,618	11,543	148	485	**13,792**	6,112
Other products	**5,671**	**26,433**	**39,070**	**7,391**	**78,565**	**70,765**
Total 31.12.11	**175,361**	**240,229**	**105,319**	**64,454**	**585,364**	**556,577**
Total 31.12.10	167,150	221,206	118,556	66,261	573,174	541,565

1 Also includes non-bank financial institutions. 2 Includes guarantees, loan commitments and forward starting transactions. 3 Excludes equity positions.

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 maturity. The latter distribution is based on the residual contractual maturity.

CHF million	Due in 1 year or less	Due over 1 year to 5 years	Due over 5 years	Other[1]	**Total regulatory gross credit exposure**	Total regulatory net credit exposure
Cash and balances with central banks				38,550	**38,550**	38,550
Due from banks	3,849	703	77	16,473	**21,102**	11,917
Loans	114,790	78,193	32,476	34,015	**259,474**	256,014
Financial assets designated at fair value	1,717	5,875	1,483	18	**9,093**	4,003
Off-balance sheet[2]	11,652	28,945	2,569	270	**43,435**	40,184
Banking products	**132,009**	**113,715**	**36,604**	**89,326**	**371,654**	**350,668**
Derivatives	26,619	13,460	32,475	4	**72,558**	72,558
Cash collateral receivables on derivative financial instruments				6,633	**6,633**	6,633
Securities financing	11,954	576	30	43,393	**55,954**	55,954
Traded products	**38,573**	**14,036**	**32,505**	**50,030**	**135,144**	**135,144**
Trading portfolio assets	2,516	2,242	2,378	8	**7,145**	7,077
Financial investments available-for-sale[3]	32,238	9,814	9,537		**51,589**	51,589
Accrued income and prepaid expenses				6,040	**6,040**	5,987
Other assets				13,792	**13,792**	6,112
Other products	**34,754**	**12,056**	**11,915**	**19,841**	**78,565**	**70,765**
Total 31.12.11	**205,337**	**139,807**	**81,024**	**159,196**	**585,364**	**556,577**
Total 31.12.10	201,173	134,036	91,542	146,423	573,174	541,565

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 Includes guarantees, loan commitments and forward starting transactions. 3 Excludes equity positions.

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.

These are defined as follows:

- *Corporates:* consists of all exposures that do not fit into any of the other exposure segments below. It 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):* consists 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):* consists of exposures towards banks, i.e. legal entities holding a banking license. It also includes those securities firms that are subject to supervisory and regulatory arrangements comparable to those applied to banks according to the framework, including, in particular, risk-based capital requirements. BIS also defines this regulatory exposure segment to include exposures to public sector entities with tax-raising power or whose liabilities are fully guaranteed by a public entity.
- *Residential mortgages (claims secured on residential real estate as defined under Swiss and EU regulations):* consists of residential mortgages, regardless of exposure size, if the obligor owns and occupies or rents out the mortgaged property.
- *Lombard lending:* loans which are made against the pledge of eligible marketable securities or cash.
- *Other retail:* consists of exposures to small businesses, private clients and other retail customers without mortgage financing.

CHF million	Advanced IRB approach	Standardized approach	**Total 31.12.11**	Total 31.12.10
Total regulatory gross credit exposure	492,089	93,275	**585,364**	573,174
Less: regulatory credit risk offsets and adjustments[1]	(23,292)	(5,494)	**(28,786)**	(31,608)
Total regulatory net credit exposure	**468,796**	**87,781**	**556,577**	
Total 31.12.10	436,214	105,352		541,565
Breakdown of the regulatory net credit exposure by exposure segment				
Corporates	159,853	23,963	**183,816**	167,718
Sovereigns	58,727	48,752	**107,479**	112,036
Banks	55,953	7,698	**63,651**	75,469
Retail				
Residential mortgages	*119,565*	*4,085*	***123,650***	*120,298*
Lombard lending	*73,681*		***73,681***	*62,355*
Other retail	*1,018*	*3,283*	***4,300***	*3,688*
Total regulatory net credit exposure	**468,796**	**87,781**	**556,577**	
Total 31.12.10	436,214	105,352		541,565

1 Mainly includes margin accounts for derivatives.

Regulatory gross credit exposure covered by guarantees and credit derivatives

This table provides a breakdown of collateral information, showing exposures covered by guarantees as well as those covered by credit derivatives, according to BIS defined exposure segments.

The collateral amounts in the table reflect the values used for determining regulatory capital. However, we utilize credit hedging to reduce concentrated exposure to individual names or sectors or in specific portfolios, which is not fully reflected in the regulatory numbers in this section.

➔ **Refer to the "Credit risk" section of this report for more information on credit risk mitigation**

CHF million	Exposure covered by guarantees[1]	Exposure covered by credit derivatives
Exposure segment		
Corporates	5,864	17,132
Sovereigns	92	63
Banks	504	102
Retail		
Residential mortgages	*6*	
Lombard lending	*493*	
Other retail	*44*	
Total 31.12.11	**7,003**	**17,297**
Total 31.12.10	4,697	20,103

1 Includes guarantees and stand-by letters of credit provided by third parties, mainly banks.

Advanced IRB approach

Advanced IRB 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 ratings									
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 ratings	0 / 1	2 / 3	4 / 5	6–8	9–13		**31.12.11**		31.12.10	
Regulatory net credit exposure-weighted average probability of default	0.004%	0.057%	0.293%	0.971%	5.662%		**0.471%**		0.542%	
Regulatory net credit exposure										
Corporates	2,875	70,978	36,272	33,704	14,116	1,908	**159,853**	16,005	140,979	12,034
Sovereigns	35,511	16,164	6,299	707	15	31	**58,727**	237	43,562	135
Banks	3,170	40,367	8,843	3,122	401	50	**55,953**	12,509	69,809	15,407
Retail										
Residential mortgages		*1,780*	*90,739*	*23,853*	*2,709*	*484*	***119,565***	*255*	*118,604*	*890*
Lombard lending		*66,788*	*3,817*	*2,174*	*898*	*4*	***73,681***	*262*	*62,355*	*167*
Other retail		*146*	*61*	*793*	*12*	*5*	***1,018***	*1*	*905*	
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*		
Total 31.12.10	33,148	189,919	101,893	85,436	22,192	3,626			436,214	
of which: loan commitments	*388*	*18,293*	*3,901*	*2,294*	*3,659*	*98*				*28,633*

1 Values of defaulted derivative contracts are based on replacement values including "add-ons" used in the calculation of regulatory capital.

Advanced IRB approach: regulatory net exposure-weighted average loss given default (LGD) by internal UBS ratings

This table provides a breakdown of the net exposure-weighted average loss given default for our credit portfolio exposures calculated using the advanced internal ratings-based approach, according to our internal rating classes.

	Internal UBS ratings						
in %		Investment grade		Sub-investment grade		Regulatory net credit exposure-weighted average LGD	
Internal UBS ratings	0 / 1	2 / 3	4 / 5	6–8	9–13	**31.12.11**	31.12.10
Regulatory net credit exposure-weighted average LGD							
Corporates	43	25	30	29	28	**28**	30
Sovereigns	19	41	68	39	21	**34**	42
Banks	16	31	34	39	35	**31**	31
Retail							
Residential mortgages		*10*	*10*	*10*	*10*	***10***	*10*
Lombard lending		*20*	*20*	*20*	*20*	***20***	*20*
Other retail		*20*	*5*	*44*	*14*	***38***	*35*
Average 31.12.11	**21**	**26**	**19**	**22**	**25**	**23**	
Average 31.12.10	35	28	20	17	23		24

Advanced IRB 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 ratings						
in %		Investment grade		Sub-investment grade		Regulatory net credit exposure-weighted average risk weight	
Internal UBS ratings	0/1	2/3	4/5	6–8	9–13	**31.12.11**	31.12.10
Regulatory net credit exposure-weighted average risk weight							
Corporates	15	11	43	52	87	**35**	35
Sovereigns	1	11	93	85	78	**14**	13
Banks	5	13	33	71	134	**20**	18
Retail							
Residential mortgages		*1*	*6*	*10*	*30*	***7***	*8*
Lombard lending		*3*	*10*	*19*	*30*	***4***	*5*
Other retail		*3*	*3*	*53*	*23*	***42***	*41*
Average 31.12.11	**2**	**9**	**20**	**37**	**77**	**19**	
Average 31.12.10	4	10	17	25	74		18

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 ECAI risk assessments to determine the risk weightings for 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: Moody's Investors Service, Standard & Poor's Ratings Group and Fitch Group. The mapping of external ratings to the standardized approach risk weights is determined by FINMA and published on its website.

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 BIS defined exposure segments.

CHF million	Total exposure					Total exposure	
Risk weight	0%	>0–35%	36–75%	76–100%	150%	**31.12.11**	31.12.10
Regulatory gross credit exposure							
Corporates		8,748	863	18,445	183	**28,241**	31,541
Sovereigns[1]	48,315	111	35	300		**48,761**	68,500
Banks		5,714	2,009	5	20	**7,749**	5,767
Retail							
Residential mortgages		*1,265*	*2,848*	*1,126*	*1*	***5,240***	*2,359*
Lombard lending							
Other retail			*3,260*		*25*	***3,285***	*2,785*
Total 31.12.11	**48,315**	**15,838**	**9,015**	**19,877**	**229**	**93,275**	
Total 31.12.10	68,201	13,075	6,104	23,161	411		110,953
Regulatory net credit exposure[2]							
Corporates		8,748	863	14,182	169	**23,963**	26,739
Sovereigns[1]	48,315	111	35	291		**48,752**	68,475
Banks		5,714	1,958	5	20	**7,698**	5,660
Retail							
Residential mortgages		*1,265*	*2,820*		*1*	***4,085***	*1,694*
Lombard lending							
Other retail			*3,258*		*25*	***3,283***	*2,784*
Total 31.12.11	**48,315**	**15,838**	**8,935**	**14,479**	**215**	**87,781**	
Total 31.12.10	68,201	12,968	6,113	17,673	397		105,352

1 Includes high-quality liquid short-term securities issued by governments and government-controlled institutions. 2 For traded products, the regulatory gross credit exposure is equal to the regulatory net credit exposure.

Eligible financial collateral recognized under standardized approach

This table provides a breakdown of the financial collateral which is 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]	
	31.12.11	31.12.10	**31.12.11**	31.12.10
Exposure segment				
Corporates	**23,963**	26,739	**5,211**	7,252
Sovereigns	**48,752**	68,475	**40**	26
Banks	**7,698**	5,660	**1,188**	1,948
Retail				
Residential mortgages	***4,085***	*1,694*	***1,155***	*664*
Lombard lending				
Other retail	***3,283***	*2,784*	***3***	*2*
Total	**87,781**	105,352	**7,596**	9,891

1 Reflects the impact of the application of regulatory haircuts. For traded products, these haircuts are the difference between the IFRS reported values and the regulatory net credit exposure.

Impairment, default and credit loss

As illustrated in the tables below, our impaired assets decreased 18% on 31 December 2011 compared with 31 December 2010, mainly due to sales of legacy loan positions.

Impaired assets by region

This table shows a breakdown of credit exposures arising from impaired assets and allowances/provisions according to BIS defined exposure segments. 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 allowances and provisions[2]	**Total allowances, provisions and specific credit valuation adjustments[2]**	Total allowances, provisions and specific credit valuation adjustments 31.12.10
Switzerland	210,181	870	(475)	394	(128)	**(604)**	(609)
Rest of Europe	120,612	735	(220)	515		**(220)**	(267)
North America[3]	189,198	2,739	(1,461)	1,278	(3)	**(1,465)**	(1,444)
Latin America	7,582	37	(27)	10		**(27)**	(25)
Asia Pacific	51,312	66	(45)	21		**(45)**	(41)
Middle East and Africa	6,479	17	(34)	(17)		**(34)**	(32)
Total 31.12.11	**585,364**	**4,465**	**(2,263)**	**2,201**	**(131)**	**(2,395)**	
Total 31.12.10	573,174	6,468	(2,370)	4,097	(47)		(2,418)

1 Values of defaulted derivative contracts (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 1,073 million are partially included in the upper tier 2 capital and therefore not included in this table. 3 Includes the Caribbean.

Impaired assets by exposure segment

This table provides a breakdown of movements in the specific and collective allowances and provisions for impaired assets, including changes in the credit valuation allowance for derivatives.

CHF million	Regulatory gross credit exposure	Impaired assets[1]	Specific allowances, provisions and credit valuation adjustments	Collective allowances and provisions[2]	**Total allowances, provisions and specific credit valuation adjustments[2]**	Write-offs for the year ended 31.12.11	Total allowances, provisions and specific credit valuation adjustments 31.12.10
Corporates	197,622	4,058	(2,081)		**(2,081)**	(267)	(2,083)
Sovereigns	107,666	14	(10)		**(10)**	(1)	(10)
Banks	77,287	22	(15)		**(15)**	(4)	(30)
Retail							
Residential mortgages	*124,805*	*232*	*(66)*		***(66)***		*(68)*
Lombard lending	*73,681*	*42*	*(37)*		***(37)***		*(120)*
Other retail	*4,303*	*97*	*(54)*		***(54)***	*(27)*	*(59)*
Not allocated segment[3]				(131)	**(131)**		(47)
Total 31.12.11	**585,364**	**4,465**	**(2,263)**	**(131)**	**(2,395)**	**(299)**	
Total 31.12.10	573,174	6,468	(2,370)	(47)	(2,418)	(1,505)	(2,418)

1 Values of defaulted derivative contracts (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 1,073 million are partially included in the upper tier 2 capital and therefore not included in this table. 3 Collective loan loss allowances and provisions are not allocated to individual counterparties.

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 allowance 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 allowances and provisions[1]	**For the year ended 31.12.11**		For the year ended 31.12.10
Opening balance as of 1.1.11	1,240	1,130	2,370	47	**2,418**	Opening balance as of 1.1.10	5,881
Write-offs	(500)		(500)	(1)	**(501)**		(1,505)
Recoveries (on written-off positions)	51		51		**51**		79
Increase / (decrease) in allowances, provisions and specific credit valuation adjustments[2]		303	303	84	**387**		(1,615)
Foreign currency translations and other adjustments	17	56	73		**73**		(421)
Transfers		(32)	(32)		**(32)**		
Closing balance as of 31.12.11	**807**	**1,457**	**2,263**	**131**	**2,395**	Closing balance as of 31.12.10	2,418

1 Collective credit valuation adjustments of CHF 1,073 million are partially included in the upper tier 2 capital and therefore not included in this table. 2 Represents total actual credit loss (credit loss expense and changes in specific credit valuation adjustments recognized in net trading income).

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 2010, and the actual IFRS credit loss amount (including credit valuation adjustments on derivatives) charged against our income statement in 2011, according to BIS 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 2011.

	Expected loss	Actual credit (loss) / recovery and credit valuation adjustments			
CHF million	31.12.10		**For the year ended 31.12.11**		For the year ended 31.12.10
	Total expected loss	**Actual credit (loss) / recovery**	**Specific credit valuation adjustments for defaulted derivatives**	**Total actual credit (loss) / recovery and credit valuation adjustments**	Total actual credit (loss) / recovery and credit valuation adjustments
Corporates[1]	(336)	**(18)**	**(303)**	**(321)**	1,577
Sovereigns	(27)				
Banks	(40)	**(1)**		**(1)**	26
Retail					
Residential mortgages	*(62)*	***3***		***3***	*1*
Lombard lending	*(30)*	***12***		***12***	*5*
Other retail		***(5)***		***(5)***	*(2)*
Not allocated[2]		**(75)**		**(75)**	7
Total	(494)	**(84)**	**(303)**	**(387)**	**1,615**

1 Includes actual credit recovery from securities, which amounted to CHF 9 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 master trading agreement and credit exposures to those counterparties from credit default swaps (CDS), together with exposures from other over-the-counter derivatives, are netted and included in the calculation of the collateral required to be posted. Trading with lower rated counterparties (for example, hedge funds) would also 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 over-the-counter derivative activities. Under the terms of the International Swaps and Derivatives Association master trading agreement and similar agreements, this collateral, which generally takes the form of cash or highly liquid fixed income 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 did not experience any significant losses from failed settlements on CDS contracts in 2011.

The vast majority of our CDS trading activity is conducted by the Investment Bank. The "Credit derivatives portfolio (split by counterparty)" table provides further analysis of the Investment Bank's CDS counterparties based on 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.

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. Specifically, 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	**31.12.11**	31.12.10
Gross positive replacement values	**486,584**	401,146
Netting benefits recognized for regulatory purposes	**(383,338)**	(301,515)
Collateral held	**(50,955)**	(41,592)
Net current credit exposure	**52,291**	58,039
Regulatory net credit exposure (total counterparty credit risk)	**72,558**	73,879
of which: determined by internal models (effective expected positive exposure [EPE])	***57,874***	*60,843*
of which: determined by supervisory approaches (current exposure method)	***14,684***	*13,036*
Breakdown of the collateral held		
Cash collateral	**45,572**	36,520
Securities collateral and debt instruments collateral (excluding equity)	**5,055**	4,837
Equity instruments collateral	**109**	120
Other collateral	**218**	115
Total collateral held	**50,955**	41,592

Credit derivatives[1, 2]

This table provides an overview of our credit derivative portfolio by product group using notional values. 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	**31.12.11**	31.12.10
Credit default swaps	22,348	3,719	26,067	1,279,326	1,236,239	2,515,565	**2,541,632**	2,304,549
Total return swaps				4,280	123	4,403	**4,403**	8,931
Total 31.12.11	**22,348**	**3,719**	**26,067**	**1,283,606**	**1,236,362**	**2,519,968**	**2,546,035**	
Total 31.12.10	28,650	2,602	31,252	1,167,228	1,115,000	2,282,228		2,313,480

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.

Credit derivatives portfolio (split by counterparty)[1]

	% of total notional		% of buy notional		% of sell notional	
	31.12.11	31.12.10	**31.12.11**	31.12.10	**31.12.11**	31.12.10
Portfolio segment						
Developed markets commercial banks	**60**	59	**59**	58	**61**	60
Broker-dealers, investment and merchant banks	**23**	25	**23**	25	**23**	25
Hedge funds	**1**	2	**1**	1	**2**	3
All other	**16**	15	**18**	17	**14**	12

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, e.g. tradable assets are treated under market risk value-at-risk (VaR); and

(iii) differences in the scope of consolidation, e.g. certain special purpose entities are consolidated for IFRS but not for regulatory capital.

Equities disclosure for banking book positions

The table below shows the three different equity investment 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 regulatory equity exposure under BIS, the corresponding risk-weighted assets and the capital charge.

The table also shows net realized gains and losses and unrealized revaluation gains relating to the equity investments. We had no unrealized revaluation losses that had not been recognized for available-for-sale investments..

CHF million	Book value	
	31.12.11	31.12.10
Equity investments		
Financial investments available-for-sale	**873**	1,359
Financial assets designated at fair value	**730**	856
Investments in associates	**795**	790
Total equity investments under IFRS	**2,397**	3,006
Regulatory capital adjustment	**604**	281
Total equity exposure under BIS	**3,001**	3,287
of which: to be risk-weighted		
publicly traded	***173***	*390*
privately held[1]	***1,427***	*1,513*
of which: deducted from equity	***1,402***	*1,384*
RWA according to simple risk weight method	**3,310**	3,691
Capital requirement according to simple risk weight method	**265**	295
Total capital charge	**1,667**	1,679
Net realized gains / (losses) and unrealized gains from equities		
Net realized gains / (losses) from disposals	**(9)**	270
Unrealized revaluation gains	**49**	68
of which: included in tier 2 capital	***22***	*31*

1 Includes CHF 717 million exposure booked in trust entities that did not generate RWA (CHF 842 million on 31 December 2010).

Market risk

As a result of the implementation of Basel 2.5, risk-weighted assets (RWA) attributable to market risk increased to CHF 49.2 billion as of 31 December 2011 compared with CHF 20.8 billion under Basel II as of 31 December 2010. The increased RWA are composed of a new incremental risk charge (CHF 19.6 billion of RWA), stressed VaR requirement (CHF 13.1 billion of RWA) and comprehensive risk measure requirement (CHF 8.6 billion of RWA). These increases were partially offset by a RWA relief in VaR of CHF 1.3 billion due to the exclusion of the specific market risk for securitization in the trading book under Basel 2.5 and a decrease in exposure of CHF 11.6 billion. The market risk regulatory capital requirement is 8% of the respective risk-weighted assets. Market risk regulatory capital and risk-weighted assets are based on our VaR model and subject to regulatory determined multipliers.

The following VaR tables for 2011 include positional risks relating to the unauthorized trading incident announced in the third quarter of 2011.

Group: regulatory value-at-risk (10-day, 99% confidence, 5 years of historical data)

This table provides a breakdown of the Group's minimum, maximum, average and period-end regulatory VaR by business division.

	Basel II – for the year ended 31.12.11				Basel 2.5 – for the year ended	Basel II – for the year ended 31.12.10			
CHF million	Min.	Max.	Average	31.12.11	31.12.11	Min.	Max.	Average	31.12.10
Business divisions									
Investment Bank	131	1,374	449	142	132	132	546	306	389
Wealth Management & Swiss Bank	0	1	1	0	0	0	1	1	1
Wealth Management Americas	11	25	16	24	24	13	30	21	14
Global Asset Management	0	1	1	0	0	0	1	1	1
Corporate Center	8	47	17	9	9	5	71	22	13
Diversification effect	[1]	[1]	(20)	(25)	(24)	[1]	[1]	(27)	(17)
Total regulatory VaR, Group	139	1,386	463	150	142	140	561	323	401
Diversification effect (%)			(4)	(14)	(14)			(8)	(4)
Total regulatory VaR, Group, excluding the effect of unauthorized trading incident	139	819	394	150					

1 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

Investment Bank: regulatory value-at-risk (10-day, 99% confidence, 5 years of historical data)

This table provides a breakdown of the Investment Bank's minimum, maximum, average and period-end regulatory VaR by risk type.

	Basel II – for the year ended 31.12.11[1]				Basel 2.5 – for the year ended	Basel II – for the year ended 31.12.10			
CHF million	Min.	Max.	Average	31.12.11	31.12.11	Min.	Max.	Average	31.12.10
Risk type									
Equities	42	1,171	150	52	52	47	133	68	64
Interest rates	42	182	103	64	64	54	138	95	96
Credit spreads	189	860	471	189	189	225	635	422	386
Foreign exchange	16	121	53	57	57	8	88	28	41
Energy, metals and commodities	7	51	18	17	17	5	44	12	43
Diversification effect	[2]	[2]	(346)	(237)	(247)	[2]	[2]	(319)	(242)
Total regulatory VaR, Investment Bank	131	1,374	449	142	132	132	546	306	389
Diversification effect (%)			(44)	(63)	(65)			(51)	(38)

1 Excluding the effect of the unauthorized trading incident, the Investment Bank and equities regulatory maximum VaR figures were CHF 799 million and CHF 303 million, respectively. 2 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Group: regulatory value-at-risk (1-day, 99% confidence, 5 years of historical data)[1]

This table provides a breakdown of the Group's minimum, maximum, average and period-end regulatory backtesting VaR by business division.

		Basel II – for the year ended 31.12.11				Basel 2.5 – for the year ended	Basel II – for the year ended 31.12.10			
CHF million		Min.	Max.	Average	31.12.11	31.12.11	Min.	Max.	Average	31.12.10
Investment Bank	Regulatory VaR[2]	50	388	118	56	55	57	110	82	93
Group	Regulatory VaR[2]	50	390	120	58	58	58	114	84	94
Group, excluding the effect of unauthorized trading incident	Regulatory VaR	48	154	90	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 Backtesting is based on 1-day 99% regulatory VaR.

Stressed value-at-risk

Stressed VaR is a 10-day 99% measure calibrated to a 1 year period of significant financial stress relevant to the current portfolio of UBS Group. Stressed VaR adopts broadly the same methodology as VaR with modifications as required to calibrate the model to a historical stress period.

Group: stressed value-at-risk (10-day, 99% confidence, 5 years of historical data)

This table provides a breakdown of the Group's period-end regulatory stressed VaR by business division.

	For the year ended 31.12.11			
CHF million	Min.[1]	Max.[1]	Average[1]	31.12.11
Business divisions				
Investment Bank				173
Wealth Management & Swiss Bank				0
Wealth Management Americas				31
Global Asset Management				0
Corporate Center				14
Diversification effect				(39)
Total stressed VaR, Group				181
Diversification effect (%)				(18)
Total stressed VaR, Group, excluding the effect of unauthorized trading incident				181

1 Because this is a new requirement under Basel 2.5, which only became effective as of 31 December 2011, the minimum, maximum and average values are therefore not shown.

Investment Bank: stressed value-at-risk (10-day, 99% confidence, 5 years of historical data)

This table provides a breakdown of the Investment Bank's period-end regulatory stressed VaR by risk type.

	For the year ended 31.12.11			
CHF million	Min.[1]	Max.[1]	Average[1]	31.12.11
Risk type				
Equities				65
Interest rates				54
Credit spreads				355
Foreign exchange				88
Energy, metals and commodities				22
Diversification effect				(410)
Total stressed VaR, Investment Bank				173
Diversification effect (%)				(70)

1 Because this is a new requirement under Basel 2.5, which only became effective as of 31 December 2011, the minimum, maximum and average values are therefore not shown.

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, a constant position assumption is applied; i.e. all positions in the IRC portfolio have a one-year liquidity horizon and hence are kept unchanged over this time 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.

Group: incremental risk charge

This table provides a breakdown of the Group's period-end regulatory incremental risk charge by business division.

	For the year ended 31.12.11			
CHF million	Min.[1]	Max.[1]	Average[1]	31.12.11
Business divisions				
Investment Bank				1,349
Wealth Management & Swiss Bank				
Wealth Management Americas				82
Global Asset Management				
Corporate Center				306
Diversification effect				(303)
Total incremental risk charge, Group				**1,435**
Diversification effect (%)				(17)

1 Because this is a new requirement under Basel 2.5, which only became effective as of 31 December 2011, the minimum, maximum and average values are therefore not shown.

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, a constant position assumption is applied; i.e. all positions in the CRM portfolio have a one-year liquidity horizon and hence 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, which is 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

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 31.12.11			
CHF million	Min.[1]	Max.[1]	Average[1]	31.12.11
Investment Bank				636
Group				**636**

1 Because this is a new requirement under Basel 2.5, which only became effective as of 31 December 2011, the minimum, maximum and average values are therefore not shown.

Securitization

This section provides details on traditional and synthetic securitization exposures held in the banking and trading book and the regulatory capital associated with these exposures, based on 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 which is established to own the loan pool and to issue tranched securities to third-party investors referencing the pool of loans. In a synthetic securitization, we retain legal ownership of the securitized pools of assets, but transfer the associated credit risk (typically) to a special purpose entity through guarantees, credit derivates 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, achieving a significant risk transfer to third party investors. As sponsor we manage or advise securitization programs. In line with the Basel framework sponsoring includes underwriting, i.e. placing securities into the market.

In 2011 under Basel 2.5, trading book securitization positions were added to the securitization framework in addition to the securitization positions held in the banking book. Also higher risk weights have been introduced for re-securitization positions.

Risk-weighted assets attributable to securitization positions increased to CHF 7.3 billion as of 31 December 2011 compared with CHF 7.1 billion as of 31 December 2010. The increase was mainly due to the abovementioned changes. Risk-weighted assets attributable to trading book positions contributed CHF 3.1 billion and re-securitizations in the banking book CHF 0.5 billion to the increase. This was offset by CHF 3.4 billion of reductions in securitization positions in the banking book during 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 reclassified under IFRS from *Held for trading* to *Loans and receivables* in the fourth quarter of 2008 and the first quarter of 2009. As of 31 December 2011, this portfolio included mainly collateralized debt obligations and collateralized loan obligations with credit default swap protection purchased from monoline insurers as well as US commercial mortgage-backed securities, residential mortgage-backed securities, the global reference-linked note program and student loan auction rate securities. We also have a synthetic securitization structure over part of the credit risk in our over the counter derivatives portfolio.

During 2011, we have acted in both originator and sponsor roles. As originator, we sold originated commercial mortgage loans into a third party securitization program. As sponsor, we managed or advised securitization programs and helped to place the securities into the market.

Securitization and re-securitization positions in the banking book are valued either at fair value or at amortized cost less impairment. Impairment is assessed based on the basis of the net present value of future cash flows expected from the instrument, which are derived from underlying pool.

Securitization in the trading book

Securitizations (including correlation products) held in the trading book are part of the trading activities within the Investment Bank, which typically include market-making and client facilitation. During the year, we were also involved in the placement of securitizations of assets originated by other institutions in the market, i.e. acted in a sponsor role. Included in the trading book are positions in our correlation book, legacy positions in leveraged super senior tranches as well as re-securitizations of corporate credit exposure. In the trading book, securitization and re-securitization positions are reported at either market value or the aggregate of notional amount and the associated replacement value of the exposures securitized at the balance sheet date.

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 entities is selected as appropriate based on the type of transaction being undertaken. Examples of this include limited liability corporations, common law trusts and depositor entities.

We manage or advise the following significant groups of affiliated entities that invest in exposures we have securitized or in special purpose entities that we sponsor: North Street, Brooklands, and East Street are involved in the US, European and Asia Pacific reference-linked note programs. The Mortgage Backed Securities Consolidated Trust is an entity used to consolidate both UBS/non-UBS issued securitizations if it is determined that we hold the majority of the risk and rewards of a deal retained within the trading portfolio.

Managing and monitoring of the credit and market risk of securitization positions

The banking book securitization portfolio is subject to specific 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 subject to multiple risk limits. As part of managing risks within the predefined risk limits, traders may utilize hedging and risk mitigation strategies. Hedging may however expose the firm to basis risks as the hedge instrument and the position being hedged may not always move in parallel. Such basis risks are considered within the overall limits measurement. Any retained securitization from origination activities and any purchased securitization positions are governed by risk limits as with any other trading activities.

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 Moody's, Standard & Poor's and Fitch ratings. 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 program.

➔ **Refer to the "Market risk" section of this report for more information on reference-linked notes**

For purposes of determining regulatory capital and the Pillar 3 disclosure, 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 itself. If the underlying security was 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 the synthetic securitization of a portfolio of counterparty credit risk resulting from over-the-counter derivatives where an external rating was not sought. The supervisory formula approach is also applied for leveraged super senior tranches.

In the trading book the comprehensive risk measure (CRM) is used for the correlation portfolio as defined by Basel 2.5 requirements. This broadly covers securitizations of liquid corporate underlying assets as well as associated hedges that are not securitizations (e.g. credit default swap and credit default swap indices).

We do not apply the concentration ratio approach or the internal assessment approach for 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 item 3 of Note 1 on "Special purpose entities" and item 12 on "Securitization structures set up by UBS". For the purposes of disclosure under the Basel 2.5 Pillar 3 requirements, we disclose in this section our intention to securitize exposures as an originator after the pricing of a deal 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. We recognize liabilities on our balance sheet for arrangements that require us to provide financial support for securitized assets.

Presentation principles

It is our policy to present Pillar 3 disclosures for securitization transactions and balances in line with the capital adequacy treatments which have been applied under Pillar 1 in the respective period presented.

Furthermore, as of 31 December 2011 we have implemented a new presentation policy. Under this policy, we will not amend comparative prior period numbers for presentational changes which are triggered by new and revised information from third party providers, provided that 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 is in compliance with all material aspects of the publication.

Securitization in the banking book

Banking book – securitization activity of the year

This table outlines the exposures (i.e. deal size at inception) we securitized in the banking book in 2011 and 2010, respectively. Gains or losses recognized on sales of underlying assets into traditional securitization structures where we acted as the originator of the underlying assets are also disclosed.

Traditional securitization amounts disclosed in this table 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.

Securitized exposures are split into two parts, those where we have retained any securitization positions and/or continue to be involved on an ongoing basis (e.g. credit enhancement, implicit support) and those where 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, CHF 2.8 billion has been disclosed twice in 2011, once under "Originator" and once under "Sponsor".

	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	2,789				80	6,232	
Credit card receivables							
Leasing							
Loans to corporates or SME							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations							
Other							
Total 31.12.11	**2,789**	**0**	**0**	**0**	**80**	**6,232**	**0**
Residential mortgages							
Commercial mortgages							
Credit card receivables							
Leasing							
Loans to corporates or SME							
Consumer loans							
Student loans							
Trade receivables							
Re-securitizations							
Other			1,715				
Total 31.12.10	**0**	**0**	**1,715**	**0**	**0**	**0**	**0**

Risk, treasury and capital management

Banking book – total outstanding securitized exposures

Traditional securitization amounts disclosed in this table reflect the total outstanding notes at par value issued by the securitization vehicle. For synthetic securitization transactions, we disclose either the balance sheet carrying values of the exposures securitized or, for hybrid structures, the outstanding notes at par value issued by the securitization vehicle.

Disclosure is made where we have retained or originated securitization positions at the balance sheet date in the banking book and/or are otherwise involved on an ongoing basis (e.g. credit enhancement, implicit support). Where we have retained positions in both the banking book and the trading book, the outstanding exposure is presented in the banking book. The table also includes securitization activities of the year 2011 where we retained/purchased positions (these are also included in the table on the previous page).

After the year of inception, the securitization activities in which we acted both as originator and sponsor will be reported solely under "Sponsor", provided we have continuously retained/purchased positions.

All values in this table are as of the balance sheet date.

	31.12.11				31.12.10[1]			
	Originator		Sponsor		Originator		Sponsor	
CHF million	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic	Traditional	Synthetic
Residential mortgages	2,589		6,071		1,526		2,960	
Commercial mortgages	2,767	150	22,210			149	31,339	
Credit card receivables								
Leasing			341				341	
Loans to corporates or SME			872				3,401	
Consumer loans								
Student loans			20,295				32,368	
Trade receivables								
Re-securitizations	5,034	3,594	3,210		3,462	2,126	3,498	
Other	597	1,861	1,760			4,401	3,811	
Total	10,987	5,605	54,759	0	4,988	6,676	77,718	0

1 2010 numbers have been restated to align the disclosure with our securitization presentation and disclosure policy which requires Pillar 3 disclosures to follow the capital adequacy treatment under Pillar 1 in the respective period presented and to include certain transactions which we have sponsored but which were erroneously not included in previous disclosures. Total amounts for "Originator/Traditional" and "Originator/Synthetic" have been reduced by CHF 3,908 million and CHF 1,176 million, respectively. The total amount for "Sponsor/Traditional" has been increased by CHF 1,338 million compared with the numbers disclosed for 31 December 2010 in the report "Our Basel II Pillar 3 disclosure for first half 2011".

Banking book – impaired or past due securitized exposures

This table provides a breakdown of the outstanding impaired or past due exposures at the balance sheet date for transactions where we acted as originator or sponsor in the banking book. Where we did not retain positions, impaired or past due information is only reported in the year of inception. 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.

	31.12.11			31.12.10[1]		
	Originator		Sponsor	Originator		Sponsor
CHF million	Securitization positions retained	No securitization positions retained		Securitization positions retained	No securitization positions retained	
Residential mortgages	1,531		1,486	778		453
Commercial mortgages	43		975	41		2,041
Credit card receivables						
Leasing						
Loans to corporates or SME						
Consumer loans						
Student loans			1,122			1,571
Trade receivables						
Re-securitizations	5,547			4,490		
Other	1,010		30	316		46
Total	8,131	0	3,613	5,625	0	4,111

1 2010 numbers have been restated to align the disclosure with our securitization presentation and disclosure policy which requires Pillar 3 disclosures to follow the capital adequacy treatment under Pillar 1 in the respective period presented and to include certain transactions which we have sponsored but which were erroneously not included in previous disclosures. Total amounts for "Originator/Securitization positions retained" and "Sponsor" have been reduced by CHF 3,705 million and CHF 2,073 million, compared with the numbers disclosed for 31 December 2010 in the report "Our Basel II Pillar 3 disclosure for first half 2011".

Banking book – losses recognized from retained securitization positions

This table provides a breakdown of year-to-date losses we have recognized on securitization positions retained or purchased 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 position. We report such positions partially on a fair value and partially on an amortized cost less impairment basis.

	31.12.11		31.12.10	
CHF million	**Originator**	**Sponsor**	Originator	Sponsor
Residential mortgages	**2**	**1**	2	
Commercial mortgages	**4**	**11**		6
Credit card receivables				
Leasing		**1**		
Loans to corporates or SME				1
Consumer loans				
Student loans		**4**		
Trade receivables				
Re-securitizations	**1**	**5**	1	14
Other		**4**	1	21
Total	**7**	**26**	3	41

Banking book – outstanding exposures intended to be securitized

We only disclose our intention to securitize exposures when we act as originator and after the pricing of a deal has been fixed. On this basis, as of 31 December 2011, no exposures in the banking book were intended to be securitized.

Banking book – securitization positions retained or purchased

This table provides a breakdown of securitization positions which we have retained or purchased in the banking book, irrespective of our role in the securitization transaction. The value disclosed is either the net exposure amount at default subject to risk-weighting or the carrying value subject to capital deduction at the balance sheet date.

	31.12.11		31.12.10	
CHF million	**On balance sheet**	**Off balance sheet**	On balance sheet	Off balance sheet
Residential mortgages[1]	**810**	**1,000**	1,045	
Commercial mortgages	**584**		2,100	
Credit card receivables			53	
Leasing	**62**		130	
Loans to corporates or SME	**331**		1,855	
Consumer loans	**1**		4	
Student loans	**5,468**		9,475	
Trade receivables				
Re-securitizations[2]	**1,632**		4,824	
Other	**3,303**		4,715	
Total	**12,189**	**1,000**	**24,201**	**0**

1 As of 31 December 2010, Alt-A, subprime residential mortgage-backed exposures of CHF 1,651 million were underpinned on the basis of the standardized approach. Hence these exposures were not disclosed in this table for 31 December 2010, instead they were disclosed in the credit risk exposure section. In 2011, these positions were subject to the securitization framework and included in the table in the line "Residential mortgages" for 31 December 2011. 2 It is our policy to present Pillar 3 disclosures in line with the respective capital adequacy treatment under Pillar 1. In 2010, the capital adequacy treatment under Pillar 1 for banking book securitization and re-securitization structures was identical. In 2011, following the implementation of Basel 2.5, the differentiation between securitizations and re-securitizations became relevant for Pillar 1 capital adequacy purposes. As a consequence, we have refined our processes to differentiate between securitization types and applied the revised presentation principles prospectively. Securitization transactions of CHF 2,332 million presented under re-securitizations as of 31 December 2010 are presented in the line "Other" (CHF 970 million) and "Loans to corporates or SME" (CHF 1,362 million) on 31 December 2011.

Banking book – capital charge for securitization / re-securitization positions retained or purchased

These tables provide the capital charge for securitization / re-securitization positions we have purchased or retained in the banking book, irrespective of our role in the securitization transaction, split by risk weight bands and regulatory capital approach. Neither table contains capital deductions. With the introduction of Basel 2.5, re-securitization positions require a higher capital charge. No comparative numbers for 31 December 2010 are provided as this information is disclosed for the first time under Basel 2.5.

Capital charge for securitization positions retained or purchased

	31.12.11	
CHF million	Capital charge ratings-based approach	Capital charge supervisory formula approach
over 0 – 10%	2	
over 10 – 15%	45	15
over 15 – 20%	27	
over 20 – 35%	7	
over 35 – 50%	4	
over 50 – 75%	7	
over 75 – 100%	10	
over 100 – 250%	47	
over 250 – 1,250%	87	
Total	**237**	**15**

Capital charge for re-securitization positions retained or purchased

	31.12.11	
CHF million	Capital charge ratings-based approach	Capital charge supervisory formula approach
over 0 – 10%		
over 10 – 15%		
over 15 – 20%	1	
over 20 – 35%	1	
over 35 – 50%	38	
over 50 – 75%	2	
over 75 – 100%	1	
over 100 – 250%	4	
over 250 – 1,250%	14	
Total	**61**	**0**

Banking book – deductions from eligible capital related to securitization positions retained or purchased

This table outlines the capital deductions related to securitization positions we have retained or purchased in the banking book irrespective of our role in the securitization transaction. At the balance sheet dates, we neither had securitization positions which would be required to be deducted entirely from BIS tier 1 capital, nor did we hold credit-enhancing interest-only strips that were required to be deducted.

	31.12.11	31.12.10
CHF million	**Positions deducted from BIS tier 1 capital and BIS tier 2 capital**	Positions deducted from BIS tier 1 capital and BIS tier 2 capital
Residential mortgages	**672**	238
Commercial mortgages	**242**	266
Credit card receivables		
Leasing	**38**	57
Loans to corporates or SME	**27**	
Consumer loans	**1**	1
Student loans	**496**	1,489
Trade receivables		
Re-securitizations	**432**	808
Other	**1,116**	131
Total	**3,024**	**2,990**

Risk, treasury and capital management

Banking book – securitization exposures subject to early amortizations

We currently do not have securitization structures in the banking book that are subject to early amortization treatment.

Banking book – re-securitization positions retained or purchased and broken down according to guarantor creditworthiness categories

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 versus positions where no credit risk mitigation has been recognized. Credit risk mitigation includes protection bought by entering into credit derivates with third party protection sellers as well as financial collateral received. Both protection sellers 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.

Banking book – re-securitization positions retained or purchased

CHF million	With credit risk mitigation	Without credit risk mitigation	Total
Total 31.12.11	**0**	**1,632**	**1,632**

Banking book – re-securitization positions broken down according to guarantor creditworthiness categories[1]

CHF million		
0/1	Investment grade	
2		3
3		3
4		
5		
6	Sub-investment grade	
7		
8		
9		
10		
11		
12		34
13		
14	Defaulted	16
Total 31.12.11		**57**

1 Internal UBS rating scale.

Securitization in the trading book

Trading book – securitization activity of the year

This table outlines the total exposures (i.e. deal size at inception) which were securitized in the trading book in 2011. The activity is further broken down by our role (originator/sponsor) and by type (traditional/synthetic).
During 2011, we only acted as sponsor by either advising securitization programs or placing securities into the market.

	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						55	
Credit card receivables							
Leasing						495	
Loans to corporates or SME						422	
Consumer loans							
Student loans						2,796	
Trade receivables							
Re-securitizations						2,074	
Other						5,780	
Total 31.12.11	**0**	**0**	**0**	**0**	**0**	**11,622**	**0**

Trading book – total outstanding securitized exposures

This table outlines exposures (i.e. outstanding deal size) in the trading book where we have acted as originator and/or sponsor and have retained securitization positions in the trading book. Where we have not retained positions, the outstanding deal size is only disclosed in the year of inception. The value disclosed is the notional of the outstanding notes issued by the securitization vehicle at the balance sheet date.

	Originator		Sponsor	
CHF million	Traditional	Synthetic	Traditional	Synthetic
Residential mortgages	897		14,223	
Commercial mortgages			15,010	
Credit card receivables				
Leasing			282	
Loans to corporates or SME			920	
Consumer loans				
Student loans			2,796	
Trade receivables				
Re-securitizations			2,074	
Other			10,375	
Total 31.12.11	**897**	**0**	**45,681**	**0**

Trading book – total outstanding exposures intended to be securitized

We disclose our intention to securitize exposures only when we act as originator and after the pricing of a deal has been fixed. On this basis, as of 31 December 2011, no exposures in the trading book were intended to be securitized.

Trading book – aggregated amount of securitized exposures subject to the market risk approach

This table provides a split of the total outstanding exposures which 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	897		14,223	
Commercial mortgages			14,955	
Credit card receivables				
Leasing			282	
Loans to corporates or SME			920	
Consumer loans				
Student loans				
Trade receivables				
Re-securitizations				
Other			4,595	
Total 31.12.11	**897**	**0**	**34,975**	**0**

Trading book – securitization positions retained or purchased subject to the securitization framework for specific risk

This table provides a breakdown of securitization positions which we have purchased or retained in the trading book, irrespective of our role in the securitization transaction. Gross long and gross short amounts reflect the positions prior to the eligible off-setting of cash and derivative positions. Net long and net short amounts are the result of off-setting cash and derivative positions to the extent eligible under Basel 2.5. The amounts disclosed are either the market value or the aggregate of notional amount and the associated replacement value of the exposures securitized at the balance sheet date.

	Cash positions		Derivative positions		Total	
CHF million	Gross long	Gross short	Gross long	Gross short	Net long	Net short
Residential mortgages	212	2	7,197	7,432	1,352	2,037
Commercial mortgages	482	12	77	695	491	637
Credit card receivables	3			939	3	469
Leasing	4				3	
Loans to corporates or SME	6	4			5	4
Consumer loans	1				1	
Student loans	4				3	
Trade receivables	4				4	
Re-securitizations	396	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 the table "Trading Book – Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk" together with the CRM positions.

Trading book – correlation products subject to the comprehensive risk measure or the securitization framework for specific risk

This table outlines products in the correlation portfolio which 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 and certain re-securitized corporate credit exposure positions. As per IFRS, the values disclosed are market values for cash positions, replacement values and notionals for derivative positions. Gross long risk trades across the portfolio have an overall negative replacement value and gross short trades have an overall positive replacement value.

	Cash positions		Derivative positions			
	Market values		Replacement values		Notionals	
CHF million	Gross long	Gross short	Gross long	Gross short	Gross long	Gross short
Positions subject to comprehensive risk measure	167	1,067	6,256	5,621	111,681	100,343
Positions subject to securitization framework[1]	44	0	131	188	12,511	22,936

1 Includes leveraged super senior tranches and re-securitized corporate credit exposure.

Trading book – securitization positions retained or purchased subject to the securitization framework for specific risk

This table outlines securitization positions which we have purchased or retained in the trading book subject to the securitization framework for specific risk, irrespective of our role in the securitization transaction, broken down by risk weight bands and regulatory capital approach. The amounts disclosed are market values at the balance sheet date after eligible netting under Basel 2.5.

	Ratings-based approach		Supervisory formula approach	
CHF million	Net long	Net short	Net long	Net short
over 0–10%	332	2,998[1]		
over 10–15%	80			
over 15–20%	348			
over 20–35%	372			
over 35–50%	118			
over 50–75%	139			
over 75–100%	297			
over 100–250%	78			
over 250–1,250%	185			
Total 31.12.11[2]	**1,950**	**2,998**	**0**	**0**

1 As per FINMA Circular "Market risk banks" only the higher of the net long or the net short securitization positions require a capital charge. 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% riskweight was applied. 2 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 the table "Trading Book – Correlation products subject to the comprehensive risk measure or the securitization framework for specific risk" together with the CRM positions.

Trading book – capital charge / deductions for securitization positions related to correlation products

This table outlines the capital treatment for securitization positions in the trading book for correlation products, including positions subject to comprehensive risk measure and positions related to leveraged super senior 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	31.12.11	31.12.11
	Capital charge	**Deduction**
Positions subject to comprehensive risk measure	690	
Positions subject to securitization framework[1]	121	9

1 Includes leveraged super senior tranches and re-securitized corporate credit exposure

Trading book – capital charge for securitization positions subject to the securitization framework

This table outlines the capital charge for securitization positions subject to the securitization framework for specific risk in the trading book, split by risk weight bands and regulatory capital approach. This table does not contain capital deductions.

CHF million	Ratings-based approach	Supervisory formula approach
over 0–10%	2	
over 10–15%	0	
over 15–20%	6	
over 20–35%	9	
over 35–50%	4	
over 50–75%	8	
over 75–100%	13	
over 100–250%	12	
over 250–1,250%	75	
Total 31.12.11[1]	**130**	**0**

1 Leveraged super senior tranches subject to the securitization framework are not included in this table, but disclosed in table "Trading Book – Capital charge / Deductions for securitization positions related to correlation products" together with the CRM positions.

Trading book – deductions from eligible capital related to securitization positions

This table outlines the capital deductions related to securitization positions we have retained or purchased in the trading book, irrespective of our role in the securitization transaction. As of 31 December 2011, we had no securitization positions which would need to be entirely deducted from tier 1 capital, and no deduction positions related to credit enhancing interest only strips.

CHF million	Positions deducted from BIS tier 1 capital and BIS tier 2 capital
Residential mortgages	262
Commercial mortgages	89
Credit card receivables	
Leasing	
Loans to corporates or SME	4
Consumer loans	1
Student loans	
Trade receivables	
Re-securitizations	230
Other	6
Total 31.12.11[1]	**591**

1 Deductions related to re-securitized corporate credit exposure are captured in table "Capital charge / deductions for securitization positions related to correlation products".

Trading book – securitization exposures subject to early amortizations
We currently do not have securitization structures that are subject to early amortization treatment.

Trading book – re-securitization positions retained or purchased and broken down according to guarantor creditworthiness categories

The upper part of the table below outlines re-securitization positions retained or purchased which are 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, i.e. after applying off-setting 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.

Trading book – re-securitization positions retained or purchased

CHF million	Gross long	Gross short	Net long	Net short
Total 31.12.11	**480**	**163**	**480**	**163**

Trading book – re-securitization positions broken down according to guarantor creditworthiness categories[1]

CHF million					
0/1	Investment grade				
2					
3					
4					
5					
6	Sub-investment grade				
7					
8					
9					
10					
11					
12					
13					
14	Defaulted	3	31	3	31
Total 31.12.11		**3**	**31**	**3**	**31**

1 Internal UBS rating scale.

Risk, treasury and capital management

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 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 pages 240–241. The assurance by Ernst & Young also covered relevant text and data in the Annual Report 2011 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 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 in compliance with, all relevant Swiss legal and regulatory requirements regarding corporate governance, in particular with all applicable laws, 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.

The Board of Directors (BoD) has adopted the revised Organization Regulations of UBS AG (Organization Regulations) that came into effect on 1 January 2012 and constitute our corporate governance guidelines. The BoD has also adopted the UBS Code of Business Conduct and Ethics (the Code).

➔ **Refer to *www.ubs.com/governance* for more details on both, 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 (AC) 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 AC 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 (RC) has the authority to define our risk principles and risk capacity. The RC 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 RC and the AC 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 (GEB) members, are completed by the Chairman and the Human Resources and Compensation Committee, and are reported to the full BoD. All BoD Committees perform a self-assessment of their activities and report back to the full BoD. The BoD has direct responsibility and authority to evaluate its own performance, without preparation by a BoD Committee.

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 the AGM, it requires that Swiss companies determine the nature and components of capital in their articles of association, and each increase of capital is required to be submitted for shareholders' approval. This means that, if equity-based compensation plans result in a need for a capital increase, AGM approval is mandatory. If, however, shares for such plans are purchased in the market, shareholders do not have the authority to vote on their approval.

➔ **Refer to the section "Board of Directors" for more information about the Board of Directors Committees**

➔ **Refer to the section "Capital structure" for more information on capital**

Group structure and shareholders

UBS Group legal entity structure

Under Swiss company law, UBS AG is organized as a limited company; a corporation that has issued shares of common stock to investors. UBS AG is the Parent Bank of the UBS Group (Group).

Our legal entity structure is designed to support our businesses within an efficient legal, regulatory, tax and funding framework. 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 additional legal entities join the Group through acquisition.

Operational Group structure

On 31 December 2011, the operational structure of the Group comprised the Corporate Center and four business divisions: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank.

➔ **Refer to the "Financial and operating performance" 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 other than UBS AG.

➔ **Refer to "Note 33 Significant subsidiaries and associates" in the "Financial information" section of this report for details of significant operating subsidiary companies 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 Ordinance of the Swiss Financial Market Supervisory Authority (FINMA) on Stock Exchanges and Securities Trading (the Ordinance). In particular, the Ordinance takes into account all future potential share obligations irrespective of their possible contingent nature, 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 further 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 the SIX if they reach, exceed or fall below the threshold percentages.

In addition, pursuant to the Swiss Code of Obligations, UBS must disclose in its notes to the 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, on 30 September 2011, Norges Bank (the Central Bank of Norway), Oslo, disclosed under the Swiss Stock Exchange Act, a holding of 3.04% of the total share capital of UBS AG. On 15 April 2011, the Capital Group Companies, Inc., Los Angeles, disclosed under the Swiss Stock Exchange Act, that their holding

Audited

Shareholders registered in the UBS share register with 3% or more of shares issued

In % of shares issued	**31.12.11**	31.12.10	31.12.09
Chase Nominees Ltd., London	**10.95**	10.70	11.63
DTC (Cede & Co.), New York[1]	**7.07**	7.32	8.42
Government of Singapore Investment Corp., Singapore	**6.41**	6.41	less than 3
Nortrust Nominees Ltd., London	**4.20**	3.79	3.07

1 DTC (Cede & Co.), New York, "The Depository Trust Company", is a US securities clearing organization.

of 4.90% of the total share capital of UBS AG, disclosed on 8 June 2010, fell below the threshold of 3%. On 12 March 2010, the Government of Singapore, Singapore, as beneficial owner, disclosed under the Swiss Stock Exchange Act, a holding by the Government of Singapore Investment Corp. of 6.45% of the total share capital of UBS AG. On 17 December 2009, BlackRock Inc., New York, disclosed under the Swiss Stock Exchange Act, a holding of 3.45% of the total share capital of UBS AG. In accordance with the Swiss Stock Exchange Act, the percentages indicated above were calculated in relation to the share capital reflected in the Articles of Association of UBS AG (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 on the previous page were registered with 3% or more of the total share capital on 31 December 2011, 2010 and 2009.

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 2011, 3,832,121,899 shares were issued with a par value of CHF 0.10 each, leading to ordinary share capital of CHF 383,212,189.90.

Conditional share capital

At year-end 2011, the following conditional share capital was available to the BoD:

- At the Annual General Meeting (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 2011, options on 1,281,386 shares were exercised under the option plans with a total of 148,639,326 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.
- 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, through the exercise of conversion rights and/or warrants granted in connection with the issuance of bonds or similar financial instruments by UBS. 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 2011, the BoD had not made use of the allowance to issue bonds or warrants with conversion rights covered by conditional share capital.

For the AGM 2012, the BoD proposes to increase the size of the existing conditional capital of Article 4a para. 1 of the Articles of Association, originally approved at the AGM held in 2006, from CHF 14,863,932.60 to CHF 30,000,000 which allows the BoD to issue up to 300 million UBS shares. At the same time, the BoD proposes to amend the current wording of said article to permit the delivery of shares out of the conditional capital to satisfy awards granted under employee share plans.

➔ **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), equity attributable to UBS shareholders amounted to CHF 53.4 billion on 31 December 2011 (2010: CHF 46.8 billion; 2009: CHF 41.0 billion). The UBS Group shareholders' equity was represented by 3,832,121,899 issued shares on 31 December 2011 (2010: 3,830,840,513; 2009: 3,558,112,753).

➔ **Refer to the "Statement of changes in equity" in the "Financial information (consolidated financial statements)" 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 2011, 2,181,819,724 shares carried voting rights, 396,311,882 shares were entered in the share register without voting rights, and 1,253,990,293 shares were not registered. All 3,832,121,899 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.

Distribution of UBS shares

On 31 December 2011	Shareholders registered		Shares registered	
Number of shares registered	Number	%	Number	% of shares issued
1–100	38,987	11.3	2,274,547	0.1
101–1,000	190,899	55.2	88,190,965	2.3
1,001–10,000	104,519	30.3	290,072,681	7.6
10,001–100,000	10,448	3.0	263,182,320	6.9
100,001–1,000,000	749	0.2	187,940,646	4.9
1,000,001–5,000,000	96	0.0	204,778,874	5.3
5,000,001–38,321,218 (1%)	28	0.0	273,827,225	7.1
1–2%	1	0.0	72,243,657	1.9
2–3%	1	0.0	98,879,288	2.6
3–4%	0	0.0	0	0.0
4–5%	1	0.0	160,917,513	4.2
Over 5%	3[1]	0.0	935,823,890	24.4
Total registered	345,732	100.0	2,578,131,606	67.3
Unregistered[2]			1,253,990,293	32.7
Total shares issued			**3,832,121,899[3]**	**100.0**

1 On 31 December 2011, Chase Nominees Ltd., London, entered as a trustee / nominee, was registered with 10.95% 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 7.07% 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 6.41% of all UBS shares issued. 2 Shares not entered in the share register on 31 December 2011. 3 Of the total shares issued, 396,311,882 registered shares do not carry voting rights.

Shareholders: type and geographical distribution

	Shareholders		Shares	
On 31 December 2011	Number	%	Number	%
Individual shareholders	337,602	97.6	665,300,452	17.4
Legal entities	7,569	2.2	704,903,448	18.4
Nominees, fiduciaries	561	0.2	1,207,927,706	31.5
Unregistered			1,253,990,293	32.7
Total	**345,732**	**100.0**	**3,832,121,899**	**100.0**
Switzerland	309,443	89.5	835,304,519	21.8
Europe	19,060	5.5	915,253,433	23.9
North America	9,252	2.7	489,932,937	12.8
Other countries	7,977	2.3	337,640,717	8.8
Unregistered			1,253,990,293	32.7
Total	**345,732**	**100.0**	**3,832,121,899**	**100.0**

Ordinary share capital

	Share capital in CHF	Number of shares	Par value in CHF
On 31 December 2009	**355,811,275**	**3,558,112,753**	0.10
Issue of shares for capital increase (conversion of mandatory convertible notes)	27,265,100	272,651,005	0.10
Issue of shares out of conditional capital due to employee options exercised	7,676	76,755	0.10
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**

At year-end 2011, we owned UBS registered shares corresponding to 2.2% of the total share capital of UBS AG. At the same time, we had disposal positions relating to 467,465,923 voting rights of UBS AG, corresponding to 12.20% of the total voting rights of UBS AG. They consisted mainly of 9.12% of voting rights on shares deliverable in respect of employee awards. The calculation methodology for the disposal position is based on the Ordinance by FINMA on Stock Exchanges and Securities Trading, which takes into account all future potential share delivery obligations irrespective of the contingent nature of the delivery.

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 shares issued, if they agree to disclose upon our request, beneficial owners holding 0.3% or more of all 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

Capital instruments

On 31 December 2011, there were no contingent capital securities or convertible bonds outstanding requiring the issuance of new shares. We had CHF 4.4 billion principal amount of deeply subordinated capital instruments outstanding, which count as hybrid tier 1 capital under Swiss regulatory rules, and CHF 7.1 billion principal amount of outstanding tier 2 capital securities (mainly subordinated bonds). As the regulatory requirements on the structure of capital instruments were evolving, we did not issue any capital instruments in 2011.

On 22 February 2012, UBS issued USD 2 billion Basel III compliant loss-absorbing tier 2 notes. The 7.25% 10-year security does not dilute the value of the equity held by the bank's shareholders, and counts as progressive buffer capital under the Swiss regulations for its systemic banks.

➔ Refer to the "Capital management" section for more information on this loss-absorbing instrument

Options

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 2011, there were 235,017,185 employee options, including stock appreciation rights outstanding. Delivery obligations equivalent to 10,544,604 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 2011, 75,674,805 treasury shares were available for this purpose, and an additional 148,639,326 unissued shares in conditional share capital were assigned to future employee option exercises. At year-end 2011, 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 on options

Shareholders' participation rights

We are committed to shareholder participation in our decision-making process. More than 340,000 directly registered shareholders, as well as some 90,000 US shareholders registered via nominee companies, regularly receive written information about our activities and performance and are personally invited to shareholder meetings.

➔ **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 investment institutions to individual investors, and regularly inform them about the development of the company of which they are co-owners.

The Annual General Meeting (AGM) offers shareholders the opportunity to raise any questions regarding our development and the events of the year that is under review. Board of Directors (BoD) and Group Executive Board members, as well as the 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 outstanding 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 the 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 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, as required under Swiss company law, or by appointing UBS, another bank or another registered shareholder of their choice to vote on their behalf. Nominee companies normally submit the proxy material to the beneficial owners and transmit the collected votes to UBS.

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. These issues include, among others, 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 requires a two-thirds majority of votes represented for any change to its provisions regarding the number of BoD members, and any decision to remove one-fourth 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 still 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 normally takes place each year in late April or early May, but in any case within six months of the close of the financial year. 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 statutory auditors consider it necessary. Shareholders individually or jointly representing at least 10% of the share capital may, at any time, ask in writing that an Extraordinary General Meeting be convened to deal with a specific issue put forward by them. Such a request may also be brought forward during the AGM.

Placing of items on the agenda

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 being entered with voting rights in our Swiss or US share registers also apply before general meetings of shareholders. There is no "closing of the share register" in the days before the meeting. Registrations, including the transfer of voting rights, are processed for as long as technically possible, normally until two days before the meeting.

Board of Directors

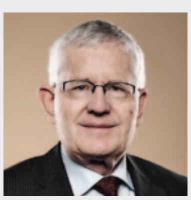
The Board of Directors (BoD), under the leadership of the Chairman, decides on the strategy of the Group upon recommendation of the Group Chief Executive Officer (Group CEO), exercises the ultimate supervision over senior management, and appoints all Group Executive Board (GEB) members. The BoD also approves all financial statements for issue. Shareholders elect each member of the BoD, which in turn appoints its Chairman, Vice Chairmen, Senior Independent Director, the members of the BoD Committees, their respective Chairpersons and the Company Secretary.

Members of the Board of Directors

Sally Bott tendered her resignation taking effect on 11 February 2011. At the Annual General Meeting (AGM) held on 28 April 2011, Kaspar Villiger, Michel Demaré, David Sidwell, Rainer-Marc Frey, Bruno Gehrig, Ann F. Godbehere, Axel P. Lehmann, Wolfgang Mayrhuber, Helmut Panke and William G. Parrett were reelected as their terms of office expired. Joseph Yam was elected to his first term on the BoD. Following their election, the BoD appointed Michel Demaré as Vice Chairman and David Sidwell as Senior Independent Director. On 1 July 2011, the BoD nominated Axel A. Weber, former President of the Deutsche Bundesbank, for election to the BoD at the 3 May 2012 AGM and planned, in expectation of his election, to appoint him as non-independent Vice Chairman. In November 2011, the Chairman of the BoD Kaspar Villiger decided to accelerate the leadership change at UBS by not standing for reelection to the BoD at the 2012 AGM. Axel A. Weber was then proposed to succeed Mr. Villiger as the Chairman should he be elected at the AGM 2012. On 3 February 2012, UBS announced that Bruno Gehrig will not stand for reelection. The BoD nominated Beatrice Weder di Mauro, professor of economics, economic policy and international macroeconomics at the Johannes Gutenberg University of Mainz, and Isabelle Romy, partner at the Swiss law firm Niederer Kraft & Frey, for election to the BoD at the 2012 AGM.

All current external members have been confirmed by the BoD as having no material relationship with UBS, either directly or as a partner, controlling shareholder or executive officer of a company that has a relationship with UBS. Currently all BoD members are external, with the exception of the Chairman. On 31 December 2011, with the exception of the non-independent Chairman, Kaspar Villiger, all BoD members were considered independent by the BoD.

The following biographies provide information on the BoD members and the Company Secretary, valid as of 31 December 2011.



Kaspar Villiger
Swiss, born 5 February 1941
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Chairman of the Board of Directors / member of the Corporate Responsibility Committee / Chairperson of the Governance and Nominating Committee

Year of initial appointment: 2009

Professional history and education
Kaspar Villiger was elected to the Board of Directors (BoD) at the 2009 Annual General Meeting (AGM) and was thereafter appointed Chairman of the BoD. He chairs the Governance and Nominating Committee and has been a member of the Corporate Responsibility Committee since 2009. Mr. Villiger was elected Federal Councillor in 1989, and served as the Minister of Defence and Head of the Federal Military Department until 1995. Subsequently, he served as Finance Minister and Head of the Federal Department of Finance until he stepped down at the end of 2003. In addition to Federal Councillor, he served as President of the Swiss Confederation in 1995 and 2002. In 2004, he was elected to the boards of Nestlé, Swiss Re and the Neue Zürcher Zeitung, all of which he resigned from in 2009 when he took on the position of Chairman at UBS. As co-owner of the Villiger Group, Mr. Villiger managed the Swiss parent firm, Villiger Söhne AG, from 1966 until 1989. In addition, he held several political positions, first in the parliament of the canton of Lucerne and, from 1982 until 1989, in the Swiss Parliament. Mr. Villiger graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a degree in mechanical engineering in 1966.

Michel Demaré
Belgian, born 31 August 1956
ABB Ltd., Affolternstrasse 44, P.O. Box 5009,
CH-8050 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. Between February and September 2008, he acted as the interim CEO of ABB. From September 2008 to March 2011, he combined the CFO responsibility with the role 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 role, 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 IMD Foundation Board in Lausanne.

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 is a chartered accountant qualifying 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 a trustee of the International Accounting Standards Committee Foundation, London, 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 Audit 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 Audit Committee since 2010 and the Risk Committee since 2008. Mr. Frey is the founder of the investment management company Horizon21 AG. He is the Chairman of Horizon21 AG as well as of 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.

Bruno Gehrig

Swiss, born 26 December 1946
Swiss International Air Lines AG,
Obstgartenstrasse 25, CH-8302 Kloten

Functions in UBS
Member of the Governance and Nominating Committee / member of the Human Resources and Compensation Committee

Year of initial appointment: 2008

Professional history and education
Bruno Gehrig was elected to the BoD at the October 2008 Extraordinary General Meeting and has been a member of the Governance and Nominating Committee and the Human Resources and Compensation Committee since 2009. From 2003 to 2009, Mr. Gehrig was Chairman of Swiss Life Holding. Between 1996 and 2003, he worked at the Swiss National Bank, starting as a member of the Governing Board and becoming Vice Chairman in 2000. From 1992 to 1996, he was a professor of banking and finance at the University of St. Gallen and concurrently served as a member of the Swiss Federal Banking Commission. Between 1989 and 1991, he held the position of CEO at Bank Cantrade AG. Mr. Gehrig worked for Union Bank of Switzerland between 1981 and 1989, where he started as a chief economist before assuming responsibility for securities sales and trading. He studied economics at the University of Bern, where he completed his PhD studies, and then continued on to postgraduate studies at the University of Rochester, New York. Mr. Gehrig was an assistant professor at the University of Bern and received an honorary doctorate from the University of Rochester.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Gehrig is the Chairman of the Board of Swiss International Air Lines and the Vice Chairman and Chairperson of the Remuneration Committee of Roche Holding Ltd., Basel.

Ann F. Godbehere

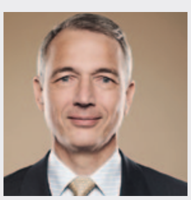
Canadian and British, born 14 April 1955
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Chairperson of the Human Resources and Compensation Committee / member of the Audit Committee / member of the Corporate Responsibility 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 and the Corporate Responsibility 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 – she left at 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 the 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. In 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. She chairs both its Audit Committee and Conflicts Committee. She is also a member of the board and is Chairperson of the Audit Committee of Ariel Holdings Ltd., Bermuda. In addition, she is a board member of British American Tobacco plc.



Axel P. Lehmann

Swiss, born 23 March 1959
Zurich Financial Services, 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 the Risk Committee since 2009. He is a member of the Group Executive Committee of Zurich Financial Services (Zurich) and has been Group Chief Risk Officer since January 2008 and Regional Chairman Europe since October 2011. In July 2011, he was appointed as Chairman of the Board of Farmers Group, Inc., and was responsible for Group IT from 2008 until 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 subsequently was in charge, in 2004, of integrating it with UK, Ireland and South Africa. In 2001, he took over the responsibility for Northern, Central and Eastern Europe and was appointed CEO of the Zurich Group Germany. In 2000, Mr. Lehmann became a member of the Group Management Board where he was responsible for Group-wide business development functions. Before he joined Zurich in 1996, he was Head of Corporate Planning and Controlling for Swiss Life in Zurich. Mr. Lehmann holds a PhD and a master's degree in business administration and economics from the University of St. Gallen and he is 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. He is a member and past Chairman of the Chief Risk Officer Forum and is a member of the executive committee of the International Financial Risk Institute Foundation.

Wolfgang Mayrhuber
Austrian, born 22 March 1947
Deutsche Lufthansa AG,
Flughafen Frankfurt am Main 302,
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 Massachusetts Institute of Technology.

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, the executive board of Acatech (Deutsche Akademie der Technikwissenschaften) and is a trustee of the American Academy of Berlin.

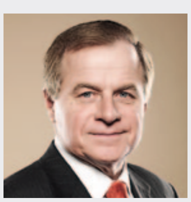
Helmut Panke
German, born 31 August 1946
BMW AG, Petuelring 130, D-80788 Munich

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. In 1982, he joined BMW's Research and Development division as Head of Planning and Controlling. He subsequently assumed management functions in corporate planning, organization and corporate strategy. Before his appointment as Chairman, he was a member of BMW's Board of Management from 1996. Between 1993 and 1996, he was Chairman and CEO of BMW Holding Corporation in the US. Mr. Panke graduated from the University of Munich with a PhD in physics, and was on special research assignment at the University of Munich and the Swiss Institute for Nuclear Research before joining McKinsey & Company in Dusseldorf and Munich as a consultant.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Panke is a member of the board of Microsoft Corporation (Chairperson of the Antitrust Compliance Committee) and Singapore Airlines Ltd. (Chairperson of the Board 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

Function in UBS
Chairperson of the Audit 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 and has chaired the Audit Committee since 2009. 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 an independent Director of the Eastman Kodak Company, the Blackstone Group LP, and Thermo Fisher Scientific Inc., in all of which he chairs the Audit Committee. He is also the Past Chairman of the Board of the United States Council for International Business and United Way Worldwide. He is a Carnegie Hall Board of Trustees member.

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. He was instrumental in the establishment of the Hong Kong Monetary Authority and served as its 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 in 1991, Deputy Secretary for Monetary Affairs in 1985 and Principal Assistant Secretary for Monetary Affairs in 1982. Mr. Yam graduated from the University of Hong Kong in 1970 with first class honors in economics and statistics. He holds honorary doctorate degrees and professorships from a number of universities in Hong Kong and overseas. He 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 is Chairman of the Board of Macroprudential Consultancy Limited and 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 board of Johnson Electric Holdings Limited.

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 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 in Corporate Controlling before assuming a number of senior roles in the Investment Bank Warburg Dillon Read, such as 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.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Cameron is the Chairman of the Zurich Symphony Orchestra.

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 3 May 2012.

BoD members are normally expected to serve for a minimum of three years. No BoD member should continue to serve beyond the AGM held in the calendar year following his or her 65th birthday. The BoD granted the extension of age limit to Kaspar Villiger and William G. Parrett.

Organizational principles and structure

The Organization Regulations were revised and are valid as of 1 January 2012. Changes included a closer alignment of the language of our provisions on the regulation and supervision of the internal control to the Swiss Financial Market Supervisory Authority (FINMA) Circular 08/24 on supervision and internal control at banks and introducing the appointment of a deputy CEO from within the GEB.

Following each AGM, the BoD meets to appoint its Chairman, Vice Chairman, 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. A total of 23 meetings were held in 2011, of which nine included GEB members and 14 were without GEB participation. On average, 96% of BoD members were present at BoD meetings without GEB participation, and 97% at meetings with GEB participation. The duration of each meeting was three hours on average. In addition, the BoD met for a one-day BoD seminar.

At every BoD meeting, each Committee Chairperson provides the full BoD with regular 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 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 (AC) comprises at least three BoD members, with all members having been determined by the BoD to be fully independent and financially literate. On 31 December 2011, William G. Parrett chaired the AC with Michel Demaré, Rainer-Marc Frey and Ann F. Godbehere as additional members. All members have accounting and financial management expertise and are considered to be "financial experts" according to the rules established under the US Sarbanes-Oxley Act of 2002.

The AC 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 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) the 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) 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 (RC). For these purposes, the AC has the authority to meet with regulators and external bodies in consultation with the Group CEO.

The AC 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 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 to the AGM. During 2011, the AC held a total of seven meetings and eleven telephone conferences. The meetings had an average duration of four hours and the telephone conferences lasted approximately one hour. Participation was 100%. Also present at the meetings were the Group Chief Financial Officer (Group CFO), the Head of Group Internal Audit, the Head of Group Tax & Accounting Policy, the Head of Group Controlling & Accounting and Ernst & Young. The conference calls were conducted in the presence of the AC members, the Group CFO and selected management members. Joint AC/RC sessions were held at least every quarter. In addition, the AC held one session with FINMA.

The AC reports back 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 has more stringent independence requirements for audit committee members. Each of the four members of our AC 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 its capacity as director; 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 audit committees of more than two other public companies. The NYSE guidelines allow for an exemption for AC members to sit 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 the fact that he has retired from his executive functions, the BoD has granted this exemption in his case.

Corporate Responsibility Committee

The Corporate Responsibility Committee (CRC) 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 CRC comprises at least three independent BoD members and, on 31 December 2011, was chaired by Wolfgang Mayrhuber with Kaspar Villiger, Ann F. Godbehere and Joseph Yam as additional members. The CRC is advised and supported by a number of senior business representatives. It met twice for approximately two hours on average in 2011, and 100% of CRC members were present.

➔ **Refer to the "Corporate responsibility" section of this report for more information**

Governance and Nominating Committee

The Governance and Nominating Committee (GNC) 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 members, and to manage the succession of the Chairman and the Group CEO. The GNC comprises four independent BoD members and, on 31 December 2011, Kaspar Villiger chaired the GNC, with Michel Demaré, Bruno Gehrig, Axel P. Lehmann and David Sidwell as additional members. In 2011, nine meetings and three telephone conferences were held with an average participation of 94% of members and a duration averaging one hour and a half. Two meetings were held with external advisors.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee (HRCC) 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 HRCC also reviews the compensation disclosure included in this report.

The HRCC comprises four independent BoD members and, on 31 December 2011, Ann F. Godbehere chaired the HRCC with Bruno Gehrig, Wolfgang Mayrhuber and Helmut Panke as additional members. In 2011, eight meetings and five telephone conferences were held with an average duration of 100 minutes and participation of 96%. Of those meetings and calls, nine were held with external advisors, 10 with the Chairman and 11 with the 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 (RC) 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 and operational risks; (ii) treasury and capital management, including funding, liquidity and equity attribution; and (iii) balance sheet management, including in each case any consequent reputational risk. For these purposes, the RC 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 2011, the RC comprised five independent BoD members. David Sidwell chaired the RC with Rainer-Marc Frey, with Axel P. Lehmann, Helmut Panke and Joseph Yam as additional members. During 2011, the RC held a total of eight meetings and five calls, with an average participation rate of 95% of members. The average meeting duration was five and a half hours and the calls lasted approximately one hour and a half.

The Audit Committee Chairperson regularly attends part or all of the RC's meetings. In 2011, the Chairman, the Group CEO, the Group CFO, the Group Chief Risk Officer, the Group General Counsel, the CEO of the Investment Bank, the Head of Group Internal Audit and Ernst & Young were also regularly present. In addition, the RC and HRCC meet 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. One meeting was held with the Federal Reserve Bank of New York.

Special Committee conducting an independent internal investigation

In light of the unauthorized trading incident identified on 14 September 2011, the BoD created a Special Committee on 16 September 2011 comprised of three independent Risk Committee and Audit Committee members. The role of the Special Committee is, with assistance from Group Internal Audit, to conduct an independent internal investigation of the event, its causes, disciplinary consequences and the proposed remedial actions, and to report on this to the BoD. A second investigation is being carried out jointly by FINMA and the UK FSA; they have retained KPMG for this purpose. The Special Committee, on behalf of the BoD, serves as the FINMA and UK FSA regulatory contact regarding the incident, and received regular updates from KPMG on its investigation at the request of the abovementioned regulatory bodies.

On 31 December 2011, David Sidwell chaired the Special Committee with Ann F. Godbehere and Joseph Yam as additional members. Since its creation, the Special Committee has held 10 conference calls and four meetings, and the Special Committee Chairperson independently met with the UK FSA on one occasion. During these calls and meetings, 100% of the Special Committee members were present and the meetings lasted for one hour on average. In addition, the Special Committee also met with FINMA on one occasion.

Roles and responsibilities of the Chairman of the Board of Directors

Kaspar Villiger, the Chairman of the Board (the 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 Annual and Extraordinary General Meetings, and works with the Committee Chairpersons to coordinate the work of all 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. 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 2011, two independent BoD meetings were held for a duration of three 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 GNC has determined that the nature of the relationships between UBS and companies whose chair, chief executive or other officer is a member of our BoD does not compromise the BoD members' capacity for independent judgment. Furthermore, no independent BoD member has personal business relationships with UBS that could compromise his or her independence.

All relationships and transactions with UBS BoD members and their affiliated companies 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.

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, thus 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, which is independent from management, reports significant findings to the Chairman and the Risk Committee. The Audit Committee must be informed of the results of internal audits.

In February 2011, our internal compliance function provided an annual compliance report to the BoD. 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 2011

On 3 December 2010, the BoD appointed Sergio P. Ermotti as Chairman and Chief Executive Officer of UBS Group Europe, Middle East and Africa and GEB member as of 1 April 2011, and Tom Naratil as Group Chief Financial Officer (Group CFO) and a GEB member as of 1 June 2011. John Cryan stepped down from the Group CFO position and from the GEB on 1 June 2011. On 24 September 2011, Sergio P. Ermotti was named Group Chief Executive Officer (Group CEO) on an interim basis following the resignation of Oswald J. Grübel. On 15 November 2011, the BoD appointed Mr. Ermotti as permanent Group CEO.

On 1 December 2011, UBS announced the following several senior executive changes: Philip J. Lofts, CEO UBS Group Americas, resumed his former role as Group Chief Risk Officer as Maureen Miskovic stepped down; Robert J. McCann assumed the role of CEO UBS Group Americas in addition to his current role as CEO Wealth Management Americas; and Ulrich Körner took over the role of CEO UBS Group Europe, Middle East and Africa in addition to his current role as Group Chief Operating Officer and CEO Corporate Center.

The following biographies provide information on the GEB members on 31 December 2011.

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. He had 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 the Group Deputy Chief Executive Officer at UniCredit, Milan, and was responsible for the Corporate and Investment Banking as well as Private Banking strategic business areas. He joined UniCredit in 2005 as the Head of the Markets & Investment Banking Division. Between 2001 and 2003, he worked at Merrill Lynch, and served 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 until 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 until 1992, he practiced at the Shearman & Sterling law firm 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 Zurich and New York State Bar Associations.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Diethelm is the Chairman of the Swiss-American Chamber of Commerce's Legal Committee and member of the Swiss Advisory Council of the American Swiss Foundation.

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 the Global Asset Management business division in December 2001, and became a member of the GEB in July 2002. Since 2008, he has been the 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 second, 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 President's Advisory Council of the European Fund and Asset Management Association, a member of the Advisory Council of AccountAbility and a member of the Board of Governors of the Marymount International School at Kingston-upon-Thames in the UK, 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
co-CEO Wealth Management & Swiss Bank

Year of initial appointment: 2010

Professional history and education
Lukas Gähwiler became a member of the GEB and was appointed CEO of UBS Switzerland and co-CEO of Wealth Management & Swiss Bank in April 2010. In his role as CEO of UBS Switzerland he is responsible for all businesses in UBS's home market. 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 as Chief of Staff to the CEO of the Credit Suisse Private and Corporate Business Unit, and previous to that, he 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 the Zurich Chamber of Commerce and the Opernhaus AG as well as Vice Chairman of the Swiss Finance Institute. He is a member of the Foundation Board of the UBS pension fund.

Carsten Kengeter

German, born 31 March 1967
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Chairman and CEO Investment Bank

Year of initial appointment: 2009

Professional history and education
Carsten Kengeter was appointed Chairman and CEO of the Investment Bank in November 2010, after having been appointed co-CEO in April 2009, when he became a member of the GEB. He joined UBS in December 2008, and served as the joint Global Head of Fixed Income, Currencies & Commodities (FICC) in the Investment Bank until January 2010. He has been on the Governing Board of UBS Limited since March 2009. Mr. Kengeter worked for Goldman Sachs as the co-Head of Asia (ex-Japan) Securities Division in Hong Kong from 2006. In 2003, he co-headed the European FICC and Structured Equities Distribution in London, and in 2002, he became partner and Head of the FICC German Region in Frankfurt. In 2000, Mr. Kengeter was made Head of the European and Asian Collateralized Debt Obligation business in London, and before that he was in derivatives marketing in Frankfurt. From 1992 to 1997, he worked for Barclays de Zoete Wedd, and was responsible for credit derivatives trading. Mr. Kengeter graduated as Diplom-Betriebswirt from Fachhochschule Reutlingen, holds a bachelor's in business administration from Middlesex University as well as an MSc in finance and accounting from the London School of Economics.

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. Additionally 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 from the University of St. Gallen in business administration, and served for several years as an auditor for Price Waterhouse and as a management consultant for 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 the 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 and is a member of the Advisory Board of the Department of Banking and Finance at the University of Zurich.

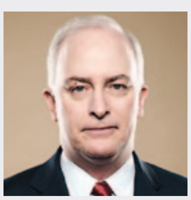
Philip J. Lofts
British, born 9 April 1962
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

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 began his career with UBS over 25 years ago. In 2008, he became the Group Risk Chief Operating Officer after having previously been the Group Chief Credit Officer for three years. 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. Philip J. 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.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Lofts is a board member of the University of Connecticut Foundation.



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 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 the Head of Global Securities Research and Economics. In 2000, he was appointed the Chief Operating Officer of Global Markets and Investment Banking. From 1998 to 2000, he was the 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 No Greater Sacrifice Advisory Board in Washington D.C.

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.

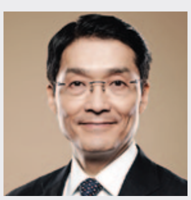
Alexander Wilmot-Sitwell
British, born 16 March 1961
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Co-Chairman and co-CEO UBS Group Asia Pacific

Year of initial appointment: 2008

Professional history and education
Alexander Wilmot-Sitwell was appointed co-Chairman and co-CEO of UBS Group Asia Pacific in November 2010. He became a member of the GEB in February 2008. From 2009 to 2010, he served as co-CEO of the Investment Bank, and from 2005 to 2009 as the joint Global Head of Investment Banking. From 2008 to 2010, he was the Chairman and CEO of UBS Group Europe, the Middle East and Africa. Mr. Wilmot-Sitwell joined the firm in 1996 as the Head of Corporate Finance in South Africa and moved to London in 1998 as the Head of UK Investment Banking. He previously worked for Warburg Dillon Read and served as the Head of Corporate Finance at SBC Warburg in South Africa. Mr. Wilmot-Sitwell graduated from Bristol University with a bachelor's degree in modern history.

Other activities and functions
Mandates on boards of important corporations, organizations and foundations or interest groups:
Mr. Wilmot-Sitwell is Vice President of the Save the Children Fund, London.



Chi-Won Yoon
Korean, born 2 June 1959
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
Co-Chairman and co-CEO UBS Group Asia Pacific

Year of initial appointment: 2009

Professional history and education
Chi-Won Yoon has been co-Chairman and co-CEO of UBS Group Asia Pacific since November 2010. From June 2009 to November 2010, he served as sole Chairman and CEO of UBS AG, Asia Pacific and has been a member of the GEB since June 2009. 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 FICC which he was brought in to lead in 2009. In 1997, when he first joined the firm, 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 Massachusetts Institute of Technology (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 Asian Executive Board of MIT's Sloan School of Management.

Jürg Zeltner
Swiss, born 4 May 1967
UBS AG, Bahnhofstrasse 45, CH-8098 Zurich

Functions in UBS
CEO UBS Wealth Management and
co-CEO Wealth Management & Swiss Bank

Year of initial appointment: 2009

Professional history and education
Jürg Zeltner was appointed CEO UBS Wealth Management and co-CEO of Wealth Management & Swiss Bank, and became a member of the GEB in February 2009. 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 graduated from the School of Economics and Business Administration in Berne, and completed 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 the UBS Optimus Foundation.

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 core risk policies; and controlling the risk profile of the Group as a whole as determined by the BoD and the Risk Committee. In 2011, the GEB held a total of 18 meetings.

➔ **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 in 2009, 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 2011, 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 acquires more than 33⅓% of all voting rights (directly, indirectly or in concert with third parties), whether they are exercisable or not, is required to submit a takeover offer for all shares outstanding, according to Swiss stock exchange law. 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 Board of Directors, nor the employment contracts with the Group Executive Board (GEB) members, 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 continuation of existing employment benefits.

In case of a change of control, the Human Resources and Compensation Committee may, at its discretion, accelerate the vesting of restricted shares and amend the vesting date or lapse date of options.

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 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. The Audit Committee (AC), 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 2011 Annual General Meeting (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 Lead Auditor and Signing Partner leading the FINMA regulatory audit in 2011 was Iqbal Khan, and Andreas Loetscher was co-signing Partner, for both the financial and the FINMA regulatory audit. Both have been in charge for UBS since 2011 with an incumbency of seven years. Ernst & Young will be proposed for reelection at the AGM in 2012.

At the 2009 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. BDO AG will be proposed for reelection at the AGM in 2012.

Fees paid to external independent auditors

The fees (including expenses) paid to our auditors Ernst & Young are set forth in the table on the next page. In addition, Ernst & Young received CHF 30,106,000 in 2011 (CHF 33,206,000 in 2010) 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.

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 approved on an exceptional basis only. They mainly comprise on-call advisory services. In addition, 2010 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 AC. A pre-approval may be granted either for a specific mandate, or in the form of a bucket pre-approval authorizing a limited and well-defined type and amount of services.

The AC has delegated pre-approval authority to its Chairperson, hence the Group Chief Financial Officer (Group CFO) submits all proposals for services by Ernst & Young to the Chairperson of the AC for approval, unless there is a bucket pre-approval in place. At each quarterly meeting, the AC is informed of the approvals granted by its Chairperson and of services authorized under bucket pre-approvals.

Fees paid to external independent auditors

UBS paid the following fees (including expenses) to its external auditors Ernst & Young Ltd.:

in CHF thousand	**31.12.11**	31.12.10
Audit		
Global audit fees	**52,600**	46,939
Additional services classified as audit (services required by law or statute, including work of a non-recurring nature mandated by regulators)	**5,240**	11,604
Total audit	**57,840**	58,543
Non-audit		
Audit-related fees	**8,190**	7,225
of which assurance and attest services	***3,123***	*3,073*
of which control and performance reports	***4,626***	*4,058*
of which advisory on accounting standards, transaction consulting including due diligence, other	***441***	*94*
Tax advisory	**1,021**	521
Other	**1,483**	1,152
Total non-audit	**10,694**	8,898

Group Internal Audit

With 339 personnel worldwide on 31 December 2011, Group Internal Audit performs the internal auditing function for the entire Group. Group Internal Audit supports the BoD and its Committees in discharging their governance responsibilities by independently assessing risk management, control and governance processes; assessing the reliability of financial and operational information; and ensuring we are compliant with legal, regulatory and statutory requirements. All reports with key issues are provided to the Group Chief Executive Officer (Group CEO), the Group Executive Board members responsible for the business divisions and other responsible management. In addition, the Chairman, the Risk Committee (RC) and the AC are regularly informed about important issues. Group Internal Audit 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 Group Internal Audit, James P. Oates, reports directly to the Chairman of the BoD and to the RC. Group Internal Audit 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 RC and the AC may order special audits to be conducted. Other BoD members, Committees or the Group CEO may request such audits with the approval of the AC or the RC.

Coordination and close cooperation with the external auditors enhance the efficiency of Group Internal Audit'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 2012	2 May 2012
Second quarter 2012	31 July 2012
Third quarter 2012	30 October 2012

The Annual General Meeting of shareholders will take place as follows

2012	3 May 2012
2013	2 May 2013

We meet with institutional investors worldwide throughout the year, and regularly hold results presentations, special investor seminars, road shows, and individual and group meetings. Where possible, meetings involve senior management as well as members of the investor relations team. We make use of diverse technologies such as webcasting, audio links and cross-location videoconferencing to widen our audience and maintain contact with shareholders around the world.

Once a year, unless they explicitly choose not to, registered shareholders receive a summary of our annual report in the form of a review booklet. It provides an overview of the firm, our strategy as well as our activities during the year and some key financial information. Each quarter, shareholders are mailed a brief update on our quarterly financial performance. Shareholders can also request our complete financial reports, produced on a quarterly and annual basis, free of charge.

To ensure fair access to and dissemination of our financial information, we make our publications available to all shareholders at the same time.

➔ **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 dates**

Financial disclosure principles

Based on discussions with analysts and investors, we believe that 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 shareholders and investors to gain an understanding of how our company works, what our growth prospects are and what risks our strategy and results might entail. Feedback from analysts and investors is continually assessed and, when we consider it appropriate, reflected in our quarterly and annual reports. To continue to achieve these goals, we apply the following principles in our financial reporting and disclosure:

- *Transparency* in disclosure 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 allows readers to gain an understanding of the performance of our businesses
- *Relevance* in disclosure avoids information overload by focusing on what is required by regulation or statute and is relevant to our stakeholders
- *Best practice* in line with industry norms, leading the way to improved standards where possible

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 financial statements are prepared according to 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, to show how they 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 Annual and Extraordinary General 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 Chief Executive Officer (Group CEO) and Group Chief Financial Officer (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 ineffective as of 31 December 2011, solely because of the deficiencies described in "Management's Report on Internal Control over Financial Reporting" in the "Financial information" section of this report.

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 statements of this report contain management's assessment of the effectiveness of internal control over financial reporting, as of 31 December 2011. The external auditors' report on this assessment is also included in this report.

Corporate responsibility

In 2011, we continued working towards meeting the demanding societal goals and commitments we have set ourselves, guided by our Code of Business Conduct and Ethics (the Code). While we undoubtedly faced significant challenges in 2011, this has only served to strengthen our resolve to ensure that all our people at every level follow the Code unreservedly both in letter and spirit. By adhering to the Code, we demonstrate our desire to be a responsible corporate institution and to act with integrity in all our interactions with our stakeholders.

In 2011, we continued to make a valuable contribution to the fight against money laundering, corruption and terrorist financing (AML). We strengthened our management of environmental and social (including human rights) risks, intensified our sustainability-related business activities (notably via the further development of our values-based investing), and continued with the execution of our supply chain program and our investment in community activities as well as our in-house environmental management program. As an illustration of the progress made regarding environmental management, we have already reduced our global CO_2 emissions by 39% compared with 2004 levels, and we are confident that we will very shortly meet our 40% reduction target for 2012.

We also strengthened senior management accountability in relation to particular corporate responsibility activities, most notably through the oversight provided by two Group Executive Board (GEB) Committees concerned with environmental and social risks and community investment. These, and other corporate responsibility developments at UBS, were monitored and reviewed by the UBS Corporate Responsibility Committee (CRC), a Board of Directors (BoD) Committee.

➔ **Refer to *www.ubs.com/responsibility* for more information on the contents of this section**

Governance, strategy and commitments

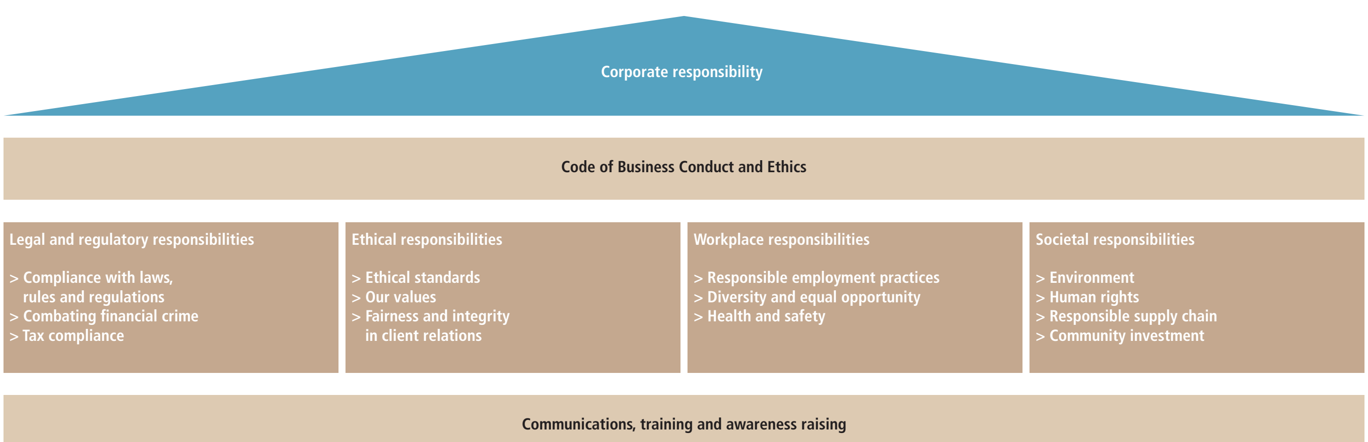
Corporate responsibility governance

At UBS, the BoD is responsible for formulating our values and standards to ensure we meet our obligations to all 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 CRC shoulders the main undertaking for corporate responsibility. 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, as well as the implementation of our corporate responsibility activities and commitments. Moreover, it regularly reviews the Code. In 2011, no changes were made to the Code as the CRC concluded that it continues to appropriately reflect the relevant commitments.

➔ **Refer to *www.ubs.com/code* for a copy of the UBS Code of Business Conduct and Ethics**

Corporate responsibility at UBS



In 2011, BoD member Wolfgang Mayrhuber became chair of the CRC. In addition to the Chairperson, the Committee has three members, including the Chairman of the BoD. The committee is advised by a panel of seven members of the GEB, including the Group CEO, and other senior managers. The members of the advisory panel participate in CRC meetings and are responsible for implementing its recommendations. The advisory panel's membership also ensures that we benefit from a direct connection to operational corporate responsibility activities with, for instance, the Group Environmental Representative being a member of the panel.

The GEB is responsible for the development and implementation of our Group and business division strategies including strategies 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.

In 2011, the Global Environmental & Social Risk Committee was established to address transactional and policy matters relating to environmental and social (including human rights) risks and associated reputational risks. The Committee is chaired by the Group Environmental Representative and includes five GEB members. Additionally, our Environmental & Human Rights Committee oversees the operational execution of UBS's Environmental Policy and Statement on Human Rights. The Committee consists of senior environmental representatives drawn from each business division and is supported by dedicated functions.

➔ Refer to *www.ubs.com/environment* for more information on our environmental and human rights governance

Our efforts to combat money laundering, corruption and terrorist financing are led by the Head of Global AML Compliance and supported by a network of expert global business teams. To enhance consistency and cooperation between our business divisions we are working to streamline our policies and processes, and to bolster the ways in which we assess threats and risks within the business. We are determined to protect the firm and our reputation from those who would use UBS to legitimize illicit assets and we have put in place extensive and robust policies designed to prevent, detect and report money laundering, corruption and terrorist financing.

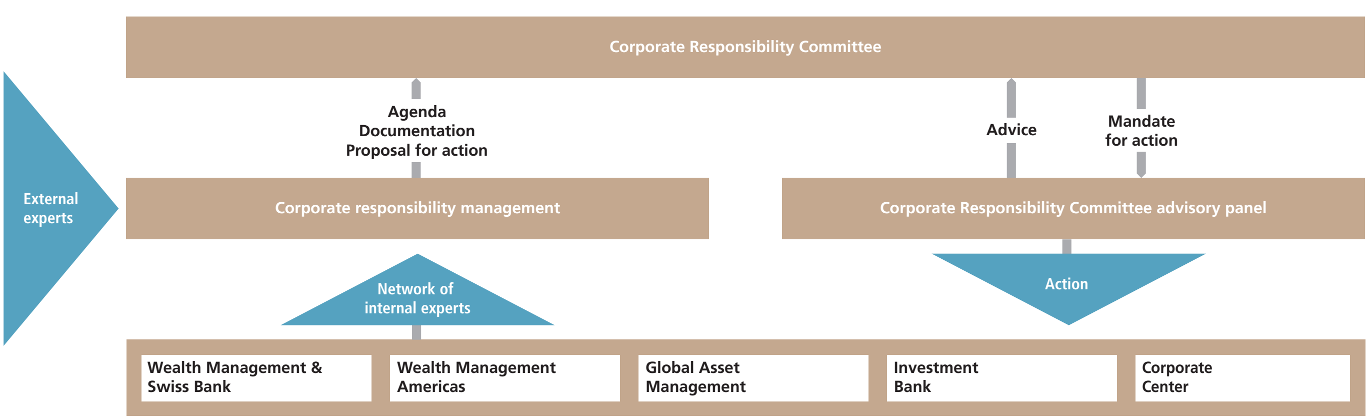
➔ Refer to the discussion on combating financial crime below for more information on our AML activities

Our global diversity and inclusion team supports senior management and Human Resources business partners in developing diversity and inclusion-related strategies and plans for each business division. The implementation of these strategies and plans is monitored by the GEB. The global diversity team also coordinates efforts to integrate diversity and inclusion awareness and content into the Human Resources process. Regional diversity and inclusion heads, along with senior business managers, consider and design diversity and inclusion and business-aligned plans that are linked to regional and divisional business and talent strategies. They also provide regional support for divisional management in assessing the progress made on relevant diversity and inclusion objectives. Additionally, they support our numerous employee networks, including the development and coordination of diversity-related events, which support regional diversity and inclusion initiatives.

➔ Refer to the "Our employees" section of this report for more information on labor standards and diversity programs

Following a strategic review of UBS's Community Affairs activities, the governance structure has been streamlined and given a more strategic focus with the creation of the Global Community Affairs Steering Committee, chaired by the Group CEO and composed of several members of our senior management. The Steering Committee sets the overall strategic direction and aims of our community affairs. Furthermore, the Committee is ultimately re-

Our corporate responsibility governance process



sponsible for deciding on our response to worldwide disasters. Community activities are governed by a central framework based on our Group community affairs guidelines overseen by the Steering Committee. These guidelines are supplemented by additional regional guidelines, which are embedded in UBS's regional structures. Each region has a dedicated Community Affairs team, which coordinates charitable commitments by the firm and our employees. The Corporate Center ensures global coordination of these activities and provides a central reporting structure to collect community investment data from across UBS as a whole. The Steering Committee reports to the CRC regarding the most important decisions on strategy and funding.

➔ **Refer to the discussion on community investment below for more information on our charitable and related activities**

External commitments and initiatives

By incorporating environmental and social standards and conventions in our business practices we benefit from participation in various external initiatives. These include the UN Global Compact and its local network in Switzerland, the Wolfsberg Group, the UNEP Finance Initiative (UNEP FI), the UN Principles for Responsible Investment, and the VfU (Association for Environmental Management and Sustainability in Financial Institutes).

In June 2011, the UN Human Rights Council endorsed the Guiding Principles for the Implementation of the United Nations "Protect, Respect and Remedy" Framework on business and human rights (the Guiding Principles). The Guiding Principles provide a blueprint for companies to know and show that they respect human rights, and reduce the risk of causing or contributing to human rights harm. In May, directly prior to the UN's endorsement of the Guiding Principles, UBS convened a meeting in Thun, Switzerland, of a number of universal banks (subsequently referred to as the Thun Group) to consider the Guiding Principles. During the meeting the Thun Group initiated a process to interpret the Guiding Principles with specific reference to their application to the banking sector. A short statement on the Guiding Principles was released by this group at the UNEP FI global sustainability roundtable in October 2011. Subsequently, a practical guidance tool, which sets out the challenges and best practice examples of operationalizing the Guiding Principles in universal banks, has been drafted and is currently under discussion within the group.

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. UBS was once again named as an index component for the Dow Jones Sustainability Index (DJSI) World, increasing our total DJSI score, and we are a member of the FTSE4Good index series. We have been a continuous member of both the DJSI World and the FTSE4Good since their inception.

We continue to be included in the Carbon Performance Leadership Index, which is produced by the Carbon Disclosure Project. The Index 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, figuring 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.

In 1999, we were the first bank to obtain ISO 14001 certification for our worldwide environmental management system. The management system covers all products, services and in-house operations which may have an environmental impact. It is audited annually and recertified every three years by SGS, a leading inspection, verification, testing and certification company. These comprehensive audits verify that appropriate policies and processes are in place to manage environmental issues, and that they are being implemented on a day-to-day basis. In 2011, UBS passed the extensive ISO 14001 recertification audit, which consisted of 17 audit days and involved 170 employees in six countries. SGS confirmed that we have a well-performing and fully integrated environmental management system that is suitable for managing environmental risks and helps to promote continuous improvements to our environmental performance.

We achieved a top-four ranking in each of the key rankings for brokerage firms in the 2011 Thomson Reuters Extel and UKSIF Socially Responsible Investing & Sustainability Survey: Socially Responsible Investment Research, Thematic Research, Corporate Governance Research, and Renewable Energy Research.

In the UK, we received two major accolades for our work in this field. We were ranked joint number one in The Environment Agency's new performance league table. This table ranks over 2,000 organizations according to early actions metrics that reflect the installation of smart meters, as well as to what degree the organization has satisfied the requirements of the Carbon Trust Standard for good energy management. In December, UBS and its Bridge Academy partnership (refer to the "Community investment" section below) won the UK Big Society Award established by the UK Prime Minister, David Cameron. Commenting on the award, the Prime Minister said: "The Bridge Academy is a brilliant example of business working with their local community to make a difference and create something really special for their area. The innovative ideas, enthusiasm and skills of the UBS volunteers have had a clear impact on the Academy, inspiring students and helping them reach their potential."

Furthermore, we were ranked third in Lundquist's CSR Online Awards Switzerland 2011, maintaining our top three ranking for the third consecutive year. The CSR Online Awards consider how well a corporate website is used as a platform for CSR communications and stakeholder engagement.

Stakeholder dialogue

Dialogue with external parties is crucial to our overall understanding and approach to corporate responsibility. In 2011, we engaged with experts and stakeholders on a range of topics. These included discussions with investors on a wide range of environmental, social and governance (ESG) topics and discussions with non-governmental organizations on the subjects of deforestation, human rights and 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 CRC and provide a very valuable addition to information gathered through other monitoring channels. To enhance further our provision of corporate responsibility information to our stakeholders, we published a UBS Health & Safety statement on our corporate responsibility website following a review of our health and safety activities and efforts. The statement demonstrates our long-standing commitment to creating a work and business environment that safeguards the health and safety of employees, business partners and clients.

Training and awareness-raising

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 2011, training and awareness-raising activities for all employees continued to focus on the Code, notably via the Leading UBS Forward program and through induction events for new employees. Employees were also made aware of the firm's corporate responsibility strategy and activities through other training and awareness raising activities. Furthermore, some 19,300 employees received training on environmental issues. Of these, 15,700 received a general education on our environmental policy and programs and 3,600 participated in specialist training targeted within their area of expertise and influence. Employee speaker sessions, exhibitions and lunchtime training sessions have been delivered in all regions alongside specific technical training for the regional environmental team. Employees are also required to undergo regular refresher training in AML-related issues. This includes online training, awareness campaigns and seminars.

➔ **Refer to the "Education and talent development" section of this report for more information**

Responsible 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. Our shareholders, clients, employees and society in general demand that our banking activities are undertaken in a responsible manner, and that our products and services are best suited to the needs and requirements of our clients. Through our corporate responsibility efforts we demonstrate that we are listening to our stakeholders and constantly striving to meet their expectations.

Continuous improvement

Our commitment to responsible banking requires us to undertake a regular and critical assessment of our policies and practices. This, in turn, requires the careful consideration and assessment of societal issues of potential relevance to UBS. With the Global Environmental & Social Risk Committee, a GEB-level Committee, and the CRC, a BoD-level Committee, we have demonstrated that we have firmly established responsibility for the oversight of this important and complex task at the highest level of the firm.

Combating financial crime

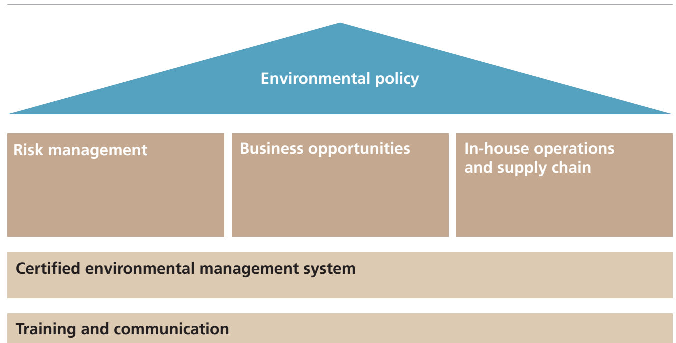
We will always act decisively to prevent potentially irresponsible or harmful actions. First and foremost, this means that our employees must uphold the law, adhere to relevant regulations, and behave in a responsible and principled manner.

We continue to strengthen our efforts to both prevent and combat financial crime. By taking responsibility to preserve the integrity of the financial system, and our own operations, we are committed to assisting in the fight against money laundering, corruption and terrorist financing. 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-clients regulations but without undermining clients' legitimate right to privacy. Ongoing due diligence and monitoring assists in the identification of suspicious activities, including the use of advanced technology to help identify transaction patterns or unusual dealings. If discovered, they are promptly escalated to management or control functions. During 2011, Global AML 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 in respect of any potential issue regarding environmental and social risk.

As part of our extensive and ongoing efforts to prevent money laundering, corruption and terrorist financing, additional enhancements to address more specific risks in relation to corruption and terrorist financing were implemented globally during 2011.

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-Customer, Anti-Money Laundering and Counter Terrorist Financing policies. The Group continues to update its existing

Our environmental policy



publications and a revised version of the Trade Finance Principles and Anti-Corruption Guidance was published in 2011. 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 processes with the private sector.

Managing environmental and social risks across UBS

Environmental and social (including human rights) risks are broadly defined as the possibility that UBS is harmed reputationally or financially as a result of 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, or exposed to risks such as environmental liabilities, human rights infringements or changes in environmental regulations. For products, services and activities identified as having significant environmental and social risk potential, procedures and tools for the timely identification, assessment, approval and monitoring of such risks are applied and integrated into standard risk, compliance and operations processes.

– Client onboarding: 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
– In-house environmental management: our operational activities and employees (or contractors working on UBS premises) are assessed for compliance with relevant environmental and labor rights regulations
– 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

Some of our clients operate in sectors characterized by ongoing environmental and social challenges. To support the consistent identification and assessment of such risks, we developed internal industry sector guidelines in 2009. These guidelines, adopted by each of our business divisions in their transactional and client due diligence processes, 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.

In 2011, we strengthened further our environmental and social risk management (including human rights) by executing the "UBS position on relationships with clients and suppliers associated with controversial activities" that was published in January. This 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, nor will we purchase goods or services from suppliers, where the use of proceeds, primary business activity, or acquisition target involves the following environmental and social risks:

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;
– illegal use of fire: uncontrolled and/or illegal use of fire for land clearance;
– illegal logging including purchase of illegal 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; and
– world heritage sites as classified by UNESCO.

Managing environmental and social risks

		For the year ended			% change from
	GRI[1]	**31.12.11**	31.12.10	31.12.09	31.12.10
Environmental and social risk assessments[2]	FS2	**416**	194	93	114
Requests by region					
Americas	FS2	**111**	48	20	131
Asia Pacific	FS2	**136**	84	32	62
Europe, Middle East and Africa	FS2	**119**	32	20	272
Switzerland	FS2	**50**	30	21	67
Requests by business division[2]					
Investment Bank	FS2	**330**	147	69	124
Wealth Management & Swiss Bank	FS2	**81**	44	24	84
Wealth Management Americas	FS2	**5**	3	n/a	67

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 environmental and social risk functions.

All commercial activities that:
– engage in child labor: according to ILO Conventions 138 (minimum age) and 182 (worst forms);
– engage in forced labor: according to ILO Convention 29;
– threaten indigenous peoples' rights in accordance with IFC Performance Standard 7; and
– engage in diamond mining and trading of rough diamonds unless Kimberley Process certified.

We also require enhanced due diligence and approval processes in certain other areas, such as coal mining practices that use mountain top removal in the US Appalachian Mountains as an extraction method. As part of this review, we assess to what extent companies rely on mountain top removal mining for their revenue generation, and we need to be satisfied that the client is committed to reducing its exposure to this form of mining over time.

Following the execution of our position on relationships with clients and suppliers associated with controversial activities by the business divisions, the number of cases referred for assessment to the environmental and social risk units in 2011 more than doubled as shown by the table "Managing environmental and social risks" on the previous page.

Environmental and social business opportunities

Equally as important as managing environmental and social risks is providing financial products and services which help our clients manage their environmentally and socially related business opportunities. We seek to help investors benefit from such opportunities by integrating environmental and social considerations, where relevant, in our investment, research, ownership and financing processes. This applies across our businesses in asset management, wealth management, retail and corporate banking and investment banking. It includes funds, research and advisory services provided to private and institutional clients, access to the world's capital markets for renewable energy firms and, in Switzerland, "eco" mortgages.

Investment products and advisory

Taking environmental, social and governance (ESG) issues into account in investment processes is becoming of increasing interest to clients and consultants across all of our investment areas. Since 2009, Global Asset Management has demonstrated commitment to ESG integration as a signatory to the UN Principles for Responsible Investment. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices to better align their objectives with those of society at large.

A dedicated Sustainable & Responsible Investment (SRI) team within Global Asset Management offers a wide range of products to their institutional clients, including thematic SRI funds which are focused on innovative companies that provide solutions to the challenges of climate change, water scarcity and demographic change. They offer a range of products focusing on each individual theme and the UBS (Lux) Equity Fund Global Innovators, which spans all three themes. In 2011, UBS broke new ground by listing four exchange-traded funds (ETF) on the German Stock Exchange that track sustainability leaders identified by socially responsible indices, such as the new MSCI ESG Indices. Additionally, the team offers customized client portfolios in the form of segregated mandates / institutional accounts based on "negative" screening, which exclude certain controversial stocks or sectors based on their negative social or environmental impact, as perceived by the client. Our global platform and investment research capabilities enable us to offer such tailor-made solutions.

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.

In 2011, combined teams from philanthropy and values-based investing (VBI) and sustainable investing developed further our

Socially responsible investments (SRI) invested assets[1]

		As of			% change from
CHF billion, except where indicated	GRI[2]	**31.12.11**	31.12.10	31.12.09	31.12.10
UBS total invested assets		**2,167**	2,152	2,233	1
UBS SRI products and mandates					
positive criteria	FS11	**1.84**	2.00	2.72	(8)
positive criteria / RPI[3]	FS11	**28.19**	na	na	na
exclusion criteria[4]	FS11	**27.46**	21.27	22.44	29
exclusion criteria / policy-based restrictions[5]	FS11	**181.49**	na	na	na
Third-party[6]	FS11	**2.59**	2.40	1.69	8
Total SRI invested assets	FS11	**241.57[7]**	25.67	26.85	841
Proportion of total invested assets (%)[8]		**11.15**	1.19	1.20	

1 The terms Socially Responsible Investing and Values-Based Investing are used interchangeably. All figures are based on the level of knowledge as of January 2012. 2 FS stands for the performance indicators defined in the Global Reporting Initiative Financial Services Sector Supplement. 3 Responsible Property Investment (RPI) 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. 6 SRI products from third-party providers apply either positive and exclusion criteria or a combination thereof. 7 Due to adjustments in the reporting boundaries, 78.3% of reported assets have newly been included in 2011. 8 Total SRI / UBS's invested assets.

Socially responsible investments 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, gambling, or companies with high negative environmental impacts. This also includes faith-based investing consistent with principles and values of a particular religion.

holistic service offering in our wealth management businesses. These teams provide thought leadership, advice, products and solutions to assist our private clients and prospects who wish to invest all or part of their portfolio according to their values and investment objectives and want to deliver positive change through their philanthropy and investments. These services include sustainability-focused alternatives to conventional products, mission-related investing for donor-advised funds and private foundations. They also include values-based portfolio management, such as mandate solutions for private clients with a strong focus on sustainability across all asset classes, portfolio review and proposals for the integration of sustainability into stock or bond selection. In the US, this offering also includes managed accounts where ESG criteria are embedded into the fundamental investment process, or where clients have the ability to identify and exclude securities from ownership based on issue-oriented screens. This allows our private clients to customize mandates to their particular social policy criteria.

In response to increased client demand we have expanded our own offering and, through our open architecture, we can offer clients the chance to invest in SRI bonds, equity and microfinance products from leading third-party providers. The table "Socially responsible investments (SRI) invested assets" on the previous page shows that, as of 31 December 2011, our total SRI/VBI invested assets were CHF 241.57 billion, representing 11.2% of our total invested assets. The increase in our reported SRI/VBI invested assets in 2011 is largely due to the expansion of our SRI/VBI reporting framework, which now includes products subject to our Sustainability and Responsible Property Investment strategy. It also includes assets subject to restrictions under the UBS policy on the prohibition of investments in companies related to anti-personnel mines and cluster munitions, which applies to actively managed retail and institutional funds domiciled in Switzerland, Luxembourg and Ireland.

Research

Client interest in ESG issues has grown and, correspondingly, so has our research coverage in this area. Specialized research teams focus on a range of ESG issues, with a view to understanding what impact developing trends such as climate change/energy efficiency, water scarcity, demographics, and other potential environmental and social constraints might have upon the sectors and companies covered by our analysts. They collaborate closely with other teams to write about emerging themes and relevant research content is regularly published by a growing number of mainstream analysts. Specialized teams have been established within each of our business divisions to serve their respective clients.

The ESG Analyzer is an Investment Bank publication that helps clients take ESG issues into consideration at every stage of the investment process. The ESG Analyzer was published several times during 2011, but was only available for Europe and South Africa. As a result of client demand, we now plan to make the Analyzer available for other regions starting in 2012. The Q-series® reports focus on thought-provoking discussions, leading to a firm-wide drive for more thoughtful, proprietary and valuable research. The report "Q-series®: Water Risks to Business" achieved the second-highest readership of any UBS Equity Research publication in 2011. Additionally, during the year the Investment Bank hosted both the annual UBS SRI Conference, which was focused primarily on sustainable supply chains, and the UBS Q-series® Sustainable Innovation Conference.

Wealth Management Research published a paper on Impact Investing, a new investment philosophy that is attracting interest from our clients. Reports under the "Greentech" label covered investment ideas such as electric cars (more efficient cars and better battery technology) and energy efficiency (smart grids, LED, the future of energy). Furthermore, the Wealth Management & Swiss Bank research magazine "UBS outlook on energy" included an analysis of renewable forms of energy.

Clients also benefited from a series of bulletins from our senior scientific advisor, Sir David King, director of the Smith School of Enterprise and Environment at the University of Oxford and formerly the UK Government's Chief Scientific Advisor and Head of the Government Office of Science. These bulletins provided clients with an insight into a variety of current topics, including biofuels and actions various countries were taking in relation to climate change.

Engagement and voting rights

We believe that voting rights have an economic value and should be treated accordingly. Global Asset Management, wherever appropriate, seeks to influence the corporate responsibility and corporate governance practices of the companies it invests in. Where we have been given the discretion to vote on behalf of our clients, we will exercise our delegated fiduciary responsibility by voting in a manner we believe will be most favorable to the value of their investments. We are strongly supportive of the Stewardship Code published by the UK Financial Reporting Council in 2010. This aims to enhance the quality of engagement between institutional investors and companies. Good corporate governance should, in the long term, result in better corporate performance and improved shareholder value. As such, we expect board members of companies in which we have invested to act in the best interests of their shareholders, and to view themselves as stewards of the company by exercising appropriate judgment and by undertaking diligent oversight of the management of the company. In 2011, we voted on more than 48,000 separate resolutions at over 4,600 company meetings. In addition, we are active members of a number of shareholder bodies and are keen to work with like-minded shareholders.

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 the shareholders' meeting of major Swiss corporations. This allows additional shareholder input into the voting decisions of the funds' management company.

The Global Asset Management SRI team in Switzerland engages in dialogue with companies represented in the SRI funds they manage. The analysts and portfolio managers provide positive and negative feedback on relevant ESG issues that may impact investment performance. This is carried out as part of the regular communication process with corporate management teams. When controversial information on a company's environmental or social performance is received, the SRI analysts contact the company and provide management with a chance to demonstrate what measures have been taken to resolve the issues. If the company can demonstrate how it is dealing with the problem, and what progress has already been achieved, an investment is possible. These engagement activities are applied to SRI funds in addition to the positive screening processes.

Renewable energy and clean technology financing and advisory

In 2010, we created the Renewable Energy & Clean Technology team (RE&CT) within our Investment Bank to focus our efforts and build upon our successes in this important sector. RE&CT, which includes five senior employees from four continents, 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.

In 2011, our global RE&CT team raised approximately USD 2.6 billion from fourteen equity and debt transactions and advised on seven deals, establishing RE&CT as one of the leading clean technology practices globally. Recent transactions include the USD 123 million initial public offering (IPO) of Gevo, the first successful IPO in next-generation biochemical and advanced biofuels, the USD 220 million IPO of BYD Company, the largest A-share IPO in the renewable energy sector in 2011, and the USD 162 million IPO of KiOR, the largest market cap of any pre-revenue clean technology company upon IPO.

Carbon trading

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.

Corporate responsibility in operations

Our operational targets continue to focus on the direct environmental impact of the firm, including energy, paper, waste and water. Having deployed a new carbon reporting system and rolled out training to our local, regional and global specialists, we have enhanced further the quality of data capture (verified to ISO 14064) and increased the speed with which management information can be released.

Environmental and CO_2 footprints

We have a direct impact on the environment in a number of ways: our businesses consume electricity, notably through our IT systems, and fossil fuels; employees travel, use paper and generate waste in the course of their work; and offices require heating and comfort cooling systems. Improving the ways we use these resources can both reduce our operational costs and improve our environmental performance. Therefore, we have put in place a series of measures to efficiently manage our environmental impact.

Climate change strategy and emission reduction

In February 2006, the GEB decided to establish a Group-wide CO_2 emission reduction target of 40% below 2004 levels by 2012. We seek to achieve this target by adopting in-house energy efficiency measures that reduce the energy consumption of our buildings while increasing the proportion of renewable energy used. This limits emissions at source. Emissions that cannot be reduced by other means (e.g. business air travel) are offset. As a result, we have reduced further our 2011 CO_2 emissions, with an overall global reduction of 39% below 2004 levels, and we are close to achieving our targets for 2012.

Energy consumption and efficiency

Energy consumption has a significant environmental impact and is the biggest contributor to our overall greenhouse gas emissions. In line with our wider business strategy, improvements in energy efficiency have helped to reduce both emissions and costs. Our energy consumption is down 14% on the baseline year of 2009 through a combination of building portfolio management, better building controls, data center efficiency and improved employee housekeeping. Our IT-driven initiatives contributed significantly to these energy savings, most notably through a server consolidation program, and the Desktop Transformation Program that is deploying the latest in business PC hardware and software globally.

Renewable energy

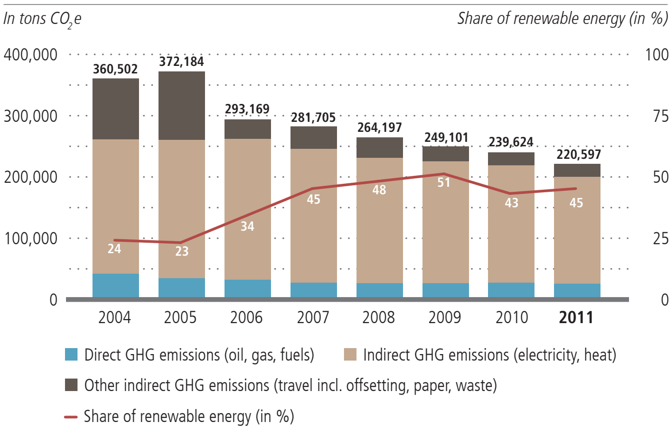
In addition to our energy efficiency programs, we are reducing our use of carbon-intensive energy by including a high proportion of renewable energy. In 2011, 45% of our energy consumption came from renewable energy and district heating.

Business travel and offsetting CO_2 emissions

Our levels of business air travel naturally mirror our client advisor activity. In 2011, this resulted in a significant increase in business air travel. We seek to reduce the environmental impact of air travel and therefore actively promote and invest in video conferencing where volumes have increased substantially.

For travel within Europe, we encourage an ongoing move towards high speed rail travel in preference to air. The marketing and events team has adopted the environmental guidelines for

Our greenhouse gas (GHG) footprint



client conferences and now considers the impact of delegate travel, hotels, venue features and catering as part of their logistics and planning.

Once again in 2011, we offset all CO_2 emissions resulting from agency booked business air travel. Working with reputable intermediaries and a panel of internal specialists, we select projects which meet the requirements of the Gold Standard for voluntary emissions reductions while providing positive community benefits. Schemes selected include wind power projects in Taiwan and Turkey and a community biofuel project in China.

Paper, waste and water

We are making steady progress towards achieving our 2012 paper consumption, waste generation and water usage reduction targets (please refer to the tables "Environmental indicators per full-time employee" below and "Environmental indicators" on the next page). Double-sided printing and copying is now the default setting for most of our employees and, combined with an ongoing shift towards the distribution of electronic documents, has resulted in a 6% reduction in paper used per employee against baseline year 2009. The share of office paper from Forest Stewardship Council or recycled sources increased from 34% in 2009 to 44% in 2011. The continued implementation of bin-less offices in many larger locations has reduced the waste per employee by 9% since 2009. However, our waste recycling ratio remained flat at 54%. Paradoxically, this is due to our success in reducing paper consumption, which is a significant recyclable waste stream. Our water consumption decreased 22% compared with 2009 levels.

Supply chain management

In 2011, UBS spent over CHF 6.7 billion purchasing products and services ranging from office maintenance services across IT infrastructure to components such as stationery. Responsible supply chain management (RSCM) principles serve to embed our ethics and values with our suppliers, contractors, service partners and project teams. As part of this commitment we are continuing to improve our ability to identify, assess and monitor supplier practices in the areas of human and labor rights, the environment and corruption. In 2011, over 600 suppliers were screened according to our social and environmental criteria. We also trained 42 procurement and sourcing officers to help with this work, and responsible supply chain requirements were included in the agreements with relevant suppliers who were awarded contracts. Also in 2011, supply & demand management developed a risk rating concept to allow us to focus better on the potential risks of products and services and increase our impact in the area of RSCM. Finally, we engaged in a full strategic review of our RSCM operations and developed an action plan for 2012 to ensure best practice in this area.

Community investment

We are continuing with 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 we have progressed to a position where our community investment program 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 2011, UBS and our affiliated foundations made direct cash donations totaling CHF 31.1 million to carefully selected non-profit partner organizations and charities. These donations were directed primarily towards achieving our Community Affairs key

Environmental indicators per full-time employee

	Unit	2011	Trend	2010	2009
Direct and intermediate energy	kWh / FTE	12,459	→	12,633	11,986
Business travel	Pkm / FTE	11,489	↑	8,743	7,016
Paper consumption	kg / FTE	122	→	119	130
Waste	kg / FTE	242	→	251	265
Water consumption	m^3 / FTE	30.1	↘	33.3	31.9
CO_2 footprint	t / FTE	3.32	↘	3.66	3.12

Legend: FTE = full-time employee; kWh = kilowatt hour; Pkm = person kilometer; kg = kilogram; m^3 = cubic meter; t = tonne

Environmental indicators[1]

		2011[2]			2010[2]	2009[2]
	GRI[3]	Absolute normalized[4]	Data quality[5]	Trend[6]	Absolute normalized[4]	Absolute normalized[4]
Total direct and intermediate energy consumption[7]		**827 GWh**	***	→	**859 GWh**	**957 GWh**
Total direct energy consumption[8]	**EN3**	**128 GWh**	**	→	**137 GWh**	**132 GWh**
natural gas		**84.2%**	**	→	82.6%	84.6%
heating oil		**13.1%**	***	↓	15.0%	10.9%
fuels (petrol, diesel, gas)		**2.6%**	***	↑	2.3%	4.5%
renewable energy (solar power, etc.)		**0.03%**	***	↑	0.02%	0.05%
Total intermediate energy purchased[9]	**EN4**	**699 GWh**	***	→	**722 GWh**	**825 GWh**
electricity from gas-fired power stations		**18.1%**	**	↗	16.3%	10.6%
electricity from oil-fired power stations		**2.3%**	***	↓	4.1%	2.9%
electricity from coal-fired power stations		**15.8%**	**	→	17.1%	17.5%
electricity from nuclear power stations		**10.8%**	**	→	11.5%	9.5%
electricity from hydroelectric power stations		**29.5%**	***	→	29.1%	28.0%
electricity from other renewable resources		**13.9%**	***	→	13.5%	23.6%
district heating		**9.7%**	***	↑	8.5%	7.8%
Share of renewable energy and district heating		**45%**	***	→	43%	51%
Total business travel	**EN29**	**762 m Pkm**	***	↑	**595 m Pkm**	**560 m Pkm**
rail travel[10]		**1.5%**	***	↓	1.9%	3.7%
road travel[10]		**0.4%**	**	↓	0.5%	1.0%
air travel		**98.1%**	***	→	97.6%	95.3%
Number of flights (segments)		**337,573**	***	↑	**258,766**	**258,396**
Total paper consumption	**EN1**	**8,093 t**	***	→	**8,076 t**	**10,349 t**
post-consumer recycled	EN2	**18.2%**	***	↓	21.9%	16.7%
new fibers FSC[11]		**26.1%**	***	↑	20.9%	17.1%
new fibers ECF + TCF[11]		**55.6%**	***	→	57.0%	65.9%
new fibers chlorine bleached		**0.1%**	**	↓	0.3%	0.4%
Total waste	**EN22**	**16,083 t**	***	↘	**17,053 t**	**21,183 t**
valuable materials separated and recycled		**54.2%**	***	→	53.7%	54.4%
incinerated		**20.0%**	***	↑	18.1%	12.5%
landfilled		**25.8%**	**	→	28.2%	33.1%
Total water consumption	**EN8**	**2.00 m m^3**	**	↘	**2.27 m m^3**	**2.55 m m^3**
Greenhouse gas (GHG) emissions in CO_2e						
Direct GHG emissions (scope 1)[12]	EN16	**25,235 t**	**	→	27,153 t	25,723 t
Gross indirect GHG emissions (gross scope 2)[12]	EN16	**227,978 t**	***	↘	248,893 t	298,338 t
Gross other indirect GHG emissions (gross scope 3)[12]	EN17	**110,010 t**	***	↑	89,957 t	87,867 t
Total gross GHG emissions		**363,223 t**	***	→	**366,003 t**	**411,928 t**
GHG reductions from renewable energy[13]		**53,759 t**	***	↘	57,226 t	99,248 t
CO_2e offsets (business air travel)[14]		**88,867 t**	***	↑	69,152 t	63,579 t
Total net GHG emissions (GHG footprint)[15]		**220,597 t**	***	↘	**239,624 t**	**249,101 t**

Legend: GWh = gigawatt hour; Pkm = person kilometer; t = tonne; m^3 = cubic meter; m = million; CO_2e = CO_2 equivalents

1 All figures are based on the level of knowledge as of January 2012. 2 Reporting period: 2011 (1 July 2010–30 June 2011), 2010 (1 July 2009–30 June 2010), 2009 (1 July 2008–30 June 2009). 3 Global Reporting Initiative (see also www.globalreporting.org). EN stands for the environmental performance indicators as defined in the GRI. 4 Non-significant discrepancies from 100% are possible due to roundings. 5 Specifies the estimated reliability of the aggregated data and corresponds approximately to the following uncertainty (confidence level 95%): up to 5% – ***, up to 15% – **, up to 30% – *. Uncertainty is the likely difference between a reported value and a real value. 6 Trend: at a *** / ** / * data quality, the respective trend is stable (→) if the variance equals 5 / 10 / 15%, low decreasing / increasing (↘,↗) if it equals 10 / 20 / 30% and decreasing / increasing if the variance is bigger than 10 / 20 / 30% (↓,↑). 7 Refers to energy consumed within the operational boundaries of UBS. 8 Refers to primary energy purchased which is consumed within the operational boundaries of UBS (oil, gas, fuels). 9 Refers to energy purchased that is produced by converting primary energy and consumed within the operational boundaries of UBS (electricity and district heating). 10 Rail and road travel: Switzerland only. 11 Paper produced from new fibers. FSC stands for Forest Stewardship Council, ECF for Elementary Chlorine Free and TCF for Totally Chlorine Free. 12 Refers to ISO 14064 and the "GHG (greenhouse gas) protocol initiative" (www.ghgprotocol.org), the international standards for GHG reporting: scope 1 accounts for direct GHG emissions by UBS; gross scope 2 accounts for indirect GHG emissions associated with the generation of imported / purchased electricity (grid average emission factor), heat or steam; gross scope 3 accounts for other indirect GHG emissions associated with business travel, paper consumption and waste disposal. 13 GHG savings by consuming electricity from renewable sources. 14 Offsets from third-party GHG reduction projects measured in CO_2 equivalents (CO_2e). These offsets neutralize GHG emissions from our business air travel. 15 GHG footprint equals gross GHG emissions minus GHG reductions from renewable energy and CO_2e offsets.

themes of "education" and "entrepreneurship". Contributions were also made to other activities, in particular disaster relief, including CHF 3.2 million in Japan. 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 (see examples 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 2011, 11,678 employees spent 105,000 hours volunteering. 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 association "A Helping Hand from UBS Employees". In 2011, these organizations have

Examples of UBS's community investment activities across the globe

Americas – In 2011, we developed a unique community partnership with artist Stephen Wiltshire and student artists from The Children's Aid Society, The Harlem School of the Arts, and the YMCA of Greater New York. *New York City: Through our eyes* was a special exhibition focusing on the New York City skyline from varying perspectives. It was used as a foundation for the young artists to reflect on their own feelings about their community. The program allowed students to draw their own interpretation of the skyline as a way to learn and engage in discussions about 9/11 and their neighborhoods in general. The main feature of the exhibition is Wiltshire's intricate panorama of the New York City skyline. This panorama can be seen on a 160-foot long UBS billboard greeting passengers arriving at the JFK International Airport terminal. To commemorate the 10th anniversary of 11 September 2001, UBS published *Reflections of Recovery and Resurgence: UBS 9/11 Humanitarian Relief Fund*, a booklet which highlights the firm's commitment and support of the National September 11 Memorial & Museum. Immediately following the events of 9/11, UBS created the UBS 9/11 Humanitarian Relief Fund to provide assistance to victims as well as long-term grants for the children of victims. This booklet also provides helpful information related to support groups, guidance for talking to your family about 9/11, and other resources.

Our *mentor programs,* which operate in four US cities, continue to be our main volunteer initiatives. In 2011, employees volunteered to become mentors to hundreds of children – helping students build the confidence and skills they need for future success. Our mentor programs empower students of all ages and range from the Power Lunch reading program designed to increase elementary school literacy through to college preparatory and career skills development for high school students through our iMentor program.

To encourage the development of quality education, the Americas region is supporting innovative and collaborative *after-school programs for Beacon centers* in New York City. These high school after-school programs aim to integrate children's learning experiences in and outside the classroom as well as offering career skills development, job training and computer literacy that contribute to greater opportunities for success after graduation.

Asia Pacific – The *Community Leadership Experience*, developed in partnership with Charities Aid Foundation India, was held in June 2011 in Mumbai. It focused on women leaders and the 20 participants came away with fresh perspectives on how to tackle the challenges of leading and managing a not-for-profit organization in India. Launched in 2008, the annual three-day program has been welcomed by the non-profit sector as a much-needed platform to bring leaders together. Participants get to share and learn from each other and help to improve their own organization's capacity to deliver services to their own community. Across the Asia Pacific region, UBS employees continued to volunteer in record numbers and, in 2011, significantly increased the number of hours contributed to our community partners. In Japan, volunteers from the Investment Bank worked with Social Venture Partners Tokyo to develop financial accounting again 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

The UBS Optimus Foundation is one of Switzerland's largest charitable foundations. It is a non-profit organization which offers UBS clients a broad range of opportunities to improve the lives of children around the globe and has contributed over CHF 118 million to 250 projects in 73 countries since its foundation. Employing the highest standards of quality when selecting or monitoring its projects and project partners, the Foundation plays a key role in bringing about positive social change in the areas in which it targets, including healthcare, education and child protection. As UBS bears all the administrative costs related to the UBS Optimus Foundation, clients can be sure that 100% of every donation goes directly to the projects themselves.

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processes for 10 new start-up not-for-profit organizations. In Singapore, more than 200 employees and interns helped to organize the International Association for Volunteer Effort's biannual World Volunteer Conference which attracted more than 1,000 participants from around the globe. At this event, UBS continued its support for a unique program which aims to increase the capability of not-for-profit organizations to secure funding from the private sector. Called "The Pitch", five finalists taken from more than 100 applicants from around the globe competed before a live audience and panel of expert judges to secure funding for innovative volunteer management projects.

Europe, Middle East and Africa – Throughout the region, we continue to support educational and entrepreneurial activities, particularly in areas close to where we conduct our business. We now have active Community Affairs programs in the UK, France, Italy, South Africa, Poland, UAE, Russia, Ireland and Jersey. The regional flagship program is our partnership with the *Bridge Academy*, a mixed, non-denominational school for 11–18 year olds in Hackney, one of the most deprived boroughs in London and adjacent to UBS's London base. In 2003, UBS agreed to sponsor a new secondary school under the UK government's "Academy" program. UBS volunteers helped develop the vision and plans for the development of the Bridge Academy which opened in 2007. A fundamental principle of the partnership is that all activity must directly improve student attainment and achievement. To date, 1,700 volunteers have contributed over 18,000 hours in a range of activities.

– Governance: five UBS Managing Directors form a majority on the governing body, contributing strategic expertise and taking responsibility for the Bridge Academy's direction and results
– Literacy and numeracy: intervention schemes involving 80 volunteers per week
– Work-related learning program: providing an introduction to the world of work, a focus on relevant skills and the motivation to think positively about the working world
– Bespoke activities range from designing a virtual trading project with 54 top maths students from the Academy working with equities traders, through to engaging with Stonewall and the UBS Pride Network to work with 180 students to help tackle homophobic bullying
– UBS volunteers provide support for Bridge staff learning and development, finance, operations, communications, fundraising and IT

Switzerland – During the European Year of Volunteering in 2011, UBS launched a unique national volunteering project to restore Swiss hiking trails. UBS employees replaced broken or inaccurate signposts, restored sections of the network of hiking trails and constructed new ones. Through their volunteering efforts UBS employees helped to ensure the continued quality and safety of the hiking trails. This, in turn, helps to ensure that hiking remains a popular and healthy leisure activity. The volunteering activities took place in six locations across Switzerland. In total, 319 employees participated in this important project volunteering 3,805 hours.

➔ **Refer to *www.ubs.com/community***

Our employees

Our employees' drive, skill and dedication are key to meeting the needs of our clients and building our businesses. We are committed to investing in our talent and to attracting, developing and retaining highly qualified people, while maintaining our reputation as a leading employer. We are also dedicated to promoting a performance-oriented culture that values and encourages collaboration across the entire Group. This helps to maximize opportunities to create value for the firm and support our employees' success.

Our workforce

Our competitive strength depends on the quality of our people. Hiring, developing and retaining high-quality employees are priorities for the firm, as our workforce is fundamental to the success of our strategy. Due to ongoing market challenges, we had to make some difficult business decisions in 2011 that impacted our workforce, including personnel reductions. Throughout this process, we endeavored to act as a responsible employer, making full use of our internal labor market and, where necessary, career transition support services. We also continued to invest in the development and training of talented employees who can help us to grow our businesses.

In general, employee levels were stable in 2011, with the number of people employed on 31 December 2011 at 64,820, up 203 or 0.3% from year-end 2010. In 2011, our employees worked in 57 countries, with approximately 36% of our staff employed in Switzerland, 35% in the Americas, 17% in the rest of Europe, the Middle East and Africa and 12% in Asia Pacific. Employee turnover, as a percentage of average overall headcount, was 13.8% in 2011. Employee-initiated turnover was 6.9%, down 0.2% from 2010.

Internal mobility encourages integration, collaboration and innovation, as well as individual career development. In 2011, we continued to support employee mobility across all regions and business divisions. In 2011, 472 employees moved to roles in a different region, compared with 489 in 2010. In 2011, 1,228 em-

Personnel by region

	As of			% change from
Full-time equivalents	**31.12.11**	31.12.10	31.12.09	31.12.10
Switzerland	**23,188**	23,284	24,050	0
UK	**6,674**	6,634	6,204	1
Rest of Europe	**4,182**	4,122	4,145	1
Middle East and Africa	**162**	137	134	18
USA	**21,746**	22,031	22,702	(1)
Rest of the Americas	**1,177**	1,147	1,132	3
Asia Pacific	**7,690**	7,263	6,865	6
Total	**64,820**	64,617	65,233	0

Personnel by reporting segment

	As of			% change from
Full-time equivalents	**31.12.11**	31.12.10	31.12.09	31.12.10
Wealth Management	**15,904**	15,663	15,408	2
Retail & Corporate	**11,430**	12,089	12,140	(5)
Wealth Management & Swiss Bank	**27,334**	27,752	27,548	(2)
Wealth Management Americas	**16,207**	16,330	16,925	(1)
Global Asset Management	**3,750**	3,481	3,471	8
Investment Bank	**17,256**	16,860	15,666	2
Corporate Center	**274**	194	1,624	41
Total	**64,820**	64,617	65,233	0
of which: Corporate Center personnel (before allocations)[1]	***19,270***	*19,472*	*20,054*	*(1)*

1 Please note that some of the figures in this table may differ from those originally published in quarterly and annual reports (for example due to adjustments following organizational changes).

ployees transferred between business divisions, compared with 1,290 in 2010.

Recruiting new employees

Despite the challenging operating environment, we continued to recruit new talent to help strengthen and grow our businesses. In 2011, there was a strong focus on recruiting experienced client advisors in our asset-gathering businesses and making targeted hires in our investment banking and centrally managed functions. We continued to invest in talent for the future by hiring graduates and interns in each of our operating regions. We reduced hiring costs further in 2011 by increasing internal hires and making the most of employee referrals, both of which reduced the need to use outside agencies to fill positions.

We continued to be an attractive employer in 2011. Globally, 94% of candidates accepted our offer of employment, with 97% of individuals in Switzerland accepting. UBS ranked third among Swiss business students in the 2011 Universum Switzerland's Ideal Employers survey.

In 2011, we filled 6,459 positions across the firm. This was a decrease of 29% compared with 2010, largely due to significantly less recruiting in the Investment Bank and in centrally managed functions. Wealth Management & Swiss Bank hired 414 client advisors globally; 686 financial advisors were hired in Wealth Management Americas in 2011. Referrals from current employees were an important source for these hires; for example, in Asia Pacific, employee referrals accounted for 49% of the client advisors we hired. In addition, specialized client advisor associate programs were launched in Switzerland and Asia Pacific to recruit professionals from other industries into client advisory roles.

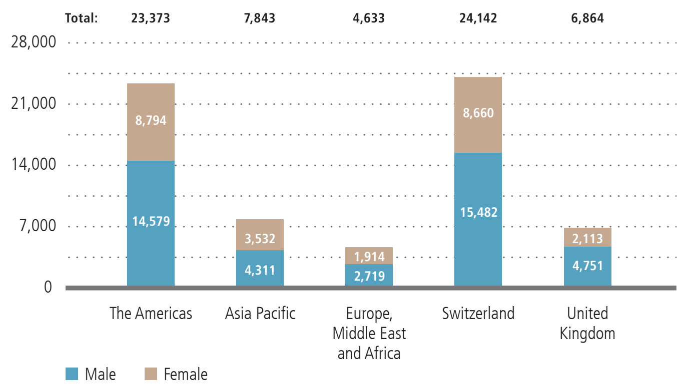
Several new recruiting initiatives were launched in 2011 to ensure there is a continuous and visible presence on our target campuses, consistent with our commitment to graduate hiring. We continue to provide unique educational opportunities for graduates that include business-specific activities. As part of our undergraduate and MBA graduate training programs, 1,111 university graduates joined UBS in 2011. An additional 1,215 interns were hired globally over the course of the year. Our apprenticeship program in Switzerland continued to be strong in 2011, hiring 300 apprentices.

Strengthening and sustaining our diverse workforce and inclusive work environment

In today's global business environment, we believe it is essential to have a workforce of individuals from widely differing backgrounds, cultures and life experiences. Diversity in gender, ethnicity, nationality, religion, age, disability, sexual orientation and other factors supports the firm in meeting the needs of our increasingly diverse client base. We also believe a diverse employee base and inclusive work environment increases employees' engagement. Ultimately, our success depends on equal employment opportunities and having the best person in each role. We are committed to increasing the diversity of our workforce at all levels of the organization, as well as increasing our retention of diverse employees. At the same time, we seek to strengthen and sustain an inclusive work environment that encourages employee development and enhances client relationships.

Gender distribution by geographical region[1]

On 31.12.11



1 Calculated on the basis that a person (working full-time or part-time) is considered one headcount in this graph only. This accounts for the total UBS end-2011 employee number of 66,855 in this graph, which excludes staff from UBS Card Center, Hotel Seepark Thun, Wolfsberg and Widder Hotel.

Our workforce is truly global. We have 895 offices in 57 countries, and our employees are citizens of 146 countries. In 2011, the average age of our employees was 38 years and the average length of employment at the firm was 8.6 years. In Switzerland, more than 51% of employees have worked at UBS for more than 10 years.

Our global strategy is delivered through concrete action plans for each business, the integration of diversity and inclusion into our people management processes, and regional initiatives that reinforce our global strategy. For example, we integrated information regarding "unconscious bias" into our performance management processes in 2011.

In 2011, regional diversity teams continued to work with business and human resource leaders on plans linked to regional talent strategies. For example, in 2011, a cross-divisional gender initiative in parts of Europe that aims to build a culture in which men and women thrive equally in their careers was extended to Asia Pacific and rolled out across the Investment Bank. Components include training for managers, providing sponsoring opportunities for senior-level women, enhancing support for employees on maternity leave and a focus on flexible working options for all employees. Over 50% of the business areas or regions in the initial group have shown a proportionate increase in the number of female Executive and Managing Directors due to hiring, promotion or retention since the program launched in 2009.

In 2011, we relaunched a mentoring program in Switzerland for women Associate Directors and Directors to help women focus on their career progression. The second annual UK Diversity & Inclusion Week, designed to raise awareness about the value of a diverse and inclusive workplace and what it takes to build one, featured a wide range of employee events, awards, and presentations on workplace diversity and inclusion issues. In Asia Pacific, we worked with our businesses to sponsor marketing events

Gender distribution by employee category[1]

	Officers (Director and above)		Officers (other officers)		Non-officers		**Total**	
As of 31.12.11	Number	%	Number	%	Number	%	**Number**	**%**
Male	18,319	79.1	14,563	63.9	8,960	42.9	**41,842**	**62.6**
Female	4,850	20.9	8,214	36.1	11,949	57.1	**25,013**	**37.4**
Total	23,169	100.0	22,777	100.0	20,909	100.0	**66,855**	**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-2011 employee number of 66,855, which excludes staff from UBS Card Center, Hotel Seepark Thun, Wolfsberg and Hotel Widder.

targeted specifically toward female clients. In the US, we launched a recruiting initiative to hire a number of financial advisors to provide insight and access to underserved, diverse market opportunities. Online "harassment free" workplace training also was introduced in the US, in addition to existing classroom training.

More than 11,500 employees are members of over 25 employee networks across UBS that help build cross-business relationships and strengthen our inclusive culture. In the US, for example, a "straight ally" initiative significantly raised participation from the firm's leaders and increased membership in our lesbian, gay, bisexual and transgender (LGBT) employee network by promoting an inclusive and supportive workplace environment. A straight ally member is encouraged to proactively support the inclusive treatment of LGBT colleagues, and participate in community service, networking and educational events to demonstrate their support. 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 nondiscrimination, a harassment-free workplace and equal opportunity for all employees.

Managing performance

We are committed to giving employees the tools and support they need to be effective in their jobs and advance their careers. We provide a framework for performance management that features regular opportunities for employee-manager dialogue, consistent and transparent assessment processes and a clear link between performance, demonstrated achievements and compensation.

In 2010, we made some significant changes to our performance management processes to increase transparency, support employee development and better reward employees in line with their contributions. These goals have not changed. However, based on employee feedback and a comprehensive review of the impact, we amended some aspects of the evaluation process in 2011. These changes were made to increase efficiency, improve the business focus of assessments and put more emphasis on individual development. Our underlying goal remains: 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. In 2011, 99% of the employees eligible to participate in the firm's global performance assessment received a performance review.

Performance management for our senior executives and certain other key employees is especially rigorous. Senior leaders, including all Group Executive Board (GEB) members, receive a comprehensive evaluation based on key achievements, business performance, risk management, leadership skills and meeting specific financial targets. Direct peer input is also required.

In 2011, our "key risk takers and controllers" were again subject to extended performance management procedures. 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. We therefore ensure that a holistic evaluation is conducted by relevant control functions on an annual basis. A sample of senior management and key risk-taker performance objectives are also reviewed annually.

We have Group-wide ranks and salary ranges that are applicable to all employees. We also have a standardized role classification model across the firm. Many human resource processes are based on these global role profiles, and this enables more clearly defined career paths and development plans for all employees.

Our approach to people management

Focusing on business priorities, rigorous risk management and building leadership strength

Education and talent development

We take a structured approach to leadership and professional development, business education and talent management. This helps ensure that our employees and senior leaders have the knowledge, skills and experience required to succeed in their roles and support our strategic goals. The UBS Business University is our global corporate university, composed of nine physical locations, several smaller in-house facilities and a comprehensive online training library. It manages all of UBS's learning activities, ensuring that they are aligned with Group-wide, divisional and regional business strategies.

One of the Business University's primary objectives is to help our senior leaders and our key talent build an effective leadership culture so that they can work together to attain the firm's goals. A series of leadership development offerings, management skills training and new hire programs equip our current and future leaders with the skills to lead UBS forward. Collaborative, cross-divisional learning is a hallmark of our leadership development and talent programs.

As a firm, we must be able to offer our private, corporate and institutional clients a broad range of products and services. Client Leadership Experience (CLE) workshops bring together client-facing employees from all divisions to build the knowledge, skills and networks needed to deliver the best solutions from the entire firm to our clients. In 2011, 33 workshops were held in 13 cities in the Americas, Europe, Asia Pacific and Switzerland and attended by 1,200 Directors, Executive Directors and Managing Directors. Since 2008, nearly 3,000 employees have participated in a CLE.

A comprehensive business education offering is provided through more than 90 role-specific learning pathways. These pathways are a structured sequence of activities that help ensure consistent training across similar job roles worldwide. Client-facing staff participate in specialized advisory and sales training to more effectively meet clients' needs.

A GEB-sponsored "Leading UBS forward" training program was launched in 2010 and continued through mid-2011. More than 53,000 employees attended one of 1,400 face-to-face workshops led by senior leaders from across the firm. These sessions gave employees the opportunity to improve their understanding of key components of our strategy, identity and strategic principles, and to embed our values in their daily work. A further 5,000 employees completed an online version of the course.

All employees can access a broad range of professional development training. Our eLearning portfolio, which consists of more than 2,000 courses, enables all employees to build skills at their own pace. In 2011, 34,200 employees participated in voluntary web-based learning on topics such as professional skills, leadership and management, understanding our business, IT and financial markets. Mandatory web-based training modules helped ensure that compliance and regulatory requirements were met by the relevant employees.

Each year, we invest in talent development and succession planning for the most critical roles across the firm. An annual

Strengthening the accountability of our leadership

In December 2010, the GEB approved specific leadership behaviors for the firm's leaders, who are expected to be role models, to lead authentically and to collaborate with other senior managers across the firm. These "leadership accountabilities" commit our Managing Directors and members of the GEB to deliver results, develop talent and drive collaboration. Starting with the firm's performance management and education processes, these standards were integrated into all of the firm's human resource processes in 2011. For example, all newly promoted Managing Directors were required to take action to strengthen two of the three accountabilities within their teams. Ninety days later, they were asked to quantify the impact of their actions. For example, increased collaboration was reported by 55% of respondents, with 41% reporting better client relationships.

Leadership accountabilities

Deliver sustainable results	Develop and engage talent	Drive business collaboration
Accept full accountability for your actions and make clear and timely decisions.	Lead by being a role model for UBS's values and strategic principles with authenticity.	Promote cross-business collaboration and a mind-set to put the client's interest first.
Lead your business by building a strong performance-oriented culture and reward the right actions and behavior.	Hire, develop and retain the best talent while respecting diversity.	Develop a vision for your business aligned with UBS's identity and communicate clear priorities and a plan for your function.
Ensure consistent high-quality delivery and execution.	Engage your people through inspiring, open and honest communication.	Align your organization and people to drive change.
Manage risk prudently to ensure long-term sustainable results.	Provide constructive feedback and coaching guidance to enhance performance.	Build high-trust relationships.

firm-wide talent review helps to identify and build the skills and competencies of employees who are identified as having leadership potential. In addition, 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.

Compensation

We strive to provide our employees with 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 competitive 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 thereby the long-term success of the firm. In 2011, we increased our efforts 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. We always take a holistic view of employee compensation 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 bonus pool funding. They reflect our longstanding focus on pay for performance, sustained profitability, risk awareness and sound governance.

Employee share ownership

We support employee share ownership in principle because we believe that personal accountability for business actions and decisions can be encouraged through equity-based awards. As an example, through Equity Plus, our voluntary equity-based program, employees purchase shares at market price and receive one share for every three shares purchased. These shares vest within three years, subject to continued employment at UBS. On 31 December 2011, current employees held an estimated 6% of UBS shares outstanding (including approximately 4% in unvested/blocked shares), based on all known shareholdings from employee participation plans, personal holdings and individual retirement plans. At the end of 2011, an estimated 51% of all employees held UBS shares, while an estimated 39% held UBS stock options.

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

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 (the Code) demonstrates the importance we place on responsible workplace behavior. The Code sets out the principles and practices employees are expected to follow and forms the basis for the policies and guidelines that govern employees' behavior. We provided training on the Code to all employees in 2010 and all staff who joined the firm in 2011.

We are committed to upholding our corporate values. They are integrated into our corporate decision-making and people management processes, and are aimed at shaping the daily actions of our employees.

Benefits and well-being

We strive to be a responsible employer and invest in all of our employees, whether they are full- or part-time staff, by offering a comprehensive suite of benefits such as insurance, pension, retirement and time off that are competitive in our markets. We also offer additional benefits to employees where practical. For example, flexible working arrangements are available to employees in many of our major markets, and we encourage and support our employees' efforts to volunteer in the many communities in which we operate.

To help employees manage life and work issues, we offer employee assistance programs (EAP) in a number of locations. In the UK, the EAP provides 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 and an emergency back-up childcare and eldercare facility.

In the US, the Work Life Assistance Program offers around-the-clock counseling and referral services to employees and their families to help resolve issues that may affect their health, personal life, or job performance. The program also provides information about work-life effectiveness and offers referral services for child care, prenatal care, adoption, academic services and adult care. We also provide on-site childcare at our Stamford, Connecticut site and emergency/back-up 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 EAP provider help employees and their immediate family manage work and life stress, family, mental health, personal development or other challenges. In Japan, these services are available through an 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, financial difficulties and retirement. Employees also have access to an internal ombudsman's office. An HR Health Care function considers local health and safety matters. Work days lost to accident or illness are tracked, with 20,835 and 128,668 days respectively accounted for in 2011. This amounts to six 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 a 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 COACH process, employees retain full salary and benefits, and financial assistance is available for job-related training, if needed.

Employees below the level of Director were eligible for the Social Partnership Agreement for employees in Switzerland (SOVIA CH) in 2011. A new social plan became valid on 1 January 2012, replacing SOVIA CH, which had expired. This social plan lays out the terms and conditions for making redundancies among employees whose jobs are subject to the Agreement on Conditions of Employment for Bank Staff (ACEBS). It 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 more information on our health and safety statement**

Employee representation

As part of our commitment to being a responsible employer, we partner with all of our employee representation groups to maintain an active dialogue between employees and management.

The UBS Employee Forum (UBSEF) was established in 2002 and has representatives from 18 countries across Europe. The UBSEF facilitates an open exchange of views and information on pan-European issues that have the potential to impact 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 (ERC) 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. It also supports open dialogue through a variety of channels and activities. ERC representatives are elected to represent employees whose work contracts are governed by Swiss law and the ACEBS. The UK Employee Forum (UKEF), which is formed by elected representatives from all of our UK businesses and appointed management representatives, focuses on local economic, financial and social activities of concern to UK employees. It may also be used for defining workforce agreements affecting UK employees. Collectively, the UBSEF, including the ERC and UKEF, represents over 40% of our global workforce.

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To the management of

UBS AG, Zurich and Basel

Basel, 13 March 2012

Independent assurance report

Our engagement

We have performed a limited review of the information disclosed as part of the GRI-based sustainability reporting of UBS AG (hereafter "Report"):

- Information in the "Corporate responsibility" section of the Annual Report 2011, for the reporting period 1 January to 31 December 2011 (pages 222 to 233)
- Information in the "Our employees" section of the Annual Report 2011, for the reporting period 1 January to 31 December 2011 (pages 234 to 239)
- Information for the reporting period 1 January to 31 December 2011, which is referred to in the GRI Content Index (online at *http://www.ubs.com/content/dam/static/corporate_responsibility/GRI_Content_Index.pdf* as per date of this report)

We performed our review to obtain limited assurance as to the extent to which the abovementioned information provides, in all material respects, a reliable and adequate representation of the policies, business operations, events and performance with respect to sustainability for the reporting period 2011.

Our procedures were planned to obtain limited assurance as a basis for our conclusion. The scope of work to obtain evidence is reduced compared to the scope required to obtain reasonable assurance (e.g., in an audit of financial statements) such that a lower degree of audit assurance is obtained.

Limitations of the engagement

Our engagement was limited to a review of the information explicitly listed above. We have not assessed the following information disclosed in the report:

- KPIs for the previous reporting periods were not reviewed unless it was required for plausibility checks.
- All information contained in other sections of the Annual Report 2011. The financial information in scope of the statutory audit of the financial statements have not been additionally reviewed to obtain limited assurance. Our review was limited to the presentation of the information in line with the GRI requirements.

Similarly, our engagement did not include a review of forward-looking statements.

Criteria

UBS AG prepared the report based on the following reporting principles and criteria applicable in the reporting year 2011 (hereafter "criteria"):

- Sustainability Reporting Guidelines Vol. 3.0 of the Global Reporting Initiative (GRI) application level A+
- Internal policies and process descriptions in support of GRI Guidelines Vol. 3.0 as per date of this report

A summary of the guidelines is presented on the GRI homepage (online at *https://www.globalreporting.org/reporting/latest-guidelines/g3-guidelines*). We assessed the report against the criteria. We believe that these criteria are a suitable basis for our review.

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Responsibility of UBS AG's management

The management of UBS AG is responsible for the preparation of the report and the information contained therein in accordance with the aforementioned criteria. This responsibility includes developing, implementing and safeguarding internal controls of material importance for the preparation of a report that is free of material misstatement. In addition, the responsibility includes selecting and applying suitable reporting standards as well as measurement methods and estimates deemed suitable in view of the circumstances.

Our approach

Our responsibility is to express a conclusion on the information disclosed in the sustainability report based on our review to obtain limited assurance. We planned and performed our engagement in accordance with the International Federation of Accountants' International Standard for Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE3000) and the Code of Ethics for Professional Accountants, issued by the International Federation of Accountants (IFAC), which includes requirements in relation to our independence. We performed all of the procedures needed to ensure a sufficient and suitable basis for our conclusion.

In accordance with the engagement agreement, our duty of care for this engagement only extends to the management of UBS AG.

Overview of our work

Within the scope of our engagement, we obtained evidence on a sample basis considering materiality and assurance engagement risk to obtain limited assurance on the compliance of the report with the reporting principles and criteria. The nature and scope of our work, including appropriate samples, were based on our professional judgment used in forming our conclusion. The performance of our engagement included the following procedures:

- Assessment of the suitability of the underlying criteria and their consistent application
- Interviews with employees regarding the sustainability strategy of UBS AG
- Interviews with employees responsible for preparing the GRI-based sustainability reporting to assess the process of preparing the report, the reporting system, the data capture and compilation methods as well as internal controls to the extent relevant for a review of the report
- Surveys of employees in specialist departments responsible for the topics "Corporate responsibility" and "Our employees"
- Inspection of the documentation of the systems and processes for compiling, analyzing, and aggregating sustainability data and testing such documentation on a sample basis
- Analytical considerations, surveys and inspections of documents on a sample basis with respect to the compilation and reporting of quantitative data included in the report
- Evaluating the overall view of sustainability information provided in the report

Our conclusion

Based on our review, nothing has come to our attention that causes us to believe that the report does not comply in all material respects with the aforementioned criteria and the application level A+ of the Global Reporting Initiative.

Ernst & Young Ltd

Jonathan Bourne	Roger Amhof
Partner	Partner

Compensation

Letter from the Human Resources and Compensation Committee of the Board of Directors

Dear shareholders,

As the new chair of the Human Resources and Compensation Committee (HRCC), I am pleased to submit our compensation report for 2011, for which we will seek your support at our Annual General Meeting in May 2012.

I would like to take this opportunity to thank my predecessor, Sally Bott, for her contribution to the Committee in the past, and to Helmut Panke, who stepped in as interim chair of the HRCC after Sally's departure and prior to my appointment. I also welcome Wolfgang Mayrhuber, who joined the Committee in 2011.

We firmly believe that successfully implementing our business strategy and improving our profitability can only be achieved by having the right people at the firm. As such, compensation remains of key strategic importance for us. By offering compensation that is competitive and features a balanced mix of fixed and variable elements, we can attract the talented professionals that we seek, as well as motivate them to perform well and encourage them to stay.

At the same time, we want to ensure that our employees' interests are aligned with those of our shareholders. Accordingly, a significant part of the incentives that we award is deferred over several years and may be forfeited when employees act against the interests of the firm or when any applicable performance conditions are not met. These incentives reward our employees for performing well and, together with the risk considerations that are integrated within the compensation process, keep them focused on the long-term profitability of the firm.

Adapting to a new market environment

Last year was a turbulent one for our industry, and many of the challenges that were present in 2011 will remain in 2012 and beyond. Financial firms, including UBS, continue to face volatility in the financial markets, which has dampened earnings in a number of businesses. Banks must also cope with the impact of substantial new capital requirements, which are widely expected to lead to lower returns on capital in the industry in the future.

We are keenly aware that the environment in which we operate is changing dramatically. It is therefore imperative that we adapt accordingly. We recognize that past levels of compensation will be unsustainable in the future if profitability declines throughout the industry. In this new environment, we must find the right balance between the sometimes conflicting objectives related to compensation, namely, ensuring that we retain the qualified, competent people needed to deliver sustained success, keeping pay aligned with performance, and building up sufficient capital to meet the new regulatory requirements with which we must comply.

Applying our approach successfully in 2011

Despite the new realities that we face, we are convinced that our approach to compensation remains appropriate. In 2011, our compensation framework responded effectively to the decline in the firm's overall performance as well as the impact of the unauthorized trading incident within the Investment Bank. Our significantly smaller bonus pool reflects our weaker performance last year, in particular at the Investment Bank, and demonstrates our commitment to ensuring that pay is appropriate in relation to performance.

Appropriately, our lower profitability affected compensation at an individual level. In addition to the impact that our weaker share price performance had on the value of their awards, employees saw their share-based incentives further reduced last year due to the application of performance conditions in our variable compensation plans that enabled us to claw back unvested bonuses that had been awarded in previous years. At the Investment Bank, 50% of bonuses granted under the Senior Executive Equity Ownership Plan and the Performance Equity Ownership Plan in 2011 that were due to vest in 2012 have been forfeited.

The unauthorized trading within the Investment Bank represented a setback for us. Given the serious nature of this incident, we took disciplinary action against certain employees involved, including some in supervisory roles and in the relevant control functions. Such action included appropriate measures regarding their compensation. The substantial financial and reputational damage contributed to a 60% reduction in the bonus pool for the Investment Bank.

Continuing to integrate risk perspectives

The unauthorized trading incident served to underscore the importance of ensuring that risk perspectives are adequately considered in making compensation decisions. Over the course of last year, we undertook more work to ensure that risk controls are integrated within our compensation framework. In line with evolving practice in the industry, we adapted our approach to identifying our key risk-takers, individuals in our organization who, by the nature of their role, can materially set, commit or control the firm's resources, and/or exert influence over the firm's risk profile, and to whom specific stringent compensation measures apply. As a result, the number of identified key risk-takers more than doubled to around 450 last year from around 200 in 2010.

An effective and enduring approach

Our compensation system was fundamentally revised in 2009, and we have made only minor adjustments to our variable compensation plans to reflect new requirements that have emerged in the years since. While a number of improvements were made to strengthen how we identify key risk-takers and measure their performance, no specific changes were made to the overall framework in 2011. It thus offers stability and continuity, as well as the necessary features that allow us, on one hand, to motivate our employees by rewarding strong performance, and on the other hand, to withdraw or reduce incentives where performance has been weak or where employees act against the interests of the firm.

Nonetheless, we will keep our framework under review to ensure that it continues to meet our key goal of aligning employee and shareholder interests by rewarding people for delivering sustainable long-term profitability. While we are certain that it will evolve in response to new regulations and increased capital requirements, we are convinced that the approach we have adopted is fundamentally sound and that it will continue to serve us well as we position ourselves for the future.

Ann F. Godbehere
Chair of the Human Resources and Compensation Committee of the Board of Directors

Compensation governance

Given the significant role that compensation plays in attracting and retaining talent, and the strong impact that it thus has on the firm's future success, it is critical that we have appropriate compensation principles. Our compensation governance principles are designed to support long-term value creation and include appropriate checks and balances. They ensure that we continue to keep compensation aligned with the long-term interests of our shareholders and that we incentivize appropriate risk-taking.

The Human Resources and Compensation Committee (HRCC), as a committee of the Board of Directors (BoD), is mandated to develop recommendations regarding our compensation plans and programs and overall bonus funding.

➔ **Refer to the "Board of Directors" section of this report for further information about the Human Resources and Compensation Committee**

UBS's corporate governance principles are in compliance with the relevant laws, rules and regulations, including the Swiss Financial Market Regulatory Authority (FINMA) Circular 2010/1 that sets minimum standards for the design, implementation and disclosure of remuneration schemes at financial firms.

Human Resources and Compensation Committee

The HRCC is composed of four independent BoD members. On 31 December 2011, the HRCC members were Ann F. Godbehere, who chaired the committee following her reelection to the BoD at the Annual General Meeting (AGM) in April 2011, Bruno Gehrig, Wolfgang Mayrhuber and Helmut Panke. The committee held 13 meetings in 2011. Each meeting had an average attendance of 96%. External advisors attended nine of those meetings. The Chairman of the BoD and the Group Chief Executive Officer (Group CEO) were present at 10 and 11 of those meetings, respectively.

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. Compensation consulting firm Towers Watson, which was appointed by Group Human Resources, continued to provide the HRCC with data on market trends and benchmarks, including in relation to Group Executive Board (GEB) and BoD compensation. Various subsidiaries of Towers Watson provide similar data to Group Human Resources in relation to compensation at lower

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
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 (excluding GEB members)[1]	Responsible GEB member together with functional management team	Divisional pools: HRCC Overall pool: BoD	Line manager
Independent BoD members (remuneration system and fees)	Chairman of the BoD and HRCC	BoD	Chairman of the BoD

Recipients	Variable compensation recommendations developed by	Approved by	Communicated by
Employees (excluding GEB members)	Responsible GEB member together with functional management team	Divisional pools: HRCC Overall pool: BoD	Line manager

1 Additional performance condition applies.

levels of the organization. Towers Watson has no other compensation-related mandates with UBS.

Responsibilities and authorities of the Human Resources and Compensation Committee

The HRCC reviews the Total Reward Principles – on which our approach to compensation is founded – annually, and submits any amendments to the BoD for final approval. In addition, the HRCC:
- reviews and approves the design of the total compensation framework, including compensation strategy, programs and plans, on behalf of the BoD;
- reviews variable compensation funding throughout the year on behalf of the BoD and proposes the final bonus pool to the BoD for approval;
- together with the Group CEO, proposes base salaries and annual bonuses 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; and
- approves the total compensation for the Chairman of the BoD.

Members of the GEB and BoD do not attend meetings at which decisions are taken about their individual compensation and have no right to a say in or to otherwise influence such decisions.

The responsibilities and authorities for compensation-related decisions, illustrated in the table on the preceding page, are set out in "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.

Risk Committee's involvement in compensation matters

The Risk Committee assumes an essential role in supporting the HRCC to ensure that compensation plans are aligned with our business strategy, and that policies are designed to enhance risk awareness and compliance with risk policies. The Risk Committee supervises and sets appropriate risk management and control principles, including those relating to credit, market, country and operational risks; treasury and capital management; and balance sheet management. In doing so, it also examines the possibility of reputational risk. The committee is also briefed by management regarding how risk has been factored into the compensation process and how Group Risk Control has been involved in implementing compensation programs. In addition, the committee reviews whether the risk-related aspects of the compensation process have been adhered to.

The HRCC and Risk Committee meet periodically to discuss topics on which they have shared responsibility. Furthermore, Mr. Panke sits on both these committees, thereby providing a valuable risk perspective in considering compensation-related issues.

Decision-making process for Group Executive Board member compensation

One of the HRCC's main responsibilities is to make recommendations for the actual amount of variable cash and equity compensation awarded to each GEB member in each performance year. Its recommendations are submitted to the BoD for approval. This process relies on a detailed and balanced review, not only of the performance of the Group, but of the relevant business division and the impact of specific individuals. It considers Group and divisional performance information, including risk-adjusted profitability and other financial and non-financial factors such as client focus, leadership effectiveness, risk management and remediation, strategy execution and reputational impact. It also takes into account performance information from the businesses, initial compensation recommendations from the Group CEO, terms of employment contracts, regulatory requirements and relevant market data, such as that relating to industry compensation trends.

Shareholders' advisory vote

We value the opinions of our shareholders. As such, we will provide, as we have done the past three years, an opportunity for shareholders to express their views through an advisory vote on this compensation report at the AGM in May 2012. While such a vote is advisory in nature, we encourage our shareholders to participate in it as we regard it as a meaningful way of involving them in the compensation discussion and take its outcome seriously. Shareholders also have the opportunity to raise questions at the AGM, and can address their questions about compensation or related issues at any time to BoD members by contacting the Company Secretary. Contact details are provided at the end of this report.

Total Reward Principles

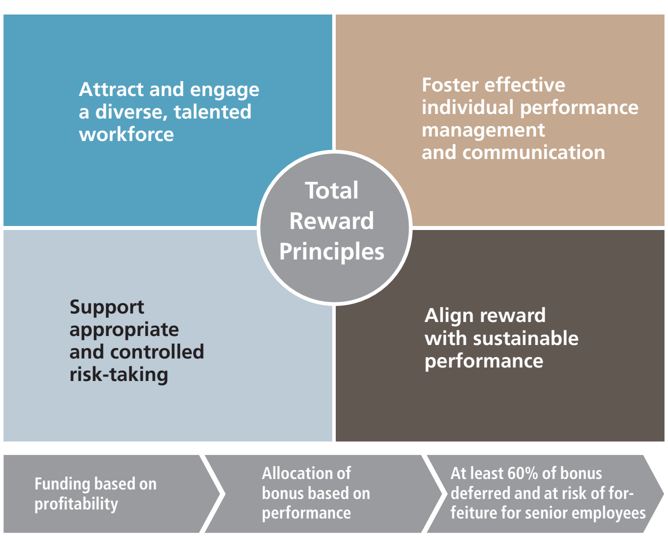
Our approach to compensation is based on our "Total Reward Principles." These principles establish a framework for ensuring that performance is the key consideration behind our compensation policies and that risk control is appropriately integrated within our compensation processes. At the same time, they specify how we structure compensation and provide funding for our bonus pool. They reflect our focus on pay for performance, sustainable profitability, sound governance and risk awareness, and build on the UBS strategy of enhancing the firm's reputation, increasing client focus and teamwork, and improving integration and execution. At the same time, they give full effect to the relevant regulatory requirements.

The Total Reward Principles apply to all employees across the Group globally. We provide specific guidance as to how the principles are implemented in practice, which may vary in certain locations due to local laws and regulations.

We remain fully committed to these principles. Over the course of the year, we continued to apply them to ensure that our performance and compensation objectives were achieved and that the governance processes with respect to compensation were firmly in place. The Total Reward Principles were reaffirmed by the Human Resources and Compensation Committee (HRCC) and reconfirmed by the BoD on 1 December 2011.

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 bonus pool.



Attract and engage a diverse, talented workforce

Our need to attract and retain talented, competent employees to help implement our business strategy and create sustainable value for our shareholders over the long term underpins our compensation policies. We offer market-competitive compensation that strikes an appropriate balance between fixed and variable elements. Base salaries should be sufficient to allow for a flexible policy when it comes to variable compensation. We set award levels that incentivize 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

Foster effective individual performance management and communication

We evaluate performance rigorously to ensure that compensation is fairly and appropriately allocated. Employees are assessed against a range of financial and non-financial objectives. In determining the annual bonus for employees, we not only consider their contribution to UBS's business results and whether they have achieved their individual performance objectives, but also take into account whether they:
– observe our corporate values and principles;
– implement our strategic goals of enhancing reputation and improving integration and execution;
– 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 in compliance with UBS policies;
– actively manage risk, including operational risk, and strike an appropriate balance between risk and reward; and
– exhibit professional and ethical behavior.

Employees are assessed not just absolutely against defined objectives, but also on a relative basis against their peers within UBS. This enables us to further differentiate performance, and consequently compensation, in a more objective, transparent and disciplined manner.

➔ Refer to the "Our employees" section of this report for more information on our performance management processes

Align reward with sustainable performance

Throughout UBS, sustainable performance is a key factor in determining compensation. Our assessment of performance goes beyond whether financial objectives have been achieved and takes into account the long-term risk impact of employee actions and reputational issues.

Variable compensation funding is primarily based on risk-adjusted profitability, that is, a measure of profitability adjusted to consider risks associated with particular transactions. This performance metric, which takes into account the cost of capital, not only supports our objectives and business strategy, but is also in line with regulatory requirements.

Our framework is sufficiently flexible to allow management to apply its judgment if it deems it appropriate. Adjustments may be made based on considerations relating to risk, quality and reliability of earnings, relative industry performance, future strategic plans, and market competitiveness. The divisional Chief Executive Officers, the Group CEO and the HRCC regularly review and monitor progress against business performance targets and the foregoing considerations that affect annual variable compensation funding. The bonus pool proposed by the Group CEO is reviewed by the HRCC and ultimately approved by the BoD. To ensure that any risk-related issues are fully considered, risk control functions are involved in the performance reviews of key risk-takers, who are individuals who can materially set, commit or control significant amounts of the firm's resources, and other senior employees.

➔ **Refer to the "Compensation governance" section of this report for more information about responsibilities and authorities for compensation-related decisions**

Support appropriate and controlled risk-taking

We place a strong emphasis on sound risk control in our compensation policies as our long-term sustainable performance depends on prudent and balanced risk-taking.

Accordingly, our compensation system provides incentives that take specific account of risk. 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. All employees are expected 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 bonus funding, whether on a Group, divisional or business area level, we take the following key risks into account, where applicable: market risk; credit risk; liquidity risk; compliance risk; operational risk; and reputational risk. In 2010, our control functions introduced these quantitative risk measures for each business area that are relevant in determining their bonus pools. The risk metrics we use include, but are not limited to, the level of impaired lending, 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 supplemented by qualitative assessments conducted by Risk and Legal & Compliance regarding how the businesses manage such issues.

To keep our employees focused on the long-term profitability of the firm, we require that a significant part of their bonus be deferred for up to three years if their total compensation exceeds CHF/USD 250,000. In the case of GEB members, the deferral period is up to five years to reflect the additional commitment and long-term performance that is expected from them. Some or all of the unvested deferred portion may be forfeited in certain cases, including if 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 measures regarding the compensation of our key risk-takers, who, as previously stated, are individuals who can materially set, commit or control significant amounts of the firm's resources. 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 best practice in the industry and in line with specific regulatory guidance. During 2011 the number of individuals identified as key risk-takers more than doubled to around 450. 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. These compensation measures for key risk-takers, introduced in 2010, remained unchanged in 2011. Following the unauthorized trading incident within the Investment Bank, we reviewed these measures and determined that they remain appropriate.

To monitor risk, our control functions, primarily Legal & Compliance, Risk Control, Finance and Operational Risk, must be able to make independent decisions in overseeing our businesses. As such, compensation for these functions is determined independently from the revenue producers that they oversee, supervise or support. Bonus pool funding for our control functions is not based on the performance of the businesses that they support but reflects the performance of the firm as a whole. In addition, we consider other factors such as how well the function has in fact performed, together with our market positioning and the prevailing market trends. We do not permit bonus funding for these functions to be supplemented by funds from the business divisions. Decisions regarding individual compensation for the leaders of these functions are made by the function heads and approved by the Group CEO.

➔ **Refer to the "Overview of our compensation model" section of this report for more information about key performance indicators and key risk-takers**

Benchmarking against peers

We benchmark Group compensation and benefit levels against those of our peers. With respect to compensation for GEB members, we refer to a peer group of companies that are selected based on the comparability of their size, geographic spread, product and services scope, and staffing and pay strategy, among other factors. These companies, which are large European and US banks operating internationally, are our main competitors when it comes to hiring. They are Bank of America, Barclays, Citigroup, Credit Suisse, Deutsche Bank, HSBC, JP Morgan Chase and Morgan Stanley.

In the view of the HRCC and the BoD, our executive compensation structure is appropriate relative to our peer group. We review the peer group regularly to ensure that the firms that constitute it remain relevant benchmarks for our purposes.

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, the 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.

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]	Products and services scope[3]	Geographic scope[4]	Headquarters location[5]	Competitors for talent[6]	Regulatory / political environment[7]	Staffing and pay strategy[8]
Bank of America	◐	◐	●	○	●	●	●
Barclays	●	◐	●	◐	●	●	●
Citigroup	◐	◎	●	○	●	●	●
Credit Suisse	●	●	●	●	●	●	●
Deutsche Bank	●	●	●	◎	●	●	●
HSBC	◐	◐	●	◐	●	●	◐
JP Morgan Chase	◐	●	●	○	●	◐	●
Morgan Stanley	●	●	●	○	●	◐	●

● Comparable ◎ Mostly comparable ◐ Moderately comparable ○ Less comparable

1 Source: Towers Watson. 2 Size: impacts management complexity regardless of product and geographic scope. Expressed in terms of revenue, profitability, assets and employee base. 3 Product and services scope: impacts pay strategy, pay levels / approach and importantly, risk profile. 4 Geographic scope: impacts the definition of executive roles and management complexity. 5 Headquarters location: a key factor in determining peer group choices. 6 Competitors for talent: influences decisions relating to competitive requirements for pay structure and levels. 7 Regulatory environment: increasingly impacts pay structures (including deferral requirements) for executives. 8 Staffing and pay strategy: identifies peers with similar pay and staffing strategies.

Overview of our compensation model

Our compensation model is consistent with and supports our Total Reward Principles. It rewards appropriate risk-taking and behavior that produces sustainable results.

All UBS employees

The total compensation employees receive has two elements: a fixed element, which is generally the base salary; and a discretionary variable element, which is the bonus. In determining employees' pay, and in benchmarking pay both internally and externally, we focus on total compensation, rather than its individual elements, as it presents a more comprehensive picture of an employee's pay.

The amount of bonus that an employee receives depends on various factors, including our overall performance, the performance of the employee's business division, and his or her individual performance.

We do not impose an absolute cap on total compensation or set a maximum multiple between the lowest and highest total compensation levels in our organization. To do so would undermine our commitment to providing market-competitive and performance-related compensation. This approach allows us to have the flexibility required to respond to different circumstances, such as changing business and market conditions or retention needs. We do, however, set a cap on the maximum amount of cash that is paid out immediately in any year. Furthermore, each of our deferred variable compensation plans is capped in the sense that the maximum payout under each plan is fixed, either in absolute or percentage terms. All monetary figures stated in the "Compensation" section are gross figures (compensation before applicable withholdings and deductions).

Base salary

The base salary reflects an employee's particular skills, role and experience while taking market practices into consideration. Base salaries are fixed amounts of cash, typically paid monthly or semi-monthly. We review base salaries annually to ensure they remain competitive, comparing them with the relevant internal and external benchmarks.

Adjustments are made when there is a significant change in job responsibility. Furthermore, we make annual adjustments to base salaries that reflect performance and respond to movements in the marketplace.

Following our annual base salary review, we have decided to very selectively increase base salaries for 2012. With effect from March 2012, base salaries were increased by a total of CHF 86 million or 1% of the monthly salary run rate for February 2012. This compares with a base salary increase made for 2011 of approximately 5%. The increases for 2012 apply primarily to employees who were promoted and those whose base salary fell significantly short of the market benchmark for their role. This is in contrast to 2011 when, in line with changes that were being made in the industry, increases were made in certain cases to effect a shift in the mix between base salary and bonus. Our total salary expense for 2011 was CHF 6,859 million, down 2% from 2010 and down 7% from 2009.

Compensation overview

A balanced mix of fixed and variable compensation ensures appropriate risk-taking and behavior that produces sustainable business results. A significant part of our compensation is paid in the form of deferred equity.

	Chairman of the BoD[1]	Board of Directors	Group Executive Board	Key risk-takers[2]	Other employees
Base salary	●		●	●	●
Cash bonus				●	●
Cash Balance Plan (CBP)			●		
Performance Equity Plan (PEP)			●		
Senior Executive Equity Ownership Plan (SEEOP)			●		
Equity Ownership Plan (EOP)				●[4]	●[3, 4]
Base fee and committee retainer(s)		●[5]			

1 The base salary of the Chairman of the BoD consists of cash and a fixed number of shares. 2 Bonuses granted to key risk-takers are also based on an additional evaluation of these employees' performance, in which their risk-taking activities are specifically considered. 3 All employees with a total compensation of CHF/USD 250,000 or more are eligible. 4 Additional profitability performance condition for key risk-takers, Group Managing Directors and other employees with total bonus exceeding CHF/USD 2 million. 5 At least 50% of the base fee is paid in blocked UBS shares.

Bonus

The majority of permanent employees are considered for an annual discretionary bonus. The amount of bonus awarded depends on an individual's performance and role, as well as the performance of the Group and the relevant business division – on an absolute as well as relative basis.

Key performance indicators

Group and business division performance are relevant in determining the size of the divisional bonus pools, while the size of the business area pools depends on business division and business area performance. Although the amount of bonus that an individual is awarded necessarily depends on the available funding for his or her business area and business division, as well as on the achievement of his or her individual goals, we do not apply a formula or assign weightings to specific performance indicators in determining individual bonuses. Bonus levels can fluctuate significantly from year to year, such that it is possible that an individual receives no bonus in a given year. For example, for 2011, 17% of eligible employees at the Investment Bank received no bonus mainly as a result of the Investment Bank's poor performance, including the impact of the unauthorized trading incident. By way of comparison, 10% of eligible employees across the Group as a whole received no bonus for 2011.

➔ **Refer to the "Compensation funding and expenses" section of this report for more information**

We assess Group performance using key criteria such as risk-adjusted profits, its performance relative to the industry and its general market competitiveness.

Key performance indicators for the business divisions vary. We assess the financial performance of business areas in our wealth management businesses using criteria such as the level of net new money over the year and the return on assets. At the Investment Bank, we consider factors such as revenue and profitability, the cost-income ratio and the return on risk-weighted assets, while at Global Asset Management the financial performance of business areas is assessed using criteria such as the level of assets under management and investment performance. Risk-related objectives include, in our wealth management businesses, the level of impaired lending and operational costs; in investment banking, the number of days during which the daily value at risk is exceeded; and in Global Asset Management, whether risk investment guidelines and Group and risk policies have been adhered to, and whether significant risk events occur. For a large part of the Corporate Center, we apply broader qualitative indicators, while taking into account our market position and the prevailing market trends. 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.

Members of the GEB have key performance indicators that are tied to Group and divisional goals. The Group CEO's bonus 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. Those who lead Group control functions or who are regional Chief Executive Officers 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. GEB members are also assessed based on how effectively they adhere to our strategic principles and apply our values.

We evaluate performance on an ongoing basis. If performance is weak, we reduce our bonus pool accruals as appropriate.

Deferral of bonuses

We pay a significant part of our variable compensation in the form of equity that is deferred over several years. The unvested deferred amounts are forfeited if employees have committed harmful acts or if any applicable performance conditions are not met. Bonuses awarded to employees with a total compensation, that is, a base salary and bonus, of CHF/USD 250,000 or more, are partially deferred. Above this level, employees receive a portion of their annual bonus in shares granted under the Equity Ownership Plan (EOP). Furthermore, we place a cap of CHF/USD 2 million on the amount that can be paid out immediately in cash.

For the 2011 performance year, for employees across all business divisions and locations, the bonus was, on average, approximately 37% of the base salary. Among GEB members, it was, on average, 331% of a GEB member's base salary. In 2010, these figures were 60% and 510%, respectively. As previously stated, bonuses are fully discretionary and we do not set a fixed ratio between the bonus and base salary. The percentages stated above are based on the size of the bonus pools for 2011 and 2010, respectively.

➔ **Refer to the "Deferred variable compensation plans" section of this report for more information**

Impact of the unauthorized trading incident

The serious nature of the unauthorized trading incident that was uncovered at the Investment Bank in September 2011 and the strong negative financial and reputational impact it had on the firm called for a thorough review of what happened and for disciplinary action to be taken against the employees involved. These include Kweku Adoboli, who has been charged with fraud and false accounting in connection with the unauthorized transactions, and those who supervised or worked alongside him in his specific business area. As our internal investigations revealed deficiencies in our operational risk controls, certain individuals in the relevant support and control functions were also disciplined.

Following this incident, we terminated the employment of certain individuals, including Mr. Adoboli. Several others chose to resign. In the case of most other employees involved, we determined the appropriate financial and non-financial measures to be taken by means of the firm's internal disciplinary processes.

Our regulators in Switzerland and the UK are conducting a joint investigation into the unauthorized trading incident and have commenced separate enforcement proceedings against UBS in relation to this matter. We are cooperating fully with them.

Bonus pool funding

This incident had a significant effect on the financial performance of UBS, and of the Investment Bank in particular, in 2011. Accordingly, it led to substantially lower bonuses for 2011, in particular at the Investment Bank. The bonus pools for all other business divisions and the Corporate Center were considerably less affected, largely in line with their business performance, and, in the case of the Corporate Center, overall Group performance.

➔ **Refer to the "Compensation funding and expenses" section of this report for more information**

Deferred compensation and bonuses

A key feature of our compensation framework is the inclusion of forfeiture provisions in our deferred compensation plans which enable the firm to forfeit the unvested, deferred portion of an employee's bonus if he or she resigns voluntarily, is terminated for cause, or commits certain harmful acts that cause financial or reputational damage to the firm.

Accordingly, certain employees whose employment was terminated in connection with the unauthorized trading incident have forfeited their unvested deferred compensation. In addition, we are currently reviewing whether the unvested deferred compensation of additional employees should be forfeited in connection with the incident. Some of these decisions will also depend on the outcome of investigations by our regulators.

The vesting of certain awards granted in prior years that are subject to divisional profitability requirements has been affected as a result of the impact that the unauthorized trading incident has had on the Investment Bank's financial performance in 2011. As a result, 50% of the first installment of the Senior Executive Equity Ownership Plan (SEEOP) award granted in 2011 to Carsten Kengeter, CEO of the Investment Bank, was forfeited, as was 50% of the first installment of EOP awards granted in 2011 to Investment Bank employees who are key risk-takers, Group Managing Directors, or whose total bonus for 2010 exceeded CHF/USD 2 million. Consequently, these employees only received 50% of these unvested awards that were due to vest in March 2012.

Impact on the GEB

The unauthorized trading incident was also considered in evaluating the performance of certain members of the GEB.

Former Group CEO Oswald J. Grübel, who assumed full responsibility for the matter, resigned at the end of September 2011. He elected not to be considered for a bonus and did not receive one for 2011. Likewise, Mr. Kengeter elected to receive no bonus for 2011.

➔ **Refer to the discussion in the "2011 compensation for the Group Executive Board and Board of Directors" section of this report for more information**

Incident & Consequences Process

Any disciplinary action taken against an employee as a result of poor performance, inappropriate behavior and violations of controls or policies is considered during the year-end performance review, and may give rise to financial or non-financial consequences. Financial consequences include a reduced or no bonus, a reduced or no base salary increase and potential forfeiture of unvested deferred compensation. Non-financial consequences include a less favorable performance evaluation and cancellation of a promotion. These decisions are audited through an internal disciplinary process known as the "Incident & Consequences Process". If the measures to be applied in a case with regard to base salary, bonus, promotion and performance rating are outside the established guidelines, the business is asked to review its decisions. Exception requests are presented to the Incident & Consequences Committee, which is comprised of the Group Chief Financial Officer, the Group Chief Risk Officer, the Group Head of Human Resources and the Global Head of Compliance. Requests are accompanied by a factual justification for the exception. The committee can grant or decline to grant an exception.

In 2011, 400 employees were subject to disciplinary reviews, though disciplinary action was not taken in all cases. These employees include those who were considered to have been potentially involved in the unauthorized trading incident.

Compensation for financial advisors in Wealth Management Americas

In line with market practice in the US for the brokerage business, 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 transaction 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, the amount of net new money brought in, or the amount of revenue generated from Wealth Management-based services or products. For 2011, we paid a total of CHF 2,866 million in compensation to financial advisors in Wealth Management Americas.

Other variable compensation

To support hiring or retention, particularly at senior levels, we may offer certain incentives. These include the following:
– replacement payments, which compensate employees for deferred awards forfeited as a result of joining UBS;
– guarantees, which are fixed incentives, either in cash or in equity awarded under a plan, paid regardless of future events, and are limited to one year;
– sign-on payments, offered to important top-level candidates to increase the chances of their accepting an offer; and
– 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 usually agreed at the time of hiring. The table on the following page shows the amount of such payments made in 2011, 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 retrenchment program or a reduction in 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 award bonuses 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 Chief Executive Officers and Human Resources heads, and, in certain circumstances, the Group Head of Human Resources, Group CEO or the Human Resources and Compensation Committee. Furthermore, such payments may be forfeited or reduced should an employee subsequently act in a manner detrimental to the interests of the firm.

2012 Special Plan Award Program for the Investment Bank

Making the Investment Bank more focused and less complex and substantially reducing our risk-weighted assets are key elements of our business strategy. To ensure that we succeed in doing so, it is crucial that we retain key staff at the Investment Bank to help us execute our plans. As part of our efforts to motivate senior managers and encourage them to stay, we have decided to make a one-off strategic award to certain Managing Directors and Group Managing Directors in the Investment Bank in April 2012. The award, made in UBS shares, will vest three years after the date of grant (that is, in 2015). Vesting is subject to performance conditions, strict forfeiture conditions and continued employment with the firm.

Consistent with our strategy of reducing our risk-weighted assets, 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 published return on risk-weighted assets in the Investment Bank in 2012, 2013 and 2014.

We will award a total of CHF 300 million under this program, the financial impact of which will be reflected in 2012 and in subsequent years. Special Plan awards represent an investment in critical staff. As such, they do not relate to or arise from performance in 2011, and do not form part of our 2011 bonus pool. Members of the Investment Bank's Executive Committee received a significant part of their variable compensation in the form of Special Plan Awards, thereby further aligning their interests with those of our shareholders.

Audited

Sign-on payments, severance payments and guarantees

CHF million, except where indicated	Total	Of which expenses recognized in 2011[5]	Of which expenses to be recognized in 2012 and later
Total sign-on payments[1]			
Amount	183	50	133
Number of beneficiaries	828		
of which Group Executive Board (GEB) members[2]			
Amount	0	0	0
Number of beneficiaries	0		
of which key risk-takers[3]			
Amount	62	13	49
Number of beneficiaries	36		
Total guarantees			
Amount	237	102	135
Number of beneficiaries	359		
of which GEB members[2]			
Amount	0	0	0
Number of beneficiaries	0		
of which key risk-takers[3]			
Amount	84	33	51
Number of beneficiaries	34		
Total severance payments[4]			
Amount	239	239	0
Number of beneficiaries	1,530		
of which GEB members[2]			
Amount	0	0	0
Number of beneficiaries	0		
of which key risk-takers[3]			
Amount	5	5	0
Number of beneficiaries	4		

1 For the purpose of this table we consider replacement payments as sign-on payments. 2 Expenses for GEB members are reported on a pro rata basis. As for 2011, no severance or sign-on payments were made to GEB members for 2010. 3 Expenses for key risk-takers are full-year amounts for individuals in office on 31 December 2011. 4 Includes legally obligated and standard severance payments, as well as supplemental severance payments of CHF 23 million which are expensed as discretionary bonus. 5 Expenses before post vesting transfer restrictions.

Pensions and benefits

As part of our efforts to attract and retain the best employees, our total compensation includes, in addition to a base salary and bonus, 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.

The main aim of pensions is to 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.

We recently announced changes to our Swiss pension plan. These changes, which were made to reflect higher future life expectancy and the changed market environment, will take effect in 2013 and will apply in their entirety to all employees in 2021. The main changes are an increase in the retirement age and a reduction in the conversion rate used to calculate the pension on retirement.

➔ **Refer to "Note 29 Pension and other post-employment benefit plans" in the "Financial Information" section of this report for more information**

Employee share purchase program

To enable our employees to invest in UBS and have a personal stake in the success of the firm, our employee share purchase program, the Equity Plus Plan, allows employees to contribute between 1%–30% of their base salary and/or 1%–35% of their bonus toward the purchase of UBS shares. All employees except those holding the rank of Managing Director and above are eligible to participate. Employees purchase UBS shares at market price, but receive one free share for every three purchased through the program. These free shares vest after three years, with vesting subject to continued employment at UBS.

Key risk-takers

As it constitutes sound business practice, particularly in relation to our efforts to ensure that we incentivize appropriate risk-taking, and in compliance with regulatory requirements in major jurisdictions, we identify the key risk-takers at our firm. These are around 450 individuals who, by the nature of their role, have been determined to be able to materially set, commit or control significant amounts of the firm's resources and / or exert significant influence over its risk profile, whether they are in the front office, logistics or control functions. All GEB members are key risk-takers.

Key risk-takers are subject to an additional level of 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, key risk-takers also face 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 regardless of whether they are determined to be key risk-takers or not, and to all employees with a total bonus exceeding CHF/USD 2 million. These two groups of employees receive their annual bonuses under the EOP, with the vesting of their deferred awards partially contingent on the same performance conditions to which key risk-takers are subject.

With effect from 2012, employees with a bonus exceeding CHF/USD 2 million will also be considered key risk-takers if they have not already been identified as such based on our overall criteria for identifying key risk-takers. This category of employees, who, as mentioned, are already subject to the deferral measures that apply to key risk-takers, will in future also receive performance evaluations from the control functions.

➔ Refer to the discussion "Support appropriate and controlled risk-taking" in the "Total Reward Principles" section of this report for more information

While we comply with the relevant FINMA requirements regarding risk-takers, we also consult with our other regulators on this topic. In accordance with guidance from the UK Financial Services Authority (UK FSA), we have identified senior management and employees whose professional activities could have a material impact on the firm's risk profile in the UK, so-called "Code staff". Of the approximately 180 Code staff, about two-thirds are also part of our wider population of key risk-takers. 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 bonuses that are paid out immediately are delivered in shares. Furthermore, any shares granted to Code staff under the EOP for their performance in 2011 will be subject to an additional six-month blocking period upon vesting.

In the US, the Federal Reserve has recommended a more expansive approach for identifying such employees. Based on guidance from the Federal Reserve Bank of New York we have identified those employees, known as "covered employees". They are ap-

Audited

Fixed and variable compensation[1]

	Total for the year ended 2011		Not deferred		Deferred[3]	
CHF million, except where indicated	amount	%	amount	%	amount	%
Group Executive Board (GEB) members[2]						
Total compensation						
Amount	75	100	33	44	42	56
Number of beneficiaries	15					
Fixed compensation						
Base salary	20	27	20	100	0	0
Variable compensation	55	73	13	24	42	76
Cash Balance Plan (CBP)	23		13	56	10	44
Performance Equity Plan (PEP)	10		0	0	10	100
Senior Executive Equity Ownership Plan (SEEOP)	22		0	0	22	100
Key risk-takers						
Total compensation						
Amount	656	100	362	55	294	45
Number of beneficiaries	448					
Fixed compensation						
Base salary	194	30	194	100	0	0
Variable compensation	462	70	168	36	294	64

1 The compensation of GEB members who assumed their role in 2011 is reflected in the GEB and key risk-taker numbers above on a pro-rated basis. 2 The figures refer to all GEB members in office as of 31 December 2011 and all GEB members who stepped down during 2011. 3 This is based on the specific plan vesting which may differ from the accounting expensing.

proximately 1,000 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. About 100 of these covered employees identified using the wider Federal Reserve Bank of New York definition also form part of our global population of key risk-takers.

Group Executive Board

Base salary and bonus

GEB members receive a base salary. In addition, they are eligible to receive a bonus. While GEB bonuses are at the discretion of the BoD, they are tied to the overall performance of the Group and dependent on the available bonus pool funding.

➔ **Refer to the discussion in the "2011 compensation for the Group Executive Board and Board of Directors" and "Compensation funding and expenses" sections of this report for more information**

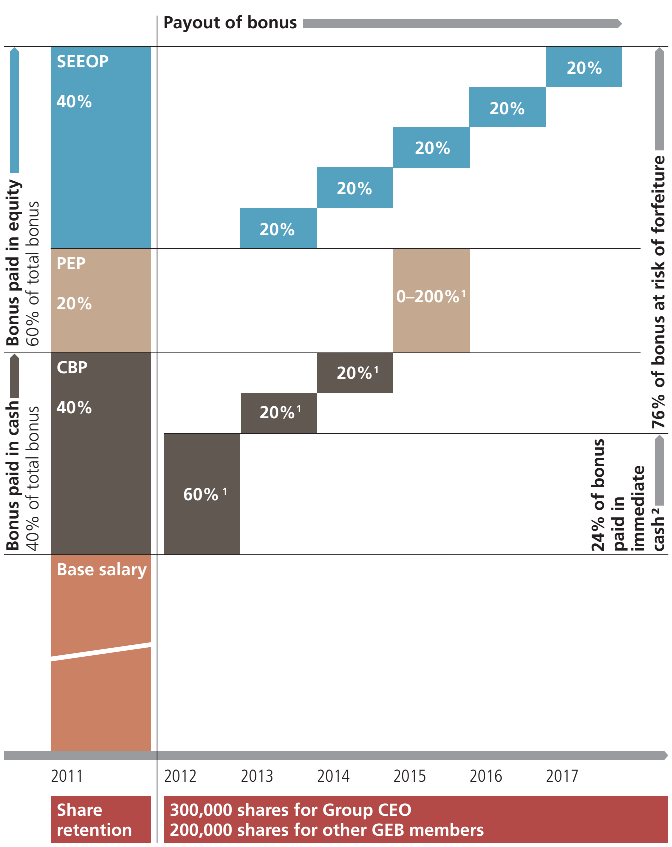
At least 76% of a GEB member's bonus is deferred. Of the annual bonus, 40% is awarded in cash under the Cash Balance Plan (CBP): a maximum of 24% is paid out immediately, subject to a cash cap of CHF/USD 2 million. Vesting of the deferred cash portion is in equal installments over the following two years, with the amount vesting dependent on the return on equity achieved by the Group (Group RoE) in the financial year prior to vesting. The remaining 60% of a GEB member's bonus is paid in equity, with 20% delivered under the Performance Equity Plan (PEP) and 40% under the Senior Executive Equity Ownership Plan (SEEOP). CBP awards vest over two years, PEP awards after three years, and SEEOP awards over five years. The deferred portion of all these awards is subject to forfeiture under certain conditions. The overall reduction in the leverage element in our compensation plans since 2009 further discourages excessive risk-taking.

➔ **Refer to the "Deferred variable compensation plans" section of this report for more information**

2011 compensation framework for GEB members

Of the annual bonus, 40% is paid in cash and 60% in equity; 76% of a GEB member's bonus is deferred.

Illustrative example



- UBS shares awarded
- Award vests in one-fifth installments over five years
- Subject to forfeiture in the event of financial loss, harmful acts or termination of employment

- Performance shares awarded¹
- Award vests after three years. Number of shares that vest may be between 0–2x the original number of performance shares awarded, depending on whether certain targets have been met
- Subject to forfeiture in the event of a harmful act or termination of employment

- 60%paid out immediately, subject to cash cap of USD/CHF 2 million, remainder paid out in equal installments of 20% over subsequent two years
- Annual adjustment in line with Group RoE: upward adjustment only if RoE exceeds 6%. Maximum adjustment capped at 20%
- Subject to forfeiture in the event of harmful acts or termination of employment

- 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 Subject to possible change, dependent on plan rules. 2 Subject to cash cap of CHF/USD 2 million.

Share retention

To further align their interests with those of our shareholders, GEB members are required to retain long-term ownership of UBS shares. Each must hold a minimum of 200,000 shares, while the Group CEO is required to hold 300,000 shares. These shareholdings are to 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.

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. Under employment contracts for GEB members, any bonus paid up to the date of termination is fully discretionary, and based on Group, business division and personal performance during the period of employment. Any discretionary cash bonus will generally be awarded under the CBP. Vesting of deferred bonuses to GEB members is not accelerated when they leave the firm, although exceptions may be made in cases of death or disability.

Benefits

Benefits for GEB members are in line with local practices for other employees.

Board of Directors

Chairman of the Board of Directors

The Chairman of the BoD receives a base salary that consists of cash and a fixed number of UBS shares that are blocked for four years. There is no variable or performance-related component in the Chairman's compensation package. However, the share component ensures that his pay is aligned with the long-term performance of the firm. The Chairman's employment agreement does not provide for special severance terms, including supplementary contributions to pension plans.

The Chairman's compensation is at the discretion of the Human Resources and Compensation Committee (HRCC), which conducts an annual assessment and takes into consideration pay levels for comparable roles outside of UBS.

Independent Board of Directors members

With the exception of the Chairman, all BoD members are independent. Independent BoD members receive fixed base fees for their services in line with those of our peers globally, with 50% of their fees in cash and the other 50% in blocked UBS shares that are restricted from sale for four years and thus granted with a 15% discount. Alternatively, they may choose to have 100% of their remuneration paid in blocked UBS shares. In addition, independent BoD members receive fees known as committee retainers dependent on 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 bonuses or benefits.

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 full BoD.

➔ **Refer to the "2011 compensation for the Group Executive Board and the Board of Directors" section of this report for more information**

Deferred variable compensation plans

Apart from the need to attract talented and motivated professionals, the key focus in designing our variable compensation plans is on maintaining a close link between pay and long-term sustainable performance.

To ensure that our employees' interests are aligned with those of our shareholders, we pay a large part of our bonuses in shares. To keep our employees focused on the long-term profitability of the firm, all of our variable compensation plans require a significant part of an employee's bonus to be deferred over three to five years. Our plans include forfeiture provisions that enable the firm to forfeit some or all of the unvested deferred portion if an employee has committed certain harmful acts, as well as performance conditions that make the vesting of awards partially conditional on a certain level of performance being achieved. Consequently, while an employee's individual performance is a key factor in determining the amount of bonus (including deferred equity awards) he or she receives, the amount that is finally paid out under our deferred variable compensation plans largely depends on Group or divisional performance, subject to forfeiture provisions as previously noted.

Once an award has vested, we do not make any adjustments to it.

➔ **Refer to "Note 30 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 long-term sustainable performance. All of our variable compensation plans feature performance provisions. A substantial part of variable compensation is deferred and at risk of forfeiture for several years.

		Cash Balance Plan	Performance Equity Plan	Senior Executive Equity Ownership Plan	Equity Ownership Plan	
Beneficiaries		GEB	GEB	GEB	Key risk-takers, Group Managing Directors and employees with total bonus greater than CHF/USD 2 million	Other employees with total compensation greater than CHF/USD 250,000
Vesting schedule		60% vests immediately. Remainder in installments of 20% each over following two years	Vests after three years. Number of shares that vest subject to fulfillment of performance conditions	Vests in equal installments over five years	Vests in equal installments over three years	
Conditions influencing payout	**Share price**		●	●	●	
	Forfeiture clauses	●	●	●	●	
	Performance conditions	Amount of cash delivered at vesting depends on the return on equity achieved by the Group during the vesting period	Number of shares that vest is subject to the achievement of economic profit and total shareholder return Final number of shares delivered may be between 0–2 times the number of performance shares granted Exposure to share price development	Vesting of awards is contingent on the profitability of a GEB member's business division, or on the profitability of the Group as a whole, if the GEB member in question does not head a division Exposure to share price development	Only vests in full if employee's business division is profitable (or the Group as a whole in the case of Corporate Center employees) Exposure to share price development	Exposure to share price development
Profitability as funding driver		●	●	●	●	
Payout instrument		Cash	UBS shares	UBS shares	UBS shares[1]	

1 Deferred cash plan for Global Asset Management employees.

Cash Balance Plan

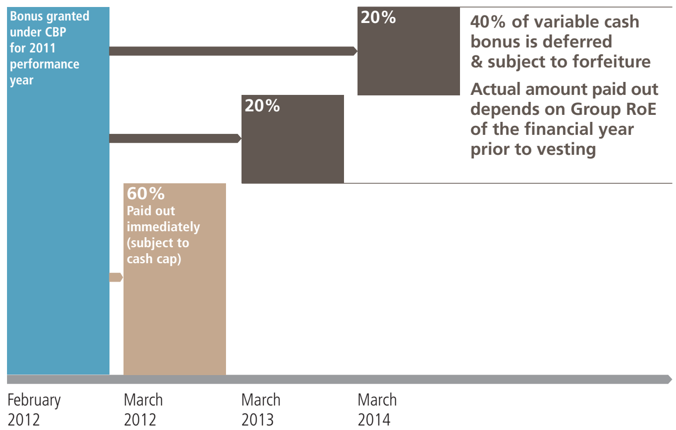
Plan type – Deferred cash plan

Eligible employees: Cash Balance Plan (CBP) awards are granted annually to GEB members.

Description: Generally, 40% of a GEB member's annual bonus consists of cash awarded under the CBP. A maximum of 24% of the total bonus is paid out immediately, subject to a cap of CHF/USD 2 million. The balance is deferred and paid out in two equal installments over two years, subject to the performance condition described below.

The amount of cash delivered on vesting depends on the return on equity achieved by the Group (Group RoE) during the vesting period. If the Group RoE is below 6%, no adjustment will be made to the amount of cash delivered upon vesting. If the Group RoE exceeds 6%, the unvested amount will be increased. The increase will correspond in percentage terms to the Group RoE achieved, though it may not exceed 20%. If the Group RoE is negative, the unvested amount will be decreased accordingly, up to a maximum of 100%.

How the CBP works: an illustration



No changes were made to the plan design in 2011.

Restrictions: The CBP contains forfeiture provisions so that the deferred amount is partially or fully forfeited if a harmful act is committed. Even after a GEB member has left the firm, the deferred portion of the CBP award continues to be at risk of forfeiture. In addition, the deferred unvested portion of the award is forfeited if a GEB member voluntarily terminates his or her employment and joins another financial services organization.

Vesting for 2011: The second installment of the CBP award granted in 2010 for the performance year 2009 vested in full in March 2012. The amount that vested was not adjusted as the RoE requirement described above only applies from 2011.

The first installment of the CBP award granted in 2011 for the performance year 2010 vested in March 2012. The amount that vested was increased by 8.6% in line with the Group RoE of 8.6% in the 2011 financial year.

Performance Equity Plan

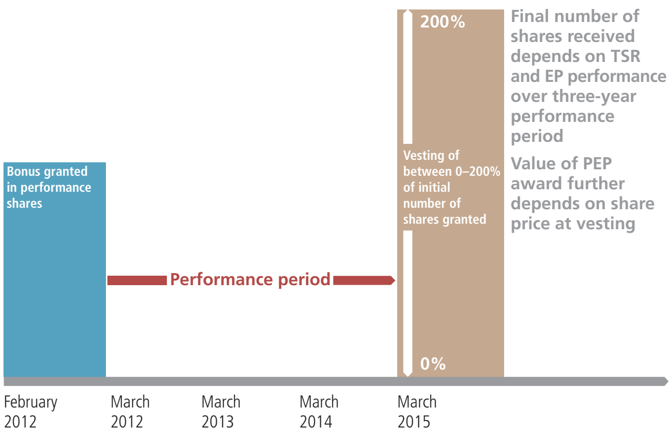
Plan type – UBS share plan

Eligible employees: Performance Equity Plan (PEP) awards are granted annually to GEB members.

Description: At the beginning of the three-year performance period, GEB members are granted a certain number of restricted performance shares. The actual number of UBS shares delivered at the end of the period can be between zero and two times the number of performance shares granted initially, depending on whether performance targets relating to economic profit (EP) and relative total shareholder return (TSR) have been achieved. EP is a measure of risk-adjusted profit that takes into account the cost of risk capital and is only realized when the entire return on capital that is achieved is higher than the firm's cost of capital. TSR measures the total return of a share to an investor, that is, both capital appreciation of the share price and the dividend yield. We measure our TSR over a three-year period relative to the companies in the Dow Jones Bank Titans 30 Index, an index representing 30 leading companies in the global banking sector.

To determine the number of UBS shares delivered at vesting, an EP multiplier, which changes in line with the level of three-year cumulative EP achieved, and ranges from 50%–150%, is multiplied with a TSR multiplier, which ranges from 50%–133%. If both are below the lowest threshold no shares will vest. If both are at or above the highest threshold the number of UBS shares delivered at the end of the performance period is twice that of the performance shares granted initially.

How the PEP works: an illustration



No changes were made to the plan design in 2011.

Restrictions: PEP awards are subject to forfeiture in the event of a harmful act or if employment has been terminated voluntarily or for cause.

Vesting for 2011: No vesting will take place in 2012. As the PEP was introduced in 2010, it is due to vest for the first time in March 2013.

Senior Executive Equity Ownership Plan

Plan type – UBS share plan

Eligible employees: Senior Executive Equity Ownership Plan (SEEOP) awards are granted annually to GEB members.

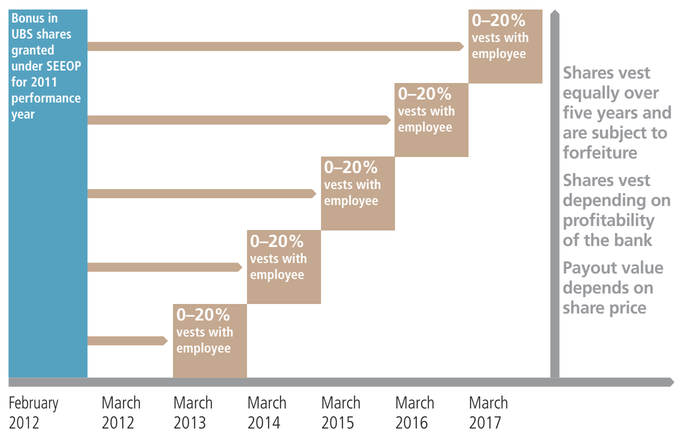
Description: SEEOP awards are granted in the form of UBS shares that vest in equal installments over five years. The SEEOP is similar to the EOP, described on the next page, but has a longer vesting period to reflect the additional level of commitment and long-term performance expected of GEB members.

No changes were made to the plan design in 2011.

Restrictions: SEEOP awards are subject to partial or full forfeiture in the event of a harmful act or if the business division to which a GEB member belongs makes a loss. Under the SEEOP, profitability is defined as an operating profit before tax adjusted for certain items such as disclosed own credit, restructuring charges, the profit and loss impact of strategic divestments or investments, goodwill-related foreign currency translation charges and certain unique, non-recurring costs that are not within the control of divisional or Group management. The amount forfeited depends on the extent of the loss and generally ranges from 10%–50% of the award portion due to vest.

SEEOP awards will be fully forfeited if employment is terminated voluntarily or for cause.

How the SEEOP works: an illustration



Vesting for 2011: The SEEOP profitability requirement was introduced starting from the performance year 2010. The first installment of the award granted in 2011 for the performance year 2010, which was due to vest in March 2012, vested in full for all GEB members except Carsten Kengeter, CEO of the Investment Bank. As the Investment Bank did not meet its profitability requirement in 2011, 50% of his SEEOP award installment was forfeited.

Equity Ownership Plan

Plan type – UBS share plan (deferred cash plan for Global Asset Management employees)

Eligible employees: The Equity Ownership Plan (EOP) is a mandatory bonus deferral plan for all employees with total compensation of CHF/USD 250,000 or more. For 2011, around 7,000 employees received EOP awards. These employees include key risk-takers, Group Managing Directors and employees whose total bonus exceeds CHF/USD 2 million. EOP awards are granted annually.

Description: Employees with total compensation (that is, base salary and bonus) of CHF/USD 250,000 or more receive 60% of their bonus above that level in UBS shares that are deferred over three years under the EOP.

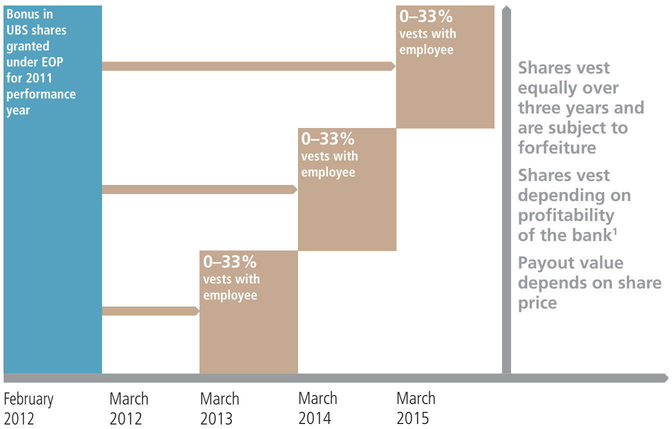
To align their compensation with the performance of the funds that they manage, Global Asset Management employees receive their EOP awards in the form of deferred cash, the amount of which depends on the value of the relevant underlying Global Asset Management funds in a designated alternative investment vehicle at the time of vesting. The vesting and forfeiture provisions of these awards are the same as for EOP awards made in the form of UBS shares.

No changes were made to the plan design in 2011.

Restrictions: The unvested portion of EOP awards is subject to forfeiture in the event of a harmful act or if employment is terminated voluntarily or for cause.

EOP awards granted to key risk-takers, Group Managing Directors and employees whose total bonus exceeds CHF/USD 2 million are known as Performance EOP awards. They vest in full only if the business division to which the employee belongs is profitable. If the business division incurs an operating loss in a given year, then the deferred portion of the EOP award due to vest in the following year will be partially forfeited. Under the EOP, profitability is defined as an operating profit before tax adjusted for certain items such as disclosed own credit, restructuring charges, the profit and loss impact of strategic divestments or investments, goodwill-related foreign currency translation charges and certain unique, non-recurring costs that are not within the control of divisional or Group management.

How the EOP works: an illustration



1 Profitability performance conditions are in place for key risk-takers, Group Managing Directors and other employees with a total bonus exceeding CHF/USD 2 million.

The amount forfeited depends on the extent of the loss and generally ranges from 10%–50% of the award portion due to vest. In the case of Corporate Center employees, the vesting of their awards is partially conditional on the profitability of the Group as a whole.

Vesting for 2011: Performance EOP awards were granted for the first time in 2011 for the 2010 performance year. The first installment of that award, which was due to vest in March 2012, vested in full for employees in all divisions except the Investment Bank. For Investment Bank employees, 50% of their award installments were forfeited as the Investment Bank did not meet its profitability requirement in 2011.

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.

➔ **Refer to "Note 30 Equity participation and other compensation plans" in the "Financial Information" section of this report for more information**

Plan	Conditional Variable Compensation Plan (CVCP)	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)
Year granted	2009 only	2011 only	2010 only	2002–2009	2002–2009
Eligible employees	Selected employees (approximately 9,500 employees), excluding GEB members	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	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	SAR or stock options with a strike price not less than 110% of the fair market value of a UBS share on the date of grant
Performance conditions	No financial loss incurred (vesting based on disclosed full-year results) and no need for additional capital injection by government	None	Dependent on share price at the end of the five-year period	None	None
Restrictions / other conditions	Subject to continued employment, non-solicitation of clients and employees and non-disclosure of proprietary information The first tranche of the CVCP was forfeited in its entirety as the Group was not profitable in 2009 The second tranche of the CVCP vested on 12 April 2011 following the announcement of UBS's 2010 profit (paid to employees in all business divisions except Wealth Management Americas, which recorded a full-year loss) The third tranche of the CVCP vested in April 2012 following the announcement of UBS's 2011 profit. It was paid to employees in all divisions	Subject to continued employment and harmful acts 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 one-third installments over a three-year period	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

Compensation funding and expenses

How we determine our bonus pool

Each business division plans its bonus pool annually based on the funding framework and process that has been reviewed by the Human Resources and Compensation Committee (HRCC). Over the course of the year, each division makes accruals to ensure that sufficient funds are available to pay bonuses at the end of the year. However, the actual size of the final bonus pool depends on the various factors outlined below and is subject to the approval of the BoD.

Business performance is the basis of our compensation funding framework. At business division level, performance is measured by a variety of factors, including profit, or contribution before bonus and economic contribution before bonus. Economic contribution before bonus deducts the cost of capital based on the equity allocated to a business, which is a reflection of the relative riskiness of that business.

We derive the initial divisional bonus pools by multiplying the so-called divisional compensation funding rate with the divisional adjusted contribution before bonus. In determining our funding rates, we consider various factors such as the appropriate change in pay that reflects the change in performance over the year, affordability and our need to be competitive in the market. Funding rates are directly linked to the level of profitability in each division. As profits within a business division increase, the proportion of profits allocated for the payment of bonuses is reduced. This approach allows us to protect the firm in years of downturn or recovery by retaining key employees, while providing additional shareholder return in good years by preventing excessive capital usage for compensation.

Although profitability is the main factor in determining the size of our bonus pool, and while we apply funding rates that provide an initial basis for determining divisional bonus pools, management may still apply its judgment and make adjustments to further assess the overall quality of earnings by looking at relevant key performance indicators and other qualitative measures, including risk factors. If the bonus pool for a business division is deemed not to fully reflect its performance, the Group CEO may apply his discretion and make recommendations to increase or reduce the size of the pool. These recommendations are reviewed by the HRCC. Such discretionary adjustments may be made, for example, where a business division is in the process of restructuring or investing heavily in growth, both of which have a strong negative short-term financial impact, but provide for sustained profitability over the longer term. Furthermore, we recognize the strategic importance of maintaining a competitive position in the labor market, and may also make adjustments to variable compensation funding determined by competitive benchmarking. This involves considering our market position, both from a performance and a compensation perspective, together with industry compensation trends, including at senior management levels, based on a comparison among peer groups and across regions. Finally, particularly given our need to build up capital to meet new, more stringent capital requirements, we also consider the capital impact when determining the size of our bonus pool.

At a business division level, each CEO proposes funding and allocation, taking into account input from Group Risk. These are discussed with the Group CEO together with the underlying contribution before bonus and other relevant performance indicators. The HRCC reviews the rationale provided for the divisional bonus pools. It also considers performance indicators and risk factors specific to each business division when assessing performance and earnings quality, before recommending the size of the final bonus pool to the BoD.

Sustainable profitability is key to compensation funding

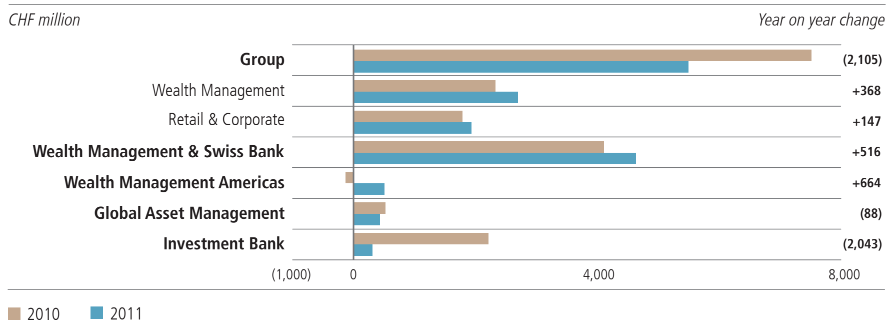
Primary basis for funding across UBS is profitability. The following describes how we determine our bonus pools.

Business performance over the last two years

Our performance was weaker in 2011, with a profit before tax of CHF 5,350 million compared with CHF 7,455 million in 2010.

Our pre-tax profit declined to CHF 5,350 million in 2011 from CHF 7,455 million in 2010, reflecting lower operating income primarily in the Investment Bank, partly offset by cost reductions across most of the businesses. During 2011 we continued to strengthen our already industry-leading capital position. At the end of the year, our Basel II tier 1 capital ratio stood at 19.6% and our Basel 2.5 tier 1 capital ratio was 15.9%. We also saw a marked improvement in our net new money performance across our wealth management businesses.

Operating profit from continuing operations before tax



Bonus pools for 2011 were determined based on the financial performance as reported in the Group's fourth quarter 2011 financial report which was published 7 February 2012. The 2011 results have since been adjusted to account for subsequent events. These adjustments decreased the Group's pre-tax profit by CHF 103 million (from CHF 5,453 million to CHF 5,350 million). The Investment Bank's operating profit decreased by a net CHF 150 million (from CHF 304 million to CHF 154 million), including the benefit of CHF 17 million lower personnel expenses resulting from the HRCC decision to forfeit more of the Performance EOP tranche due to vest for the year 2011. Partially offsetting the net reduction in operating profit in the Investment Bank were increases in Wealth Management Americas of CHF 30 million (from CHF 504 million to CHF 534 million) and in Corporate Center of CHF 17 million (from a loss of CHF 380 million to a loss of CHF 363 million).

➔ **Refer to "Note 32 Events after the reporting period" in the "Financial information" section of this report for more information**

Bonuses granted for the 2011 performance year

Our bonus pool for 2011 is CHF 2.6 billion, 40% lower than it was for 2010 (compared with adjusted contribution before bonus which was 37% lower), consistent with a marked decline in our overall profitability last year in a demanding market environment. The bonus pool for the Investment Bank was reduced by approximately 60% due to the combined impact of the unauthorized trading incident and substantially weaker divisional performance last year. In other business divisions, where performance was stronger, the reduction in the bonus pool was less significant.

The "Total variable compensation" table shows the amount of variable compensation awarded to employees for the performance year 2011, together with the number of beneficiaries for each type of award granted. We define variable compensation as the discretionary, performance-based bonus pool for the given year.

In the case of deferred cash and share awards, the final amount paid to an employee is influenced by forfeiture provisions and the performance conditions to which these awards are subject. The deferred share award amount is based on the fair value of these awards on the date of grant.

The accounting adjustment column in the "Total variable compensation" table shows the difference between the bonus amount granted to employees and the expensed fair value amount according to the International Financial Reporting Standards (IFRS) 2 accounting standard. This adjustment is made to reflect that the fair value of shares that have vested for accounting purposes, but are still subject to sale or transfer restrictions, is lower than the market value of unrestricted shares. For example, an EOP award vests for accounting purposes immediately when an employee retires, while the shares remain blocked over the original vesting period. In this case, the fair value of the blocked EOP award is less than the current market value of an unrestricted share. Where a performance condition under EOP applies, the expensed amount reflects a discount for expected forfeitures which is trued-up to reflect the actual outcome.

The "Deferred compensation" table shows the current intrinsic value of unvested outstanding deferred variable compensation awards that are subject to ex-post adjustments. For share-based plans, the intrinsic value is determined based on the closing share price on 30 December 2011. For fund-linked plans, 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 compensation plans listed in the "Deferred compensation" table on the following page are subject to ex-post adjustments, whether implicitly, through exposure to share price movements, or explicitly, for example, through forfeitures made by the firm. Accordingly, their value can change over time. The amounts shown in the column "Relating to awards for prior years" in fact 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 2011.

➔ **Refer to "Note 30 Equity participation and other compensation plans" in the "Financial Information" section of this report for more information**

Audited

Total variable compensation[1]

	Expenses		Expenses deferred to future periods		Accounting adjustment		Total		Number of beneficiaries	
CHF million, except where indicated	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Cash discretionary bonus	**1,514**	2,079	**0**	0	**0**	0	**1,514**	2,079	**50,620**	51,522
Deferred cash plans	**34**	64	**3**	236	**0**	0	**37**	300	**62**	576
UBS share plans	**234**	440	**635**	1,271	**54**	60	**923**	1,771	**6,514**	7,516
UBS share option plans	**0**	0	**0**	0	**0**	0	**0**	0	**0**	0
Equity Ownership Plan – fund-linked	**25**	28	**69**	67	**0**	0	**94**	95	**515**	579
Total discretionary bonus pool	**1,807**	2,611	**707**	1,574	**54**	60	**2,568**	4,245	**50,635**	51,535
Total variable compensation – other[2]	**335**	399	**247**	337	**0**	0	**582**	736		
Total WMA financial advisor compensation[3]	**1,842**	1,980	**1,024**	698	**0**	2	**2,866**	2,680		

1 The total "discretionary bonus" awarded to employees for the performance years 2011 (CHF 2,568 million) and 2010 (CHF 4,245 million). Expenses under "total variable compensation – other" and "Total WMA financial advisor compensation" are not part of UBS's discretionary bonus pool. 2 Replacement payments, guarantees for new hires, forfeiture credits, severance payments and retention plan payments. 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 and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements.

Audited

Deferred compensation[1, 2]

CHF million, except where indicated	**Relating to awards for 2011**	Relating to awards for prior years[3]	Total	of which exposed to ex-post adjustments
Cash discretionary bonus	**0**	0	0	0%
Cash Balance Plan	**10**	19	29	100%
Equity Ownership Plan	**884**	2,298	3,182	100%
Senior Executive Equity Ownership Plan	**22**	46	68	100%
Performance Equity Plan	**10**	14	24	100%
Equity Ownership Plan – fund-linked	**94**	576	670	100%
Discontinued deferred compensation plans	**0**	577	577	100%
Total	**1,020**	3,530	4,550	

1 This is based on the specific plan vesting which may differ to the accounting expensing. 2 For more information, refer to "Note 30 Equity participation and other compensation plans" in the "Financial Information" section of this report. 3 This takes into account the ex-post implicit adjustments, given the share price movements since grant.

Bonus expense in the 2011 performance year

The bonus pool for a given performance year includes all discretionary, performance-based variable awards for that performance year. Certain awards that form part of the bonus pool, mainly discretionary cash awards, are already expensed in the same year while deferred awards are largely expensed in subsequent years. The chart "2011 bonus pool down 40% year on year" illustrates how the bonus pool for the 2011 performance year reconciles with the bonus expense in the 2011 financial year. The bonus expense includes all immediate expenses related to 2011 compensation awards and expenses related to awards made in prior years.

As illustrated in the chart, the bonus pool declined by CHF 1,677 million or 40% in 2011, while the 2011 bonus expense under the IFRS accounting rules declined by CHF 690 million or 17%. The reduction in the size of the bonus pool is more pronounced than the reduction in the bonus expense for the following reasons:

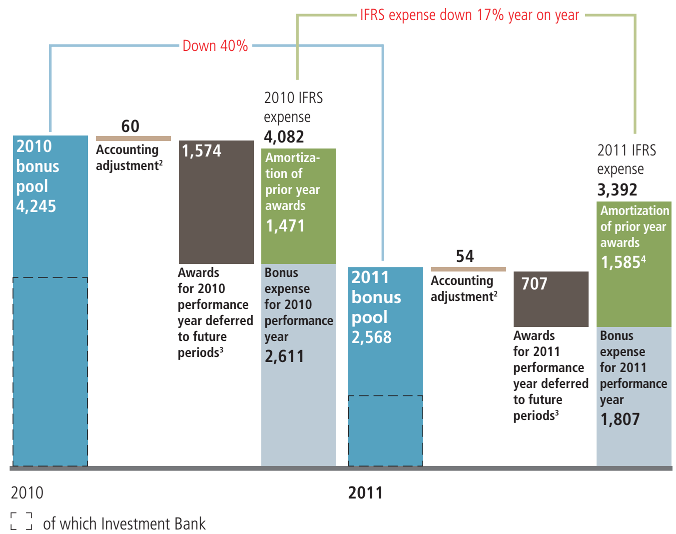
– The amount of new deferred awards granted in 2012 for the performance year 2011 is CHF 867 million lower than the amount of new deferred awards granted in 2011 for the performance year 2010.
– Amortization for prior year awards in 2011 increased by CHF 114 million from 2010. This reflects an increase in amortizations of deferred awards, which have become a more significant part of our compensation system. Since 2010, a larger part of compensation has consisted of deferred awards granted primarily under the EOP.
– The impact of accounting adjustments is lower for 2011 than it was for 2010.

At the end of 2011, the amount of unrecognized awards to be amortized in subsequent years was CHF 1.7 billion. Together with the Special Plan awards to be granted to senior managers at the Investment Bank in spring 2012, the total sum of unrecognized awards is CHF 2.0 billion, compared with CHF 2.8 billion at the end of 2010. The chart "Amortization of deferred compensation" shows that this reduction is due to the reduction in unamortized awards and significantly lower new awards granted for 2011.

➔ **Refer to the "Overview of our compensation model" section of this report for more information about the Special Plan Award Program**

2011 bonus pool down 40% year on year[1]

CHF million

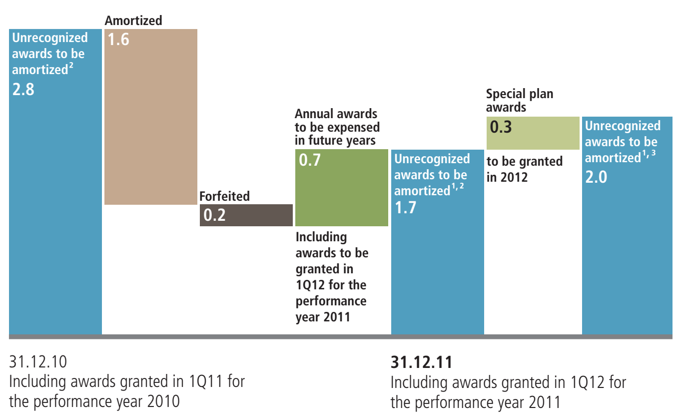


1 Excluding bonus add-ons such as social security. 2 Post vesting transfer restrictions and adjustments related to performance conditions. 3 Estimate. The actual amount to be expensed in future years may vary, for example due to forfeitures. 4 Includes CHF 54 million of restructuring costs related to these awards.

Amortization of deferred compensation

We expect a CHF 0.5 billion reduction in the awards to be amortized in 2012 (CHF 1.1 billion) vs 2011 (CHF 1.6 billion)[1]

CHF billion



1 Estimate. The actual amount to be expensed in future years may vary, for example due to forfeitures. 2 Related to discretionary bonus. 3 Estimate. Includes Special Plan awards to be granted in 2012.

The table on the next page shows the value of actual ex-post explicit and implicit adjustments to outstanding deferred compensation in the 2011 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 2011, based on the 15,132,302 shares forfeited during 2011, is CHF 171 million. The total value of ex-post explicit adjustments made to UBS options in 2011, based on the 3,756,444 options forfeited during 2011, is CHF 22 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.

Audited

Ex-post explicit and implicit adjustments to deferred compensation in 2011[1]

CHF million	Ex-post explicit adjustments[4]	Ex-post implicit adjustments to unvested awards[5]
UBS shares (EOP, IPP, PEP, SEEOP)[2]	**(171)**	**(1,432)**
UBS options (KESOP) and SAR (KESAP)[2]	**(22)**	**(290)**
UBS fund-linked plan (EOP)[3]	**(11)**	**(50)**

1 Compensation (discretionary bonus and other variable compensation) relating to awards for previous performance years. 2 IPP, KESOP and KESAP are discontinued deferred compensation plans. For CBP no ex-post adjustments were made in 2011. 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 2011 (CHF 11.18). For the UBS fund-linked plan this represents the forfeiture credits recognized in 2011. 5 Ex-post implict adjustments for UBS shares are calculated based on the difference between the weighted average grant date fair value and the share price on 30 December 2011. For UBS options they are calculated based on the difference between the fair value at grant and the aggregated intrinsic value on 30 December 2011. For the fund-linked plan they are calculated using the mark-to-market change during 2011.

Total personnel expenses for 2011

The following table shows our total personnel expenses in 2011 for our 64,820 employees and includes salaries, pension and other personnel costs, social security contributions and variable compensation. Variable compensation includes discretionary cash bonuses paid in 2012 for the 2011 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 bonus pool reflects the value of discretionary bonuses granted relating to the 2011 performance year, including awards that are paid out immediately and those that are deferred. To determine our variable compensation expense, several adjustments are required in order to reconcile the bonus 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 2012 for the performance year 2011; 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 2010 and 2011 accounting costs.

➔ Refer to "Note 30 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 2011	Relating to awards for prior years	Total 2011	2010	2009
Salaries	**6,859**	0	**6,859**	7,033	7,383
Variable compensation – discretionary bonus[1]	**1,807**	1,585	**3,392**	4,082	2,809
Variable compensation – other[1, 2]	**335**	(19)	**316**	230	699
of which replacement payments[3]	***31***	90	***121***	*107*	*41*
of which guarantees for new hires	***88***	85	***173***	*135*	*56*
of which forfeiture credits	***0***	*(215)*	***(215)***	*(167)*	*(81)*
of which severance payments[4]	***216***	0	***216***	*69*	*433*
of which retention plan payments[5]	***0***	21	***21***	*85*	*250*
Contractors	**217**	0	**217**	232	275
Social security	**697**	46	**743**	826	804
Pension and other post-employment benefit plans[6]	**788**	0	**788**	724	988
Wealth Management Americas: financial advisor compensation[1, 7]	**1,842**	676	**2,518**	2,667	2,426
Other personnel expenses[2]	**726**	32	**758**	1,127	1,159
Total personnel expenses	**13,271**	**2,320**	**15,591[8]**	**16,920**	**16,543**

1 Refer to "Note 30 Equity participation and other compensation plans" of this report for more information. 2 In 2011, we reclassified the costs related to our voluntary employee share ownership plan (Equity Plus) from Variable compensation – other to Other personnel expenses. Prior periods were adjusted for this change. As a result, Other personnel expenses were increased by CHF 80 million and CHF 132 million for the year ended 31 December 2010 and for the year ended 31 December 2009, respectively, with a corresponding decrease in 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. 5 Retention plan payments related to strategic retention programs. 6 Refer to "Note 29 Pension and other post-employment benefit plans" of this report for more information. 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, 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. 8 Includes restructuring charges of CHF 261 million. Refer to "Note 37 Reorganizations and disposals" for more information.

2011 compensation for the Group Executive Board and Board of Directors

Group Executive Board compensation

In 2011, total compensation for Group Executive Board (GEB) members reflected the performance of each executive in the context of each business division's operating performance, overall Group progress towards our medium-term strategic goals and each GEB member's individual contribution to effecting change, building high-performing teams and managing risk. We consider specific key performance indicators for individual GEB members that are relevant to their role, including risk-adjusted profitability, management of risk-weighted assets, growth in net new money and cost efficiency. In setting compensation levels for GEB members, the Human Resources and Compensation Committee (HRCC) and the Board of Directors (BoD) also considered their collective achievements in advancing our strategy, together with the compensation structure and levels of our main peers and the firm's relative performance.

The overall total compensation of GEB members in office on 31 December 2011 was CHF 70.1 million, compared with a total of CHF 91.0 million in 2010. Following a re-organization in the fourth quarter of 2011, which resulted in the combination of certain roles, there were 12 GEB members in office on 31 December 2011, compared with 13 on 31 December 2010. Aggregate compensation for the three GEB members who stepped down in 2011 was CHF 7.0 million, compared with CHF 3.3 million for the one GEB member who did so in 2010.

The highest paid GEB member in 2011 was Robert J. McCann, with total compensation of CHF 9.2 million. As shown in the table "Total compensation for GEB members", 76% of his bonus was deferred, with 16% in deferred cash and 60% in deferred equity vesting over three to five years. In 2011, Mr. McCann led the turnaround in profitability in Wealth Management Americas, despite market volatility and a challenging market environment, with significant net new money, a significant reduction in financial advisor attrition rates and the leading position in financial advisor productivity.

In 2011, the Group Chief Executive Officer (Group CEO), Sergio P. Ermotti, was granted a bonus of CHF 4.6 million. As such, his total compensation was CHF 6.4 million. As shown in the table "Total compensation for GEB members", 88% of his bonus was deferred, with 28% in deferred cash and blocked shares and 60% in deferred equity vesting over three to five years. In considering this award, the HRCC and the BoD considered both his contribution and his achievement against stated objectives as Group CEO since the end of September 2011 and his prior performance as Chairman and CEO for Europe, the Middle East and Africa following his joining the firm in April 2011. As Group CEO, Mr. Ermotti has been quick to grasp the leadership challenges presented, including finalizing and presenting the Group strategy on Investor Day and reestablishing investor and regulatory confidence in the wake of the unauthorized trading incident within the Investment Bank. A number of transformation initiatives have been launched within the firm related to both the operating environment and controls and to promoting the delivery of the full firm across our client franchises in each region. Before assuming the role of Group CEO, Mr. Ermotti was instrumental in further improving the firm's impact in a number of our Europe, Middle East and Africa locations and advancing an enhanced regional governance strategy.

The previous Group CEO, Oswald J. Grübel, who assumed full responsibility for the unauthorized trading incident, stepped down at the end of September 2011 and elected not to be considered for a bonus for 2011. The HRCC accepted and the BoD agreed with his decision.

Base salary

Base salaries are fixed for all GEB members and reviewed annually by the HRCC. Early in 2011, following a review of market trends with regard to the mix between fixed and variable compensation and the balance of awards within the compensation framework, the HRCC set the base pay at an annual level of CHF 1.5 million or equivalent in relevant local currency for GEB members other than the Group CEO. 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 in the first quarter of 2012, the HRCC decided that there will be no adjustment in base salary levels for the GEB in 2012. 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 29 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 bonus for 2011, 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

For 2011, the total compensation awarded to the Chairman of the BoD, Kaspar Villiger, was CHF 1,494,568. Our compensation framework provides for the Chairman to receive a base salary 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. Mr. Villiger chose to waive a substantial part of the share award and instead to accept a limited number of 38,700 UBS shares with a fair value of CHF 500,000. In addition, he decided to maintain the voluntary reduction in his annual base salary from CHF 2 million to CHF 850,000. The HRCC gratefully accepted and agreed with Mr. Villiger's decision.

Highest paid Board of Directors member

The Chairman of the BoD, Mr. Villiger, is the highest paid BoD member, with total compensation of CHF 1,494,568.

Axel A. Weber's compensation

In July 2011, we announced that Axel A. Weber would be nominated for election to the BoD as non-independent Vice-Chairman at the 2012 Annual General Meeting (AGM) and that if reelected in 2013, he would likely succeed Mr. Villiger as Chairman of the BoD. In November 2011, Mr. Villiger decided that he would not stand for reelection to the BoD at the AGM in 2012. As such, should Mr. Weber be elected to the BoD in 2012, he will succeed Mr. Villiger as Chairman of the BoD in 2012.

In line with the BoD's compensation structure, Mr. Weber will receive a base salary, blocked UBS shares and benefits in kind. In the event that he is elected to the BoD at the AGM in 2012 and succeeds Mr. Villiger as Chairman of the BoD, his annual compensation will be CHF 2 million, together with 200,000 UBS shares that are blocked for four years.

As previously announced, the BoD agreed that Mr. Weber will receive a one-time payment upon his election to the BoD at the 2012 AGM. This consists of one year's total compensation or CHF 2 million and 200,000 UBS shares that are blocked for one year.

Independent Board of Directors members

The table "Remuneration details and additional information for independent BoD members" shows the compensation received by independent BoD members between the 2011 and 2012 AGM. Fees for 2010 to 2011 remained unchanged. As the chair of the Corporate Responsibility Committee is now held by an independent BoD member, a retainer of CHF 100,000 has been awarded to that function.

Compensation for former Board of Directors and Group Executive Board members

No compensation or benefits in kind were paid to former BoD and GEB members for 2011. In 2010, part of such compensation paid related to legacy agreements with GEB members who left several years ago that were still honored by UBS. Benefits provided for under such agreements have been discontinued for all BoD and GEB members who stepped down after 1 January 2008.

Transactions in 2011

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 2011, five share sales were disclosed with a total value of CHF 7,760,461.35. Swiss stock exchange rules do not require disclosure of individual names of GEB or BoD members making such transactions.

UBS executives receive a substantial portion of their compensation in UBS equity-based awards. For this reason, management transactions generally see sales outweighing purchases. Blackout periods and synchronized dates for unblocking or vesting of shares or options granted as compensation may lead to transactions being concentrated in short time periods.

In addition, and in accordance with normal practice, two BoD members chose to receive their full pay in UBS shares. These shares, representing a value of CHF 650,000, will be allocated in March 2012.

Loans

BoD and GEB members are 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 31 Related parties" in the "Financial information" section of this report for information concerning loans granted to current and former executives**

List of tables

Audited

Total compensation for GEB members

CHF, except where indicated[a]			Variable cash compensation under CBP						
Name, function	For the year	Base salary	Immediate cash[b]	Deferred cash[5, b]	Annual bonus under PEP[c]	Annual bonus under SEEOP[d]	Benefits in kind[e]	Contributions to retirement benefit plans[f]	Total
Sergio P. Ermotti, Group CEO[1]	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[2]	2011	2,191,667	0	0	0	0	35,971	0	2,227,638
Oswald J. Grübel, former Group CEO	2010	3,000,000	0	0	0	0	25,600	0	3,025,600
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
Carsten Kengeter, CEO Investment Bank (highest-paid)	2010	874,626	1,002,496	2,339,158	1,670,827	3,341,654	92,547	0	9,321,308
Aggregate of all GEB members who were in office on 31 December 2011[3]	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 were in office on 31 December 2010[3]	2010	14,705,894	15,588,145	14,451,756	15,019,951	30,039,901	381,851	843,402	91,030,900
Aggregate of all GEB members who stepped down during 2011[4]	2011	4,155,602	509,201	1,166,759	0	962,768	171,954	80,499	7,046,783
Aggregate of all GEB members who stepped down during 2010[4]	2010	755,950	1,380,000	920,000	0	0	78,817	118,334	3,253,101

1 Sergio P. Ermotti was appointed on 1 April 2011 as GEB member and regional CEO of Europe, the Middle East and Africa. He was appointed on 24 September 2011 the new Group CEO ad interim and confirmed on 15 November 2011. 2 Oswald J. Grübel stepped down on 24 September 2011 as Group CEO. 3 Number and distribution of GEB members: 12 GEB members were in office on 31 December 2011, 13 GEB members were in office on 31 December 2010. 4 Number and distribution of former GEB members: 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. 2010: includes three months in office as a GEB member for Francesco Morra. 5 In 2011, for Sergio P. Ermotti, due to applicable UK FSA regulations, deferred cash includes blocked shares. In 2010, for John Cryan, Carsten Kengeter and Alexander Wilmot-Sitwell, due to applicable UK FSA regulations, deferred cash includes blocked shares.

Audited

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. Of the cash award, 60% is paid out immediately (representing 24% of a GEB member's total annual bonus). The balance is paid out in equal installments of 20%, each over the subsequent two years, and is subject to forfeiture.

c. Value of each performance share at grant: CHF 13.26 for PEP awards granted in 2012 relating to the performance year 2011; CHF 18.70 for PEP awards granted in 2011 relating to the performance year 2010. These values are based on valuations for accounting purposes which take into account the performance conditions and the range of possible outcomes for these conditions.

d. SEEOP awards vest in equal installments over five years and are subject to forfeiture. The grant date accounting value per share granted under SEEOP is: CHF 12.76 or USD 14.14 (actual shares) and CHF 12.36 or USD 13.70 (notional shares) for SEEOP awards granted in 2012 relating to the performance year 2011; CHF 18.43 or USD 19.94 (actual shares) and CHF 18.30 or USD 19.80 (notional shares) for SEEOP awards granted in 2011 relating to the performance year 2010.

e. Benefits in kind are all valued at market price, for example, health and welfare benefits and general expense allowances.

f. 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. 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 245,000 (USD 250,000 as from 1 January 2012). 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. As from 2 January 2012 the match is not available anymore for Wealth Management Americas employees with compensation in excess of USD 250,000. 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).

Audited

Share and option ownership / entitlements of GEB members on 31 December 2010 / 2011[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 Offcier	2011	0	0	0	0.000	0	0.000
	2010	–	–	–	–	–	–
Oswald J. Grübel, former Group Chief Executive Officer[5]	2011	–	–	–	–	–	–
	2010	0	0	0	0.000	4,000,000	0.181
John Cryan, former Group Chief Financial Officer[5]	2011	–	–	–	–	–	–
	2010	221,879	185,975	407,854	0.018	382,673	0.017
Markus U. Diethelm, Group General Counsel	2011	358,042	91,506	449,548	0.021	0	0.000
	2010	178,619	75,700	254,319	0.012	0	0.000
John A. Fraser, Chairman and CEO Global Asset Management	2011	460,707	280,414	741,121	0.034	1,088,795	0.050
	2010	326,702	316,541	643,243	0.029	1,088,795	0.049
Lukas Gähwiler, CEO UBS Switzerland and co-CEO Wealth Management & Swiss Bank	2011	252,293	37,517	289,810	0.013	0	0.000
	2010	110,000	850	110,850	0.005	0	0.000
Carsten Kengeter, Chairman and CEO Investment Bank	2011	971,575	556,016	1,527,591	0.070	905,000	0.041
	2010	916,201	363,047	1,279,248	0.058	905,000	0.041
Ulrich Körner, Group Chief Operating Officer and CEO Corporate Center	2011	389,090	95,597	484,687	0.022	0	0.000
	2010	177,592	95,597	273,189	0.012	0	0.000
Philip J. Lofts, Group Chief Risk Officer	2011	377,614	150,772	528,386	0.024	577,723	0.026
	2010	200,009	144,603	344,612	0.016	577,723	0.026
Robert J. McCann, CEO Wealth Management Americas	2011	330,047	0	330,047	0.015	0	0.000
	2010	138,598	540,866	679,464	0.031	0	0.000
Maureen Miskovic, former Group Chief Risk Officer[5]	2011	–	–	–	–	–	–
	2010	–	–	–	–	–	–
Tom Naratil, Group Chief Financial Officer	2011	221,238	193,836	415,074	0.019	1,046,122	0.048
	2010	–	–	–	–	–	–
Alexander Wilmot-Sitwell, co-Chairman and co-CEO Group Asia Pacific	2011	495,553	220,955	716,508	0.033	353,807	0.016
	2010	274,739	213,613	488,352	0.022	353,807	0.016
Robert Wolf, former Chairman and CEO, UBS Group Americas / President Investment Bank	2011	–	–	–	–	–	–
	2010	242,805	635,382	878,187	0.040	948,473	0.043
Chi-Won Yoon, co-Chairman and co-CEO Group Asia Pacific	2011	306,515	350,311	656,826	0.030	623,253	0.029
	2010	184,858	318,332	503,190	0.023	623,253	0.028
Jürg Zeltner, CEO UBS Wealth Management and co-CEO Wealth Management & Swiss Bank	2011	306,487	11,756	318,243	0.015	205,470	0.009
	2010	113,609	9,405	123,014	0.006	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 "Deferred variable compensation plans" in this section for more information on the plans. 3 Refer to "Note 30 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 2011.

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 bonus (cash)	Annual share award	Benefits in kind[e]	Contributions to retirement benefit plans[f]	Total
Kaspar Villiger, Chairman	2011	850,000	0	500,000[2]	144,568	0	1,494,568
	2010	850,000	0	500,000[2]	141,308	0	1,491,308

1 Kaspar Villiger was the only non-independent member in office on 31 December 2011 and 31 December 2010, respectively. 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			2011/2012	325,000	300,000		250,000[5]	**875,000**	50	39,845
	M		M			2010/2011	325,000	300,000		250,000[5]	**875,000**	100	52,631
David Sidwell, Senior Independent Director			M		C	2011/2012	325,000	500,000		250,000[5]	**1,075,000**	50	48,952
					C	2010/2011	325,000	400,000		250,000[5]	**975,000**	50	30,893
Sally Bott, former member						2011/2012	–	–			**–**	–	–
		C	M	M		2010/2011	325,000	450,000			**775,000**	50	24,556
Rainer-Marc Frey, member	M				M	2011/2012	325,000	400,000			**725,000**	100	62,635
	M				M	2010/2011	325,000	400,000			**725,000**	100	43,583
Bruno Gehrig, member		M	M			2011/2012	325,000	200,000			**525,000**	50	23,907
		M	M			2010/2011	325,000	200,000			**525,000**	50	16,634
Ann F. Godbehere, member	M	C		M		2011/2012	325,000	550,000			**875,000**	50	39,845
	M			M		2010/2011	325,000	250,000			**575,000**	50	18,219
Axel P. Lehmann, member			M		M	2011/2012	325,000	250,000			**575,000**	100	49,632
					M	2010/2011	325,000	200,000			**525,000**	100	31,519
Wolfgang Mayrhuber, member		M		C		2011/2012	325,000	200,000			**525,000**	50	23,907
		M		M		2010/2011	325,000	150,000			**475,000**	50	15,050
Helmut Panke, member		M			M	2011/2012	325,000	300,000			**625,000**	50	28,460
		M			M	2010/2011	325,000	300,000			**625,000**	50	19,803
William G. Parrett, member	C					2011/2012	325,000	300,000			**625,000**	50	28,460
	C					2010/2011	325,000	300,000			**625,000**	50	19,803
Joseph Yam, member				M	M	2011/2012	325,000	250,000			**575,000**	50	26,183
						2010/2011	–	–			**–**	–	–
Total 2011											**7,000,000**		
Total 2010											**6,700,000**		

Legend: C = Chairperson of the respective Committee; M = Member of the respective Committee

1 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. There were 10 independent BoD members in office on 31 December 2010. Wolfgang Mayrhuber was appointed at the AGM on 14 April 2010, and Sergio Marchionne and Peter Voser stepped down from the BoD at the AGM on 14 April 2010. 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 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), included a price discount of 15%, for a new value of discount price CHF 10.98. These shares are blocked for four years. For 2010, shares valued at CHF 18.56 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2011), included a price discount of 15%, for a new value of discount price of CHF 15.78. 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 submitted to social security contribution/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	2011	8,494,568
	2010	8,191,310

Audited

Number of shares of BoD members on 31 December 2010/2011[1]

Name, function	For the year	Number of shares held	Voting rights in %
Kaspar Villiger, Chairman	2011	49,440	0.002
	2010	22,500	0.001
Michel Demaré, Vice Chairman	2011	76,334	0.003
	2010	23,703	0.001
David Sidwell, Senior Independent Director	2011	100,247	0.005
	2010	69,354	0.003
Sally Bott, former member[2]	2011	–	–
	2010	39,542	0.002
Rainer-Marc Frey, member	2011	100,042	0.005
	2010	56,459	0.003
Bruno Gehrig, member	2011	54,409	0.002
	2010	37,775	0.002
Ann F. Godbehere, member	2011	41,441	0.002
	2010	23,222	0.001
Axel P. Lehmann, member	2011	89,971	0.004
	2010	58,452	0.003
Wolfgang Mayrhuber, member	2011	15,050	0.001
	2010	0	0.000
Helmut Panke, member	2011	109,332	0.005
	2010	89,529	0.004
William G. Parrett, member	2011	62,618	0.003
	2010	42,815	0.002
Joseph Yam, member	2011	0	0.000
	2010	–	–

1 This table includes blocked and unblocked shares held by BoD members, including related parties. No options were granted in 2010 and 2011. 2 Sally Bott stepped down on 11 February 2011 as BoD member.

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
Alberto Togni, former BoD member	2011	0	0	0
	2010	0	20,493	20,493
Aggregate of all former GEB members[2]	2011	0	0	0
	2010	0	57,229	57,229
Aggregate of all former BoD and GEB members	2011	0	0	0
	2010	0	77,722	77,722

1 Compensation or remuneration connected with the former member's activity on the BoD or GEB that is not at market conditions. 2 Includes zero former GEB member in 2011 and one former GEB member in 2010.

Audited

Total of all vested and unvested shares of GEB members[1,2]

	Total	Of which vested	Of which vesting				
			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
			2011	2012	2013	2014	2015
Shares on 31 December 2010	**4,409,345[3]**	2,922,411[3]	582,787	411,339	282,754	105,027	105,027

1 Includes related parties. 2 Excludes shares granted under variable compensation plans with forfeiture provisions. 3 Includes 22,500 vested shares of the Chairman.

No individual GEB member holds 1% or more of all shares issued.

Audited

Total of all blocked and unblocked shares of BoD members[1]

	Total	Of which unblocked	Of which blocked until			
			2012	2013	2014	2015
Shares on 31 December 2011	**698,884**	72,775	9,349	115,690	225,995	275,075
			2011	2012	2013	2014
Shares on 31 December 2010	**440,851[2]**	46,010[2]	4,266	9,349	127,970	253,256

1 Includes related parties. 2 Excludes 22,500 vested shares of the Chairman.

No individual BoD member holds 1% or more of all shares issued.

Audited

Vested and unvested options of GEB members on 31 December 2010 / 2011[1]

Sergio P. Ermotti, Group Chief Executive Officer

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2011	0					
2010	–					

Oswald J. Grübel, former Group Chief Executive Officer[4]

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2011	–					
2010	4,000,000	4,000,000	2009	26/02/2009	25/02/2014	CHF 10.10

John Cryan, former Group Chief Financial Officer[4]

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2011	–					
2010	382,673	21,362	2002	31/01/2003	31/01/2012	CHF 36.49
		20,731	2002	31/01/2004	31/01/2012	CHF 36.49
		20,725	2002	31/01/2005	31/01/2012	CHF 36.49
		5,454	2002	28/02/2003	28/02/2012	CHF 36.65
		5,294	2002	28/02/2004	28/02/2012	CHF 36.65
		5,292	2002	28/02/2005	28/02/2012	CHF 36.65
		23,626	2003	01/03/2004	31/01/2013	CHF 27.81
		23,620	2003	01/03/2005	31/01/2013	CHF 27.81
		23,612	2003	01/03/2006	31/01/2013	CHF 27.81
		5,526	2003	01/03/2004	28/02/2013	CHF 26.39
		5,524	2003	01/03/2005	28/02/2013	CHF 26.39
		5,524	2003	01/03/2006	28/02/2013	CHF 26.39
		17,072	2004	01/03/2005	27/02/2014	CHF 44.32
		17,068	2004	01/03/2006	27/02/2014	CHF 44.32
		17,063	2004	01/03/2007	27/02/2014	CHF 44.32
		14,210	2005	01/03/2006	28/02/2015	CHF 47.58
		14,210	2005	01/03/2007	28/02/2015	CHF 47.58
		14,207	2005	01/03/2008	28/02/2015	CHF 47.58
		5,330	2006	01/03/2007	28/02/2016	CHF 65.97
		5,328	2006	01/03/2008	28/02/2016	CHF 65.97
		5,326	2006	01/03/2009	28/02/2016	CHF 65.97
		17,762	2007	01/03/2008	28/02/2017	CHF 67.00
		17,762	2007	01/03/2009	28/02/2017	CHF 67.00
		17,760	2007	01/03/2010	28/02/2017	CHF 67.00
		53,285	2008	01/03/2011	28/02/2018	CHF 32.45

Markus U. Diethelm, Group General Counsel

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2011	0					
2010	0					

John A. Fraser, Chairman and CEO Global Asset Management

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
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

John A. Fraser, Chairman and CEO Global Asset Management (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2010	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 co-CEO Wealth Management & Swiss Bank

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2011	0					
2010	0					

Carsten Kengeter, Chairman and CEO Investment Bank

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2011	905,000	905,000	2009	01/03/2012	27/12/2019	CHF 40.00
2010	905,000	905,000	2009	01/03/2012	27/12/2019	CHF 40.00

Ulrich Körner, Group Chief Operating Officer and CEO Corporate Center

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
2011	0					
2010	0					

Philip J. Lofts, Group Chief Risk Officer

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
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
2010	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

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 30 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 GEB members who stepped down during 2011.

Audited

Vested and unvested options of GEB members on 31 December 2010 / 2011[1] (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Philip J. Lofts, Group Chief Risk Officer (continued)						
		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 Wealth Management Americas						
2011	0					
2010	0					
Maureen Miskovic, former Group Chief Risk Officer[4]						
2011	–					
2010	–					
Tom Naratil, Group Chief Financial Officer						
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
		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
2010	–					
Alexander Wilmot-Sitwell, co-Chairman and co-CEO Group Asia Pacific						
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
2010	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

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Alexander Wilmot-Sitwell, co-Chairman and co-CEO Group Asia Pacific (cont.)						
		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
Robert Wolf, former Chairman and CEO, UBS Group Americas / President Investment Bank						
2011	–					
2010	948,473	287,739	2003	31/01/2006	31/01/2013	USD 22.53
		213,140	2004	01/03/2007	27/02/2014	USD 38.13
		127,884	2005	01/03/2008	28/02/2015	USD 44.81
		106,570	2006	01/03/2009	28/02/2016	CHF 72.57
		106,570	2007	01/03/2010	28/02/2017	CHF 73.67
		106,570	2008	01/03/2011	28/02/2018	CHF 35.66
Chi-Won Yoon, co-Chairman and co-CEO Group Asia Pacific						
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
2010	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

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 30 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 GEB members who stepped down during 2011.

Audited

Vested and unvested options of GEB members on 31 December 2010 / 2011[1] (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Chi-Won Yoon, co-Chairman and co-CEO Group Asia Pacific (continued)						
		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 and co-CEO Wealth Management & Swiss Bank						
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
		149	2005	09/09/2007	09/09/2015	CHF 50.47
		127	2005	05/12/2007	05/12/2015	CHF 59.03

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 and co-CEO Wealth Management & Swiss Bank (continued)						
		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
2010	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
		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 30 Equity participation and other compensation plans" in the "Financial information" section of this report for more information. 4 GEB members who stepped down during 2011.

Audited

Loans granted to GEB members on 31 December 2010 / 2011[1]

CHF, except where indicated[a]

Name, function	For the year	Loans[2]
Jürg Zeltner, CEO UBS Wealth Management, co-CEO of Wealth Management & Swiss Bank[3]	2011	5,387,500
Jürg Zeltner, CEO UBS Wealth Management, co-CEO of Wealth Management & Swiss Bank[3]	2010	5,739,862
Aggregate of all GEB members	2011	17,539,601[4]
	2010	20,696,569

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 45,435 in 2011. 3 GEB member with the highest loan granted. 4 Includes a loan of CHF 3.3 million that will be forgiven in three equal installments over the next three years, subject to the GEB member's continued full-time employment with UBS and his performance being satisfactory and commensurate with his responsibilities.

Audited

Loans granted to BoD members on 31 December 2010 / 2011[1]

CHF, except where indicated[a]

Name, function	For the year	Loans[2]
Kaspar Villiger, Chairman	2011	0
	2010	0
Michel Demaré, Vice Chairman	2011	850,000
	2010	850,000
David Sidwell, Senior Independent Director	2011	0
	2010	0
Sally Bott, former member[3]	2011	–
	2010	0
Rainer-Marc Frey, member	2011	0
	2010	0
Bruno Gehrig, member[4]	2011	798,000
	2010	798,000
Ann F. Godbehere, member	2011	0
	2010	0
Axel P. Lehmann, member	2011	0
	2010	0
Wolfgang Mayrhuber, member	2011	0
	2010	0
Helmut Panke, member	2011	0
	2010	0
William G. Parrett, member	2011	0
	2010	0
Joseph Yam, member	2011	0
	2010	–
Aggregate of all BoD members	2011	1,648,000
	2010	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 Sally Bott stepped down on 11 February 2011 as BoD member.
4 Secured loan granted prior to his election to the BoD.

Financial information

Table of contents

Introduction and accounting principles

The financial information section of UBS's Annual Report 2011 comprises: a) the audited consolidated financial statements of UBS Group (the "Financial Statements") for 2011, 2010 and 2009, 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, the Parent Bank, for 2011 and 2010, prepared in order to meet Swiss regulatory requirements and in compliance with Swiss Federal Banking Law, and c) additional disclosures required under 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, the Swiss Parent Bank, includes branches worldwide and owns all the UBS Group companies, directly or indirectly. All references to 2011, 2010 and 2009 refer to the fiscal years ended 31 December 2011, 2010 and 2009, respectively. The financial statements for the UBS Group and the Parent Bank have been audited by Ernst & Young Ltd.

Update on internal control over financial reporting

Requirement to assess internal control over financial reporting

As a US-listed company, UBS is required under the Sarbanes-Oxley Act to evaluate the effectiveness of its "internal control over financial reporting" on an annual basis. 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. Further information concerning the purpose, scope and inherent limitations of internal controls over financial reporting is included in Management's Report on Internal Control over Financial Reporting on the next page.

Evaluation following discovery of unauthorized trading

Following the discovery in September 2011 of unauthorized and fictitious trading in our Global Synthetic Equity business unit in London, management determined that 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. The controls described in clauses (i) and (ii) are referred to below as the "Confirmation and Reconciliation Controls". Management at the same time confirmed that the financial effect of the unauthorized trading activity was fully reflected in UBS's third quarter 2011 financial report, and reconfirmed the reliability of the consolidated financial statements included in UBS's 2010 Annual Report.

Evaluation as of 31 December 2011

UBS management has assessed the effectiveness of UBS's internal control over financial reporting as of 31 December 2011. Based on the remedial work conducted during the fourth quarter of 2011, management confirmed that the Confirmation and Reconciliation Controls had been designed effectively and were in operation on 31 December 2011. While significant progress had been made, management recognized that, particularly 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 were operating effectively. Based on this assessment, management concluded that the remediation of the material weakness in UBS's internal control over financial reporting was not yet complete, and accordingly assessed UBS's internal control over financial reporting as ineffective, as of 31 December 2011. Notwithstanding the foregoing, we have determined that UBS's consolidated financial statements included in this report fairly present, in all material respects, our financial position on 31 December 2009, 2010 and 2011 and our results of operations and cash flows for the years then ended in accordance with IFRS.

Remediation of identified control deficiencies

As soon as we identified the control deficiencies referred to above, we initiated work to remediate them. The confirmation control and the monitoring control over the validity of changes to trades have been reactivated and refined, and we are extensively modifying our front-to-back control process with a view to ensuring that the transactions identified by the inter-desk reconciliation process referred to above are effectively reviewed, investigated and resolved on a timely basis. We have also developed new monitoring reports and processes as part of a broader program we have 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 has been tested for each month from November 2011 through February 2012. Before we confirm that the Confirmation and Reconciliation Controls are effective, we will perform additional testing of their operational effectiveness, and further refine them as appropriate.

In view of the progress that has been made through the date of this report, management believes that in the near future it will be able to determine that the Confirmation and Reconciliation Controls are operating effectively. Any such determination in the near future would be made on an interim basis, as management's required annual assessment for 2012 will be made only after the end of the year. In addition, our auditor, Ernst & Young Ltd, will audit our internal controls over financial reporting as of 31 December 2012.

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 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 (IASB).

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 2011

Following the discovery in September 2011 of unauthorized and fictitious trading in our Global Synthetic Equity business unit in London, management determined that certain controls designed to prevent or detect the use of unauthorized and fictitious transactions on a timely basis were not operating effectively. 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.

UBS management has assessed the effectiveness of UBS's internal control over financial reporting as of 31 December 2011 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 concluded that the remediation of the material weakness in UBS's internal control over financial reporting arising from the control deficiencies noted above was not yet complete, and accordingly assessed UBS's internal control over financial reporting as ineffective, as of 31 December 2011.

The effectiveness of UBS's internal control over financial reporting as of 31 December 2011 has been audited by Ernst & Young Ltd, UBS's independent registered public accounting firm, as stated in their report appearing in pages 285 to 286 below, which, consistent with management's assessment, expressed an adverse opinion on the effectiveness of UBS's internal control over financial reporting as of 31 December 2011.

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 13 March 2012

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 2011, 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 page 284. 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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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 the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The control requiring bilateral confirmation with counterparties of trades within the 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, re-booked or amended, the related monitoring control had ceased to operate effectively; and 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 the books and records, including controls over cancellations and amendments of internal trades that require supervisor review, intervention and resolution, did not operate effectively.

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 2011 and 2010, 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 2011. The material weakness described in the preceding paragraph was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2011 financial statements and this report does not affect our report dated 13 March 2012, which expressed an unqualified opinion on those financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, UBS AG and its subsidiaries have not maintained effective internal control over financial reporting as of 31 December 2011, based on the COSO criteria.

Ernst & Young Ltd

Jonathan Bourne	Andreas Loetscher
Licensed Audit Expert	Licensed Audit Expert
(Auditor in Charge)	

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To the General Meeting of

UBS AG, Zurich and Basel

Basel, 13 March 2012

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 2011 and 2010, 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 2011 on pages 289 to 410.

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 2011 and 2010, and the consolidated results of operations and the cash flows for each of the three years in the period ended 31 December 2011 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 2011, 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 13 March 2012 expressed an adverse opinion on the effectiveness of UBS AG and its subsidiaries' internal control over financial reporting.

Ernst & Young Ltd

Jonathan Bourne	Andreas Loetscher
Licensed Audit Expert	Licensed Audit Expert
(Auditor in Charge)	

Income statement

		For the year ended			% change from
CHF million, except per share data	Note	**31.12.11**	31.12.10	31.12.09	31.12.10
Continuing operations					
Interest income	3	**17,969**	18,872	23,461	(5)
Interest expense	3	**(11,143)**	(12,657)	(17,016)	(12)
Net interest income	3	**6,826**	6,215	6,446	10
Credit loss (expense) / recovery		**(84)**	(66)	(1,832)	27
Net interest income after credit loss expense		**6,742**	6,149	4,614	10
Net fee and commission income	4	**15,236**	17,160	17,712	(11)
Net trading income	3	**4,343**	7,471	(324)	(42)
Other income	5	**1,467**	1,214	599	21
Total operating income		**27,788**	31,994	22,601	(13)
Personnel expenses	6	**15,591**	16,920	16,543	(8)
General and administrative expenses	7	**5,959**	6,585	6,248	(10)
Depreciation of property and equipment	15	**761**	918	1,048	(17)
Impairment of goodwill	16	**0**	0	1,123	
Amortization of intangible assets	16	**127**	117	200	9
Total operating expenses		**22,439**	24,539	25,162	(9)
Operating profit from continuing operations before tax		**5,350**	7,455	(2,561)	(28)
Tax expense / (benefit)	22	**923**	(381)	(443)	
Net profit from continuing operations		**4,426**	7,836	(2,118)	(44)
Discontinued operations					
Profit from discontinued operations before tax	36	**0**	2	(7)	(100)
Tax expense	22	**0**	0	0	
Net profit from discontinued operations		**0**	2	(7)	(100)
Net profit		**4,427**	7,838	(2,125)	(44)
Net profit attributable to non-controlling interests		**268**	304	610	(12)
from continuing operations		**268**	303	600	(12)
from discontinued operations		**0**	1	10	(100)
Net profit attributable to UBS shareholders		**4,159**	7,534	(2,736)	(45)
from continuing operations		**4,158**	7,533	(2,719)	(45)
from discontinued operations		**0**	1	(17)	(100)
Earnings per share (CHF)					
Basic earnings per share	8	**1.10**	1.99	(0.75)	(45)
from continuing operations		**1.10**	1.99	(0.74)	(45)
from discontinued operations		**0.00**	0.00	0.00	
Diluted earnings per share	8	**1.08**	1.96	(0.75)	(45)
from continuing operations		**1.08**	1.96	(0.74)	(45)
from discontinued operations		**0.00**	0.00	0.00	

Statement of comprehensive income

	For the year ended				
CHF million	31.12.11			31.12.10	31.12.09
	Total	UBS shareholders	Non-controlling interests		
Net profit	**4,427**	**4,159**	**268**	7,838	(2,125)
Other comprehensive income					
Foreign currency translation					
Foreign currency translation movements, before tax	**995**	**703**	**292**	(951)[2]	(35)
Foreign exchange amounts reclassified to the income statement from equity	**8**	**8**		237	(259)
Income tax relating to foreign currency translation movements	**(6)**	**(6)**		121	22
Subtotal foreign currency translation movements, net of tax[1]	**998**	**706**	**292**	(593)[2]	(272)
Financial investments available-for-sale					
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	**1,458**	**1,458**		(499)	157
Impairment charges reclassified to the income statement from equity	**39**	**39**		72	70
Realized gains reclassified to the income statement from equity	**(950)**	**(950)**		(357)	(147)
Realized losses reclassified to the income statement from equity	**24**	**24**		153	1
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	**(76)**	**(76)**		13	(54)
Subtotal net unrealized gains / (losses) on financial investments available-for-sale, net of tax[1]	**495**	**495**		(618)	27
Cash flow hedges					
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	**3,093**	**3,093**		927	78
Net (gains) / losses reclassified to the income statement from equity	**(1,140)**	**(1,140)**		(1,108)	(756)
Income tax effects relating to cash flow hedges	**(417)**	**(417)**		38	257
Subtotal changes in fair value of derivative instruments designated as cash flow hedges[1]	**1,537**	**1,537**		(143)	(421)
Total other comprehensive income	**3,030**	**2,737**	**292**	(1,354)[2]	(667)
Total comprehensive income	**7,457**	**6,896**	**560**	6,484[2]	(2,792)
Total comprehensive income attributable to non-controlling interests	**560**			609[2]	484
Total comprehensive income attributable to UBS shareholders	**6,896**			5,875	(3,276)

1 Other comprehensive income attributable to UBS shareholders related to foreign currency translations was negative CHF 909 million in 2010 and negative CHF 136 million in 2009. Other comprehensive income attributable to UBS shareholders related to financial investments available-for-sale was negative CHF 607 million in 2010 and positive CHF 17 million in 2009. Other comprehensive income related to cash flow hedges was attributable to UBS shareholders for all periods presented. 2 Presentational changes have been made to the prior period related to the redemption of preferred securities; refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information.

Balance sheet

CHF million	Note	31.12.11	31.12.10	31.12.09	% change from 31.12.10
Assets					
Cash and balances with central banks		**40,638**	26,939	20,899	51
Due from banks	9a	**23,218**	17,133	16,804	36
Cash collateral on securities borrowed	10	**58,763**	62,454	63,507	(6)
Reverse repurchase agreements	10	**213,501**	142,790	116,689	50
Trading portfolio assets	11	**181,525**	228,815	232,258	(21)
of which: assets pledged as collateral		***39,936***	*61,352*	*44,221*	*(35)*
Positive replacement values	23	**486,584**	401,146	421,694	21
Cash collateral receivables on derivative instruments	10	**41,322**	38,071	53,774	9
Financial assets designated at fair value	12	**10,336**	8,504	10,223	22
Loans	9a	**266,604**	262,877	266,477	1
Financial investments available-for-sale	13	**53,174**	74,768	81,757	(29)
Accrued income and prepaid expenses		**6,327**	5,466	5,816	16
Investments in associates	14	**795**	790	870	1
Property and equipment	15	**5,688**	5,467	6,212	4
Goodwill and intangible assets	16	**9,695**	9,822	11,008	(1)
Deferred tax assets	22	**8,526**	9,522	8,868	(10)
Other assets	17	**12,465**	22,681	23,682	(45)
Total assets		**1,419,162**	1,317,247	1,340,538	8
Liabilities					
Due to banks	18	**30,201**	41,490	31,922	(27)
Cash collateral on securities lent	10	**8,136**	6,651	7,995	22
Repurchase agreements	10	**102,429**	74,796	64,175	37
Trading portfolio liabilities	11	**39,480**	54,975	47,469	(28)
Negative replacement values	23	**473,400**	393,762	409,943	20
Cash collateral payables on derivative instruments	10	**67,114**	58,924	66,097	14
Financial liabilities designated at fair value	19	**88,982**	100,756	112,653	(12)
Due to customers	18	**342,409**	332,301	339,263	3
Accrued expenses and deferred income		**6,850**	7,738	8,689	(11)
Debt issued	19	**140,617**	130,271	131,352	8
Other liabilities	20, 21	**61,692**	63,719	72,344	(3)
Total liabilities		**1,361,309**	1,265,384	1,291,905	8
Equity					
Share capital		**383**	383	356	0
Share premium		**34,614**	34,393	34,824	1
Treasury shares		**(1,160)**	(654)	(1,040)	77
Equity classified as obligation to purchase own shares		**(39)**	(54)	(2)	(28)
Retained earnings		**23,603**	19,444	11,910	21
Cumulative net income recognized directly in equity, net of tax		**(3,955)**	(6,693)	(5,034)	(41)
Equity attributable to UBS shareholders		**53,447**	46,820	41,013	14
Equity attributable to non-controlling interests		**4,406**	5,043	7,620	(13)
Total equity		**57,852**	51,863	48,633	12
Total liabilities and equity		**1,419,162**	1,317,247	1,340,538	8

Statement of changes in equity

CHF million	Share capital	Share premium	Treasury shares	Equity classified as obligation to purchase own shares
Balance as of 1 January 2009	**293**	**25,288**	**(3,156)**	**(46)**
Change in accounting policy[1]				
Issuance of share capital	63			
Acquisition of treasury shares			(476)	
Disposition of treasury shares			2,592	
Treasury shares gains / (losses) and net premium / (discount) on own equity derivative activity, net of tax		(1,268)		
Premium on shares issued and warrants exercised		10,599		
Employee share and share option plans		291		
Tax benefits from deferred compensation awards		1		
Transaction costs related to share issuances, net of tax		(87)		
Dividends[2]				
Equity classified as obligation to purchase own shares – movements				44
Preferred securities				
New consolidations and other increases				
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance as of 31 December 2009	**356**	**34,824**	**(1,040)**	**(2)**
Issuance of share capital	27			
Acquisition of treasury shares			(1,574)	
Disposition of treasury shares			1,960	
Treasury shares gains / (losses) and net premium / (discount) on own equity derivative activity, net of tax		(43)		
Premium / (discount) on shares issued and warrants exercised		(27)		
Employee share and share option plans		(104)		
Tax benefits from deferred compensation awards		(8)		
Transaction costs related to share issuances, net of tax		(113)		
Dividends[2]				
Equity classified as obligation to purchase own shares – movements				(52)
Preferred securities				
New consolidations and other increases		(136)		
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance as of 31 December 2010	**383**	**34,393**	**(654)**	**(54)**
Issuance of share capital				
Acquisition of treasury shares			**(2,455)**	
Disposition of treasury shares			**1,949**	
Treasury shares gains / (losses) and net premium / (discount) on own equity derivative activity, net of tax		**188**		
Premium on shares issued and warrants exercised		**10**		
Employee share and share option plans		**19**		
Tax benefits from deferred compensation awards		**9**		
Transaction costs related to share issuances, net of tax				
Dividends[2]				
Equity classified as obligation to purchase own shares – movements				**15**
Preferred securities				
New consolidations and other increases		**(5)**		
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance as of 31 December 2011	**383**	**34,614**	**(1,160)**	**(39)**

1 In 2011, we adjusted the 2009 opening balance of retained earnings by a credit of CHF 159 million and foreign currency translation by a corresponding debit of CHF 159 million to reflect a change in accounting policy. Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information. 2 Represents dividend payment obligations for preferred securities. 3 Presentational changes have been made to the prior period related to the redemption of preferred securities; refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information.

Retained earnings	Foreign currency translation	Financial investments available-for-sale	Cash flow hedges	Total equity attributable to UBS shareholders	Non-controlling interests	Total equity
14,487	**(6,309)**	**347**	**1,627**	**32,531**	**8,002**	**40,533**
159	(159)			0		0
				63		63
				(476)		(476)
				2,592		2,592
				(1,268)		(1,268)
				10,599		10,599
				291		291
				1		1
				(87)		(87)
				0	(849)	(849)
				44		44
				0	(7)	(7)
				0	3	3
				0	(13)	(13)
(2,736)	(136)	17	(421)	(3,276)	484	(2,792)
11,910	**(6,604)**	**364**	**1,206**	**41,013**	**7,620**	**48,633**
				27		27
				(1,574)		(1,574)
				1,960		1,960
				(43)		(43)
				(27)		(27)
				(104)		(104)
				(8)		(8)
				(113)		(113)
				0	(305)	(305)
				(52)		(52)
				0	(2,622)[3]	(2,622)
				(136)	6	(130)
				0	(264)	(264)
7,534	(909)	(607)	(143)	5,875	609[3]	6,484
19,444	**(7,513)**	**(243)**	**1,063**	**46,820**	**5,043**	**51,863**
				0		**0**
				(2,455)		**(2,455)**
				1,949		**1,949**
				188		**188**
				10		**10**
				19		**19**
				9		**9**
				0		**0**
				0	**(269)**	**(269)**
				15		**15**
				0	**(882)**	**(882)**
				(5)	**1**	**(4)**
				0	**(47)**	**(47)**
4,159	**706**	**495**	**1,537**	**6,896**	**560**	**7,457**
23,603	**(6,807)**	**252**	**2,600**	**53,447**	**4,406**	**57,852**

Equity attributable to non-controlling interests

	For the year ended		
CHF million	**31.12.11**	31.12.10	31.12.09
Preferred securities[1]			
Balance at the beginning of the year	**4,907**	7,254	7,381
Redemptions[2]	**(882)**	(2,622)[4]	(7)
Foreign currency translation[3]	**334**	275[4]	(120)
Balance at the end of the year	**4,359**	4,907	7,254
Other non-controlling interests at the end of the year	**47**	136	366
Total equity attributable to non-controlling interests	**4,406**	5,043	7,620

1 Increases and offsetting decreases due to dividends are excluded from this table. 2 Represents nominal amount translated at the historical currency exchange rate. 3 In 2011, foreign currency translation losses of CHF 121 million were offset by the derecognition of cumulative foreign currency translation losses of CHF 455 million related to the redemption of trust preferred securities, which represent the difference between the historical currency exchange rate at issuance and the currency exchange rate prevailing at the redemption date. 4 Presentational changes have been made to the prior period related to the redemption of preferred securities; refer to "Note 1b) Changes in accounting policies, comparability and other adjustments" for more information.

	For the year ended			% change from
Number of shares	**31.12.11**	31.12.10	31.12.09	31.12.10
Shares issued				
Balance at the beginning of the year	**3,830,840,513**	3,558,112,753	2,932,580,549	8
Issuance of shares	**1,281,386**	272,727,760	625,532,204	(100)
Balance at the end of the year	**3,832,121,899**	3,830,840,513	3,558,112,753	0
Treasury shares				
Balance at the beginning of the year	**38,892,031**	37,553,872	61,903,121	4
Acquisitions	**155,636,639**	105,824,816	33,566,097	47
Disposals	**(109,573,119)**	(104,486,657)	(57,915,346)	5
Balance at the end of the year	**84,955,551**	38,892,031	37,553,872	118

Conditional share capital

On 31 December 2011, 148,639,326 additional 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.

On 14 April 2010 the annual general meeting of UBS AG 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 the UBS AG (Parent Bank) disclosure.

Statement of cash flows

	For the year ended		
CHF million	**31.12.11**	31.12.10	31.12.09
Cash flow from / (used in) operating activities			
Net profit	**4,427**	7,838	(2,125)
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	**761**	918	1,048
Impairment of goodwill / amortization of intangible assets	**127**	117	1,323
Credit loss expense / (recovery)	**84**	66	1,832
Share of net profits of associates	**(42)**	(81)	(37)
Deferred tax expense / (benefit)	**817**	(605)	(960)
Net loss / (gain) from investing activities	**(996)**	(531)	425
Net loss / (gain) from financing activities	**(5,856)**	1,125	8,355
Net (increase) / decrease in operating assets:			
Net due from / to banks	**(14,296)**	9,022	(41,766)
Reverse repurchase agreements and cash collateral on securities borrowed	**(67,020)**	(25,048)	162,822
Trading portfolio, net replacement values and financial assets designated at fair value	**17,257**	22,634	43,344
Loans / due to customers	**6,298**	(3,429)	(316)
Accrued income, prepaid expenses and other assets	**10,428**	608	(4,208)
Net increase / (decrease) in operating liabilities:			
Repurchase agreements, cash collateral on securities lent	**29,119**	9,277	(41,351)
Net cash collateral on derivative instruments	**7,050**	(988)	(11,916)
Accrued expenses, deferred income and other liabilities	**(2,049)**	(7,039)	(29,242)
Income taxes paid, net of refunds	**(349)**	(498)	(505)
Net cash flow from / (used in) operating activities	**(14,241)**	13,385	86,723
Cash flow from / (used in) investing activities			
Purchase of subsidiaries, associates and intangible assets	**(58)**	(75)	(42)
Disposal of subsidiaries, associates and intangible assets	**50**	307	296
Purchase of property and equipment	**(1,129)**	(541)	(854)
Disposal of property and equipment	**233**	242	163
Net (investment in) / divestment of financial investments available-for-sale	**20,281**	4,164	(78,376)
Net cash flow from / (used in) investing activities	**19,377**	4,097	(78,812)
Cash flow from / (used in) financing activities			
Net short-term debt issued / (repaid)	**15,338**	4,459	(60,040)
Net movements in treasury shares and own equity derivative activity	**(1,885)**	(1,456)	673
Capital issuance	**0**	(113)	3,726
Issuance of long-term debt, including financial liabilities designated at fair value	**52,590**	78,418	67,062
Repayment of long-term debt, including financial liabilities designated at fair value	**(62,626)**	(77,497)	(65,024)
Increase in non-controlling interests	**1**	6	3
Dividends paid to / decrease in non-controlling interests	**(749)**	(2,053)	(583)
Net cash flow from / (used in) financing activities	**2,670**	1,764	(54,183)
Effects of exchange rate differences	**(2,129)**	(12,181)	5,529
Net increase / (decrease) in cash and cash equivalents	**5,678**	7,066	(40,744)
Cash and cash equivalents at the beginning of the year	**79,934**	72,868	113,611
Cash and cash equivalents at the end of the year	**85,612**	79,934	72,868
Cash and cash equivalents comprise:[1]			
Cash and balances with central banks	**40,638**	26,939	20,899
Money market paper[2]	**3,900**	17,110	6,327
Due from banks[3]	**41,074**	35,885	45,642
Total	**85,612**	79,934	72,868

1 In 2011, we have refined our definition of cash and cash equivalents. Prior periods have been adjusted accordingly. Refer to "Note 1 Summary of significant accounting policies" for more information. 2 Money market paper is included in the balance sheet under Trading portfolio assets (31 December 2011: CHF 1,783 million, 31 December 2010: CHF 11,750 million) and Financial investments available-for-sale (31 December 2011: CHF 2,117 million, 31 December 2010: CHF 5,360 million). CHF 0 million and CHF 9,941 million of money market paper was pledged as of 31 December 2011 and 31 December 2010, respectively. 3 Includes positions recognized in the balance sheet under Due from banks (31 December 2011: CHF 18,733 million, 31 December 2010: CHF 15,655 million) and Cash collateral receivables on derivative instruments with bank counterparties (31 December 2011: CHF 22,341 million, 31 December 2010: CHF 20,230 million, refer to Note 10).

Statement of cash flows (continued)

	For the year ended		
CHF million	**31.12.11**	31.12.10	31.12.09
Additional information			
Cash received as interest	**16,669**	17,344	23,844
Cash paid as interest	**9,845**	12,606	19,597
Cash received as dividends on equity investments (including associates)	**1,343**	1,395	1,090

Significant non-cash investing and financing activities

No significant items in 2011 and 2010.

	For the year ended
CHF million	31.12.09
Deconsolidation of UBS Pactual	
Financial investments available-for-sale	14
Property and equipment	31
Goodwill and intangible assets	731
Debt issued	1,393

Notes to the consolidated financial statements

Note 1 Summary of significant accounting policies

a) Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1) Basis of accounting

UBS AG and 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 merger was accounted for using the uniting of interests method of accounting.

The consolidated financial statements of UBS (the "Financial Statements") 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. On 13 March 2012, the consolidated financial statements were authorized for issue[1]. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. 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 disclosure of contingent assets and liabilities. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates, and the differences may be material to the Financial Statements.

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. *Net profit attributable to non-controlling interests* is shown separately in the income statement.

Special purpose entities

The Group sponsors the formation of 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
- 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 SPE, or for its services as investment manager, custodian or some other capacity. Some of these SPEs are single-investor or family trusts while others allow a

1 The Board of Directors authorizes the issuance of the consolidated financial statements. On 8 March 2012 the Board convened to review and authorize the issuance of the consolidated financial statements, and delegated to the Chairman of the Audit Committee authority to give final approval based on whether or not an agreement in principle with a monoline insurer (then in the final stages of negotiation) would be signed. The agreement in principle was signed on 12 March 2012, and the consolidated financial statements were authorized for issuance on 13 March 2012. Refer to "Note 32 Events after the reporting period" for more information.

Note 1 Summary of significant accounting policies (continued)

large number of 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 to an SPE (for example, a portfolio of loans) 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 exposure (for gain or loss) 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 to allow UBS to sell to and purchase from one or more investors the credit risk on portfolios, which may or may not be held by UBS. UBS generally consolidates SPEs that are used for credit protection when, for instance, UBS receives benefits from funding 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 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. SPEs may be consolidated or deconsolidated depending on the facts and circumstances of any change.

Business combinations

Following the adoption of IFRS 3 *Business Combinations*, business combinations completed after 31 December 2009 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 re-measured 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.

The accounting treatment for business combinations completed prior to 1 January 2010 differed primarily in the following respects:

- Transaction costs directly attributable to the acquisition formed part of the acquisition costs.
- Any non-controlling interest were measured as a proportion of the acquiree's identifiable net assets.
- Contingent consideration was recognized if, and only if, UBS had a present obligation, economic outflow was likely and a reliable estimate of the amount was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

4) Associates and jointly controlled entities

Investments in associates in which UBS has significant influence are accounted for under the equity method of accounting. Normally, significant influence is indicated when UBS owns more than 20% 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 such 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 – see items 20) and 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 instrument.

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 the 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 lost. 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.

Financial liabilities
UBS removes 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. Any difference in the respective carrying amounts is 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. Determining fair value is considered a significant accounting policy for the Group and further details are disclosed in Note 26.

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* (see item 15)). The trading portfolio includes recognized assets and liabilities relating to proprietary, hedging and client related business (refer to Note 11 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 re-measuring 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 the asset is derecognized on settlement date.

Trading portfolio assets transferred to external parties that do not qualify for derecognition (see item 5)) and where the transferee has obtained the right to sell or re-pledge the assets are

Note 1 Summary of significant accounting policies (continued)

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 only be designated at fair value through profit or loss at inception and this designation cannot be changed subsequently. Financial assets (refer to Note 12) and financial liabilities (refer to Note 19) 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 reduces or eliminates 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, predominantly as follows:

– *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 also applied to certain loans and loan commitments which are hedged predominantly with credit derivatives. The application of the fair value option to these instruments reduces an accounting mismatch, as the credit derivatives are accounted for as derivative instruments at fair value through profit or loss.

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, and to assets held to hedge deferred cash-settled employee compensation awards, in order to reduce an accounting mismatch.

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* (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 or 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 or losses before tax are presented separately in Note 13. 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 or losses associated with non-monetary instruments (such as equity securities) are part of the overall fair value change of the assets and are recognized directly in *Other comprehensive income*. 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 and losses on disposal are determined using the average cost method. 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.

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. For equity investments, a significant or prolonged decline in fair value below the original cost (e.g. 20% or six months) can be considered as an objective evidence of 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 re-organization. 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 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 or losses between trade date and settlement date are recognized in *Equity* rather than 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 receivables (refer to Note 28b);
- loans such as leverage finance loans previously in the trading portfolio and reclassified (refer to Note 28b).

For an overview of financial assets accounted for as loans and receivables, refer to the measurement category Financial assets at amortized cost presented in Note 28.

Loans and receivables are recognized when funding is advanced to borrowers. They are recorded initially at fair value, based on the amount given to originate or purchase the loan, together with any direct transaction costs. Subsequently they are measured at amortized cost using the effective interest rate (EIR) method. Interest on loans and receivables is included in *Interest earned on loans and advances* and is recognized on an accrual basis. Fees and direct costs relating to loan origination, refinancing or restructuring and to loan commitments are 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 or is 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 *Credit-related fees and commissions* over the commitment period. For loan syndication fees where UBS does not retain a portion of the syndicated loan, fees are credited to *Commission income from other services* when the services have been provided.

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 28b and Notes 9a and 9b).

Renegotiated loans

Subject to assessment on a case-by-case basis, UBS may restructure a loan, or take possession of collateral. Restructuring may involve extending the payment arrangements or agreeing to new loan conditions. Once the terms have been renegotiated, any impairment is measured using the EIR as calculated before the modification of terms. Because the terms and conditions of the loan were renegotiated the loan is not considered as past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to impairment assessment, calculated using the loan's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

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) on a claim according to 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

Note 1 Summary of significant accounting policies (continued)

reported in *Other liabilities*. Additions to allowances and provisions for credit losses are recognized as a *Credit loss expense*.

Allowances and provisions for credit losses are evaluated at a counterparty-specific level and collectively based on the following principles:

Counterparty-specific: A claim 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) according to 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 loan's original EIR, of expected future cash flows, including amounts that may result from restructuring or the liquidation of collateral. Impairment is measured and allowances for credit losses are established for 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 claim is discontinued, but the increase of the present value of impaired claims due to the passage of time is reported as *Interest income*.

Generally all impaired claims 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. 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 restructuring of a financial asset could result in the original loan being derecognized and a new loan being recognized. The new loan is measured at fair value at initial recognition. Any allowance taken against the original loan is removed and recognized as a write-off. If the rights existing prior to the restructuring have not been legally waived, the original gross counterparty exposure still exists, although a new loan has been recognized.

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 payments or the liquidation of collateral; insolvency proceedings have commenced against the firm; or obligations have been restructured on concessionary terms. Loans in arrears for 90 days are evaluated individually for impairment; however, an impairment analysis may occur 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 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 profit or loss as credit loss expenses. 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 9a, 9b and 28b).

12) Securitization structures set up by UBS

UBS securitizes various financial assets, which generally results in the sale of these assets to special purpose entities, which in turn 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.

Note 1 Summary of significant accounting policies (continued)

Gains or losses related to the sale of financial assets involving a securitization are generally recognized when the derecognition criteria are satisfied and are 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 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 customers 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 lends or borrows 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 the market value of the securities received or delivered on a daily basis 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 (see 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 (see Note 24). The sale of securities received in a borrowing or lending transaction generally triggers the recognition of a trading liability (short sale).

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 repurchase and reverse 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 the market value of the securities received or delivered on a daily basis 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 obtained or 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 (see Note 24). Additionally, the sale of 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

Note 1 Summary of significant accounting policies (continued)

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 at 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 or payables 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 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 also 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 are 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 a highly probable forecast transaction ('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 designated risk of the hedged items. UBS regards a hedge as 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 a forecast transaction, 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 it 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 a forecast transaction is 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. For a portfolio hedge of interest rate risk, the equivalent change in fair value is reflected in a separate line within *Other assets* or *Other liabilities*. If the hedge 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 until maturity.

Cash flow hedges

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognized initially in *Equity*. When the cash flows that the derivative is hedging materialize, resulting in income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from *Equity* to the corresponding income or expense line item.

If a cash flow hedge for a forecasted transaction is deemed to be no longer effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in *Equity* remains there until the committed or forecasted transaction occurs. If the forecasted transaction is no longer expected to occur, the deferred gain or loss is transferred immediately to profit or loss.

Note 1 Summary of significant accounting policies (continued)

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 disposal of the foreign operation, the cumulative value of any such gains or losses associated with the entity 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 that, in certain cases, the forward points on short duration foreign exchange contracts are reported in *Net interest income*. Refer to Note 23 for more information on "economic hedges".

Embedded derivatives
A derivative may be embedded in a "host contract". Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. The 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 embedded derivative actually meets the definition of a derivative. 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.

Typically, UBS applies the fair value option to hybrid instruments (see 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 customers can borrow money at 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 (loan commitments that can be settled net in cash or by delivering or issuing another financial instrument), or if there is evidence that UBS is selling similar loans resulting from its 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, which are not recorded in the balance sheet. However, 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 (refer to item 27). Other loan commitments include irrevocable forward starting reverse repurchase and irrevocable securities borrowing agreements. Any increase in the liability relating to these other loan commitments is recorded in the income statement in *Credit loss expense/recovery*.

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 customers 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 the best estimate of the expenditure required to settle the financial obligation at the balance sheet date. Any increase in the liability relating to 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. Refer to Note 1b for more information on our definition of cash and cash equivalents.

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 rec-

Note 1 Summary of significant accounting policies (continued)

ognized within the *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 accumulated impairment losses, and is reviewed periodically for impairment. The useful lives of property and equipment are estimated on the basis of the economic utilization of the asset.

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. If a property of the Group includes a portion that is own-used and another portion that is held to earn rental income or for capital appreciation, the classification is based on whether or not these portions can be sold separately. If the portions of the property 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 property unless the portion used by the Group is minor. The classification of property is reviewed on a regular basis to account for major changes in its usage. 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.

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. UBS uses its internal 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. When the use of a property changes such that it is reclassified as own-used property, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Leasehold improvements

Leasehold improvements are investments made to customize buildings and offices occupied under operating lease contracts to make them suitable for the intended purpose. If required, the present value of estimated reinstatement costs 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.

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 12 months, these assets are classified as non-current assets held for sale and are recorded in *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 capitalized when we are able to assess how a program generates future economic benefits for UBS, determine the period over which these economic benefits will accrue to UBS and track those costs that can be capitalized to determine a reliable measurement. Internally generated software that meets these criteria and purchased software are classified within IT, software and communication.

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 50 years
Leasehold improvements	Residual lease term, but not exceeding 10 years
Other machines and equipment	Not exceeding 10 years
IT hardware, software and communication	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 a reasonable indication of impairment exists. For the purpose of testing goodwill for impairment, UBS considers the segments as reported in Note 2a *Segment reporting* 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 16 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. Generally, all identified intangible assets of UBS have a definite useful life. At each balance sheet date, intangible assets are reviewed for indications of impairment or changes in estimated future benefits. 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 an intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Customer 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.

Current and deferred taxes are recognized as income tax benefit or expense 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, 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 (item (i)) are considered when determining goodwill. Items (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. Generally, 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*.

All debt issued and then repurchased by UBS in relation to market making or other activities is treated as redeemed. A gain or loss on redemption is recorded 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 19 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 plans, and other post-retirement benefits such as medical and life insurance benefits.

Defined benefit plans

Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, 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 obligation at the balance sheet date less the fair value of the plan assets at the balance sheet date, together with adjustments for any unrecognized actuarial gains and losses and unrecognized past service cost. If the defined benefit liability is negative (i.e., a defined benefit asset), measurement of the asset is limited to the lower of a) the defined benefit asset and b) the total of any cumulative unrecog-

Note 1 Summary of significant accounting policies (continued)

nized net actuarial losses plus unrecognized past service cost plus 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 obligation and the related current service cost and, where applicable, past service cost. These amounts are calculated annually by independent actuaries. The principal actuarial assumptions used are set out in Note 29.

UBS recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the beginning of the reporting period are outside the corridor defined as the greater of:

a) 10% of the present value of the defined benefit obligation at that date (before deducting the fair value of plan assets); and

b) 10% of the fair value of any plan assets at that date.

The unrecognized actuarial gains and losses exceeding the greater of these two values are recognized in the income statement over the expected average remaining working lives of the employees participating in the plans.

Defined contribution plans

A defined contribution plan is a pension plan under which UBS pays fixed contributions into a separate entity. 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, 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 the bank can substantiate that the award 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. Forfeiture events occurring after the grant date do not result in a reversal of compensation expense because the related services have been received.

Plans containing vesting conditions 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 on a tiered basis for awards that have a tier 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, UBS recognizes compensation expense over the period from grant to the retirement eligibility or redundancy date. Forfeiture of these awards that occur during the service period results in a reversal of compensation expense.

Equity-settled awards 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 immediately for vested awards.

Cash-settled awards are classified as liabilities and remeasured to fair value at each balance sheet date as long as the award is outstanding. Decreases in fair value reduce 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 of equity participation plans are disclosed in Note 30d).

Other compensation plans

UBS has established other fixed and variable deferred compensation plans, the value of which is not linked to UBS's own equity. UBS's deferred cash compensation plans are either mandatory or discretionary plans. Deferred compensation plans include awards based on a notional cash amount, where ultimate payout is fixed or may vary based on achievement of performance conditions. UBS recognizes compensation expense over the period that the employee is required to provide services in order to earn the award. The amount recognized during the service period is based on an estimate of the amount the bank expects to pay-out under the plan, such that cumulative expense recognized ultimately equals the cash distributed to employees. UBS also awards deferred compensation plans in the form of alternative investment vehicles (AIVs). The grant date fair value for AIVs is based on the fair value on the grant date of the underlying assets (i.e., money market funds, UBS and non-UBS mutual funds and other UBS-sponsored funds) and is subsequently marked to market at each reporting date until the award is distributed. Forfeiture of these awards results in the reversal of expense. Refer to Note 30 for further details on equity participation and other compensation plans.

26) Amounts due under unit-linked investment contracts

UBS's financial liabilities from unit-linked contracts are presented as *Other liabilities* (refer to Note 20) on the balance sheet. These contracts allow investors to invest in a pool of assets through investment units issued by a UBS subsidiary. The unit holders receive all rewards and bear all risks associated with the reference asset pool. The financial liability represents the amount 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 11.

27) Provisions

Provisions are recognized when UBS has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle or discharge the obligation and the amount can be reliably estimated. Provisions for restructuring are recognized when UBS has approved a detailed and formal restructuring plan and also has raised a valid expectation of the restructuring, either through commencement of the plan or announcements to the affected employees.

When a provision is recognized, its amount needs to be estimated as the exact amount of the obligation is generally unknown. The estimate is based on all available information and reflects the amount that in management's opinion represents the best estimate of the expenditure required to settle or discharge the obligation. UBS revises existing provisions up or down as soon as it is able to quantify the amounts more accurately. 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.

The majority of UBS's provisions relate to operational risks, litigation and regulatory matters, restructuring costs and provisions for loan commitments and guarantees. Provisions are reflected under *Other liabilities* on the balance sheet. A provision is not recognized, but a contingent liability is disclosed, when it has yet to be confirmed whether UBS has a present obligation as a result of past events; when it is not probable that an outflow of resources will be required to settle or discharge a present obligation, or when a sufficiently reliable estimate of the amount of the obligation cannot be made. Refer to Note 21.

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 *Equity* as "Transaction costs related to share issuances, net of tax" and are deducted from *Equity*.

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*.

Contracts with net cash settlement or net cash settlement option

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 trading instruments, with changes in fair value reported in the income statement as *Net trading income*.

Contracts with mandatory gross physical settlement (except for written put options and forward share purchase contracts)

Contracts that require gross physical settlement in UBS AG shares are presented in *Equity* as *Share premium* (provided a fixed amount of shares is exchanged against a fixed amount of cash or another financial asset) 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*.

Written put options and forward share purchase contracts with gross physical settlement

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*. At the inception of the contract, the present value of the obligation to purchase own shares in exchange for cash is transferred out of *Equity* and recognized as a liability. The liability is subsequently accreted, using the EIR method, over the life of the contract to the nominal purchase obligation by recognizing interest expense. Upon settlement of

Note 1 Summary of significant accounting policies (continued)

the contract, the liability is derecognized, and the amount of equity originally recognized as a liability is reclassified within *Equity* to *Treasury shares*. The premium received for writing put options is recognized directly in *Share premium*.

Trust preferred securities issued

UBS has issued trust preferred securities through consolidated preferred funding trusts which hold debt issued by UBS. UBS AG has fully and unconditionally guaranteed all of 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 classifies individual non-current non-financial 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* (see Notes 17 and 20). 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.

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 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. Refer to Note 36 for further details.

30) Leasing

UBS enters into lease contracts, predominantly of premises and equipment, as a lessor and a lessee. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or finance leases according to their economic substance. When making such an assessment, the Group focuses on the following aspects: a) transfer of ownership of the asset to the lessee at the end of the lease term; b) existence of a bargain purchase option held by the lessee; c) whether the lease term is for the major part of the economic life of the asset; d) whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease term; and e) whether the asset is of a specialized nature that only the lessee can use without major modifications being made. If one or more of the conditions are met, the lease is generally classified as a finance lease, while the non-existence of such conditions normally leads to a classification as an operating lease.

Lease contracts classified as operating leases where UBS is the lessee are disclosed in Note 25. 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 when the lessee controls the physical use of the property. Lease incentives are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis.

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 inception date of the arrangement whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets. If the arrangement conveys a right to use the asset, the arrangement is accounted for as a lease.

When UBS enters into contractual arrangements which are not considered leases in their entirety, but which include lease elements, then the general lease requirements are applied to the lease element of the arrangement.

Lease contracts classified as operating leases where UBS is the lessor, and finance lease contracts where UBS is the lessor or the lessee, are not material.

UBS recognizes provisions for premises leases if the unavoidable costs of a contract exceed the benefits to be received under it (onerous lease contracts). This may occur, for instance, when a significant portion of a rental space is expected to be vacant for an extended period.

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 and fees earned from providing transaction-type services. 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, which are recognized when the performance criteria are fulfilled. Fees earned from providing transaction-type services are recognized when the service has been completed. Loan commitment fees on lending arrangements 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.

The following fee income is earned predominantly from services that are provided over a period of time: investment fund fees, portfolio management and advisory fees, insurance-related fees and credit-related fees. Fees earned predominantly from providing transaction-type services include underwriting fees, corporate finance fees and brokerage fees.

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 assets and liabilities denominated in foreign currency, except for non-monetary items, are translated using the closing exchange rate. Non-monetary items measured at historical cost are translated at the exchange rate on the date of the transaction. Generally, resulting foreign exchange differences are recognized in *Net trading income*. Foreign exchange differences from non-monetary financial investments available-for-sale are recorded directly in *Equity* until the asset is sold or becomes impaired, unless the non-monetary financial investment is subject to a fair value hedge of foreign exchange risk, in which case changes in fair value attributable to the hedged risk are reported in *Net trading income*.

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. Differences resulting from the use of different exchange rates 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, the cumulative amount in *Foreign currency translation within Equity* related to that foreign operation attributable to UBS 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 without losing control, the related portion of the cumulative currency translation balance is reattributed 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 on a worldwide basis into four business divisions: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank, supported by the Corporate Center.

For the purpose of segment reporting, the business division Wealth Management & Swiss Bank is split into two separate reportable segments, namely; Wealth Management and Retail & Corporate. The five reportable segments, together with the Corporate Center, reflect the internal management structure and responsibilities. Financial information about the five reportable segments and the Corporate Center is presented separately in the internal management report to the Group Executive Board (considered the "chief operating decision maker" within the context of IFRS 8 *Operating Segments*).

The Corporate Center is not considered an operating segment under IFRS 8 *Operating Segments.* It includes predominantly the results of treasury activities, e.g., from the management of structural foreign exchange risks and interest rate risks, residual operating expenses such as those associated with the functioning of the Group Executive Board and the Board of Directors, other costs related to organizational management, as well as a limited number of specifically defined items. These items include UBS's option to acquire the SNB StabFund's equity and expenses such as capital taxes. As the Corporate Center agrees flat fees to be charged to the business divisions, adjusted on a periodic basis, there will be differences between actual costs incurred and those recharged. All other costs incurred by the Corporate Center related to shared services and control functions like risk control, finance, legal and compliance, communications and branding, human resources, information technology, real estate, procurement, corporate development and service centers are charged out to the reportable segments based on internal accounting policies. The costs of shared services and control functions managed by the Corporate Center 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 in-

Note 1 Summary of significant accounting policies (continued)

ternally determined allocations. 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 the reportable segment performances.

Revenue-sharing agreements are used to allocate external client revenues to reportable segments. Due to the present arrangement of revenue-sharing agreements, the total inter-segment revenues for UBS are not considered material.

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 the treasury departments located in each business division. The treasury departments are supported by Group Treasury in the Corporate Center, with the net margin reflected in the results of each reportable segment. The Corporate Center transfers interest income earned from managing UBS's consolidated equity back to the reportable segments based on average attributed equity.

Commissions are credited to the reportable segments based on the corresponding client relationship. Revenue-sharing agreements are used for the allocation of customer revenues where several reportable segments are involved in the value-creation chain.

In line with internal management reporting, segment assets are reported without intercompany balances on a third-party view basis. Refer to Note 2a "Segment reporting" 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 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: OTC interest rate swaps (IRS) transacted with the London Clearing House, netted by currency and across maturity dates and 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 (CSD) and maturity.

b) Changes in accounting policies, comparability and other adjustments

Effective in 2011

Interests in consolidated investment funds

In 2011, UBS changed its accounting policy for investments in consolidated investment funds that are not considered equity instruments as defined in IAS 32. Effective 2011, foreign currency gains and losses from translation of our investments in such funds are recorded in the income statement on the basis that the investment interests are financial liabilities of the consolidated investment fund. Previously, foreign currency translation gains and losses from these investments were presented in *Foreign currency translation* within *Other comprehensive income* on the basis that the investment interests represented a right to the residual assets and were therefore previously considered non-monetary items.

The revised accounting policy is considered more relevant as it better aligns the treatment of the foreign currency differences arising on the investments in the subsidiaries with the treatment of the investment interests.

This change in accounting policy was applied retrospectively, resulting in an adjustment to the opening balance sheet as of 1 January 2009. *Foreign currency translation* within *Cumulative net income recognized directly in equity*, *net of tax* was debited by CHF 159 million and *Retained earnings* was credited by CHF 159 million, with a corresponding impact on the statement of changes in equity. There was no impact on the reported net profit of 2009, 2010 and 2011.

Interests in non-consolidated investment funds

In connection with the above change in accounting policy, the classification of investments in non-consolidated funds in Note 11 *Trading portfolio* and Note 13 *Financial investments available-for-sale* has been amended to align to the criteria in IAS 32 *Financial Instruments: Presentation*. The reclassification of these interests from equity instruments to debt instruments has no impact on UBS's income statement and balance sheet. Prior periods in Note 11 and Note 13 have been restated accordingly.

Capitalization of internally generated software

Following the approval of a new long-term IT investment plan, in the third quarter 2011 UBS reviewed the capitalization practice for internally generated computer software. As a result of this review, UBS implemented a process whereby UBS improved the ability to assess how software programs generate future economic benefits for UBS, determine the period over which these economic benefits will accrue to UBS, and track the capitalizable costs associated with the various programs to determine a reliable measurement of an amortizable asset. The change has been applied prospectively and led to capitalizing additional computer software development costs of CHF 106 million in the second half of 2011.

Presentation of redemption of preferred securities

In the third quarter of 2010, UBS redeemed trust preferred securities of USD 1.5 billion classified as non-controlling interests, which had accumulated foreign currency translation (FCT) losses of CHF 1,093 million. At the time of the redemption, the reversal of these accumulated FCT losses was presented as part of the change to *Preferred securities* in non-controlling interests in the Statement of Changes in Equity. This reversal of the FCT loss would have been better presented as a foreign currency translation move-

Note 1 Summary of significant accounting policies (continued)

ment within non-controlling interests within the Statement of Comprehensive Income. The change also impacts the related Preferred securities table. This was only a presentational matter within non-controlling interests on the Statement of Changes in Equity and the Statement of Comprehensive income; balance sheet and income statement lines were not affected and the equity attributable to UBS shareholders was unchanged. Comparative amounts for 2010 have been amended to reflect the improved presentation, as follows:

- In the Statement of comprehensive income, *Foreign currency translation movements during the year, before tax* was changed by CHF 1,093 million to negative CHF 951 million for year ended 31 December 2010. *Total comprehensive income attributable to non-controlling interests* was changed by CHF 1,093 million to positive CHF 609 million for the year ended 31 December 2010.
- In the non-controlling interests component of the Statement of changes in equity for the year ended 31 December 2010, *Preferred securities* were reduced by CHF 1,093 million and *Total comprehensive income for the year recognized in equity* was increased by CHF 1,093 million.
- In the table on preferred securities for the year ended 31 December 2010, *Redemptions* were changed by CHF 1,093 million to negative CHF 2,622 million and *Foreign currency translation* was changed by CHF 1,093 million to positive CHF 275 million.

Definition of cash and cash equivalents

For the purposes of the statement of cash flows, UBS has refined its definition of cash and cash equivalents to restrict it to balances with an original maturity of three months or less including cash, money market paper and balances with central and other banks. This refined definition is considered to result in more relevant and comparable information for the purposes of the statement of cash flows. Cash and cash equivalents have been reduced by CHF 60,888 million at 31 December 2010 and by CHF 92,105 million at 31 December 2009, to CHF 79,934 million and CHF 72,868 million, respectively, with related changes to cash flows from operating activities and investing activities. Nevertheless, the amounts now excluded from cash and cash equivalents in the statement of cash flows continue to be part of our liquidity position.

Transfer of legacy portfolio from the Investment Bank to the Corporate Center

On 30 December 2011, a portfolio of legacy assets was transferred from the Investment Bank to the Corporate Center. Together with the option to buy the equity of the SNB StabFund, UBS will report the legacy portfolio as a separate segment in the Corporate Center beginning in the first quarter of 2012, when all necessary internal reporting changes will have been put into place. Restated historical segment information will be provided prior to the publication of our first quarter 2012 financial report.

Personnel expenses

In 2011, UBS reclassified the costs related to the voluntary employee share ownership plan (Equity Plus) from *Variable compensation – other* to *Other personnel expenses* in order to align the presentation with the FINMA definition of variable compensation. Prior periods in "Note 6 Personnel expenses" have been restated accordingly. As a result, *Other personnel expenses* were increased by CHF 80 million and CHF 132 million for the year ended 31 December 2010 and for the year ended 31 December 2009, respectively, with a corresponding decrease in *Variable compensation – other*. The change in presentation did not affect the total Personnel expenses.

Improvements to IFRS 2010

In May 2010, the IASB issued amendments to seven IFRS standards as part of its annual improvements project. UBS adopted the Improvements to IFRS 2010 on 1 January 2011. The adoption of the amendments resulted only in changes to the disclosure of maximum exposure to credit risk, as shown in Note 28c.

This is the only amendment to accounting standards that significantly impacts UBS effective 2011.

Effective in 2010 and earlier

Wealth Management & Swiss Bank reorganization

From 2010 onwards, the internal reporting of Wealth Management & Swiss Bank to the Group Executive Board was revised in order to better reflect the management structure and responsibilities. Segregated financial information is now reported for:

- "Wealth Management", encompassing all wealth management business conducted out of Switzerland and in the Asian and European booking centers;
- "Retail & Corporate", including services provided to Swiss retail private clients, small and medium enterprises and corporate and institutional clients.

In line with this revised internal reporting structure and IFRS 8 *Operating Segments*, Wealth Management and Retail & Corporate are now presented in the external financial reports as separate business units and reportable segments. Prior periods presented have been restated to conform to the new presentation format.

Allocation of additional Corporate Center costs to reportable segments

From 2010 onwards, almost all costs incurred by the Corporate Center related to shared services and control functions are allocated to the reportable segments which directly and indirectly receive the value of the services, either based on a full cost recovery or on a periodically agreed flat fee. The allocated costs are shown in the respective expense lines of the reportable segments in Note 2a "Segment reporting", and in the "Financial and operating performance" section of this report.

Up to and including 2009, certain costs incurred by the Corporate Center were presented as Corporate Center expenses and

Note 1 Summary of significant accounting policies (continued)

not charged to the business divisions. This change in allocation policy has been applied prospectively and prior year numbers have not been restated.

The incremental charges to the business divisions made in 2010 mainly relate to control functions. If figures for each quarter of 2009 had been presented on the basis of the allocation methodology applied for 2010, the estimated impact on operating expenses and performance before tax would have been as shown in the table below.

Equity and Other comprehensive income

In 2010, UBS reviewed certain components of its equity and made adjustments to correct immaterial misstatements that related to periods several years back. The following paragraphs describe the impacts of the changes on UBS's financial statements as of 31 December 2010.

UBS's *Foreign currency translation* balance was adjusted by a credit of CHF 592 million. The adjustment increased total *Other comprehensive income* by CHF 592 million and total *Comprehensive income* by CHF 429 million because a loss of CHF 163 million was transferred to the income statement.

In addition, UBS reclassified an amount of CHF 213 million from *Equity attributable to non-controlling interests* to *Other liabilities* as this amount has been identified as redeemable and therefore not satisfying the criteria for an equity instrument under IFRS. Also, an amount of CHF 134 million relating to an equity participation plan was reclassified from *Share premium* to *Other liabilities* as it was identified that the amount is not related to equity settled awards. The impact on the income statement for both items was insignificant.

Furthermore, UBS merged the balance of the balance sheet line *Revaluation reserve from step acquisitions, net of tax* into *Share premium*, resulting in an increase of *Share premium* by CHF 38 million. The balance sheet as of 31 December 2009 and 2008 and the statement of changes in equity for 2009 and 2008, were adjusted accordingly.

Personnel expenses

In 2010, UBS reclassified certain elements of *Other personnel expenses* to *Variable compensation – other* in order to align the presentation with the new FINMA definition of variable compensation.

In addition, amounts previously reported under *Salaries and variable compensation* were presented for the first time on the following separate lines: *Salaries, Variable compensation – discretionary bonus, Variable compensation – other* and *Wealth Management Americas: Financial advisor compensation.*

Furthermore, UBS reclassified the pension costs related to bonus to *Pension and other post-employment benefit plans.* Previously, those amounts were reported under *Social security.* Prior period amounts have been adjusted accordingly. The change in the presentation did not impact UBS's personnel expenses.

Improvements to IFRS 2009

The IASB issued amendments to twelve IFRS standards as part of its annual improvements project in April 2009. UBS adopted the Improvements to IFRS 2009 on 1 January 2010. The adoption of the amendments did not have a significant impact on UBS's financial statements.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments to IAS 39 were issued in July 2008. The amendments provided additional guidance on the designation of a hedged item. The amendments clarified how the existing principles underlying hedge accounting should be applied in two particular situations: a) a one-sided risk in a hedged item and b) inflation in a financial hedged item. UBS adopted the amendments to IAS 39 on 1 January 2010. The adoption of the amendments to IAS 39 did not have a significant impact on UBS's financial statements.

IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements, and IAS 21 The Effects of Changes in Foreign Exchange Rates

In January 2008, the IASB issued the revised IFRS 3 *Business Combinations* and amendments to IAS 27 *Consolidated and Separate Financial Statements*, and IAS 21 *The effects of Changes in Foreign Exchange Rates*.

The most significant changes under revised IFRS 3 were as follows:

- Contingent consideration should be recognized at fair value as part of the consideration transferred at the acquisition date. Previously, contingent consideration was recognized if, and only if, UBS had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable.

Corporate Center cost allocation impact on 2009 figures

	Wealth Management & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Total business divisions	Corporate Center
CHF million	Wealth Management	Retail & Corporate					
Estimated increase in 2009 operating expenses and decrease in performance before tax	128	96	84	44	288	640	(640)

Note 1 Summary of significant accounting policies (continued)

- Non-controlling interests in an acquiree that are present ownership interests and provide entitlement to a proportionate share of the net assets in the event of liquidation should either be measured at fair value or as the non-controlling interest's proportionate share of the fair value of net identifiable assets of the entity acquired. All other components of the non-controlling interests are measured at their acquisition-date fair values. The option is available on a transaction-by-transaction basis.
- Transaction costs incurred by the acquirer should be expensed as incurred.

The amendments to IAS 27 and the consequential amendments to IAS 21 required the effects (including foreign exchange translation) of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The standards also specify the accounting when control is lost: any remaining interest in the entity should be re-measured to fair value, and a gain or loss (including foreign exchange translation) should be recognized in profit or loss. The amendments to IAS 21 further clarified that no deferred foreign currency translation gains and losses are to be released upon a partial repayment of share capital of a subsidiary without a loss of control.

UBS adopted the amendments to IFRS 3, IAS 27 and IAS 21 with prospective effect on 1 January 2010. The adoption of the revised guidance did not materially impact UBS's financial statements.

IAS 1 (revised) Presentation of Financial Statements

Effective 1 January 2009, the revised International Accounting Standard (IAS) 1 affected the presentation of owner changes in equity and of comprehensive income. UBS continued to present owner changes in equity in the "statement of changes in equity", but detailed information relating to non-owner changes in equity, such as foreign exchange translation, cash flow hedges and financial investments available-for-sale, were presented in the "statement of comprehensive income".

When implementing these amendments as of 1 January 2009, UBS also adjusted the format of its "statement of changes in equity" and replaced the "statement of recognized income and expense" in the financial statements of previous years with a "statement of comprehensive income".

UBS also re-assessed its accounting treatment of dividends from trust preferred securities. In line with the classification of trust preferred securities as equity instruments, UBS recognizes liabilities for the full dividend payment obligation once a coupon payment becomes mandatory, i.e., when it is triggered by a contractually determined event. In the income statement, the same amount is reclassified from net profit attributable to UBS shareholders to net profit attributable to non-controlling interests.

IFRS 8 Operating Segments

Effective as of 1 January 2009, UBS adopted IFRS 8 *Operating Segments* which replaced IAS 14 *Segment Reporting*. Under the requirements of the new standard, UBS's external segmental reporting is now based on the internal management reporting to the Group Executive Board (or the "chief operating decision maker"), which makes decisions on the allocation of resources and assesses the performance of the reportable segments. Refer to item 34) and Note 2 for further details.

IFRS 7 (revised) Financial Instruments: Disclosures

This standard was revised in March 2009 when the International Accounting Standards Board (IASB) published the amendment "Improving Disclosures about Financial Instruments". Effective 1 January 2009, the amendment requires enhanced disclosures about fair value measurements and liquidity risk.

The enhanced fair value measurement disclosure requirements included: a fair value hierarchy (i.e. categorization of all financial instruments into levels 1, 2 and 3 based on the relevant definitions); significant transfers between level 1 and level 2; reconciliation of level 3 instruments at the beginning of the period to the ending balance (level 3 movement table); level 3 profit or loss for positions still held at balance sheet date; and sensitivity information for the total position of level 3 instruments and the basis for the calculation of such information.

The amended liquidity risk disclosure requirements largely confirm the previous rules for providing maturity information for non-derivative financial liabilities, but amended the rules for providing maturity information for derivative financial liabilities.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued on 1 October 2008 and became effective on 1 January 2009. IFRIC 16 provides guidance in identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation; where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting, and how an entity should determine the amounts to be reclassified from equity to profit or loss for both the hedging instrument and the hedged item. The impact of this interpretation on UBS's financial statements was immaterial.

IAS 24 Related Party Disclosures

In November 2009, the IASB amended IAS 24 *Related Party Disclosures* with latest possible effective date 1 January 2011. UBS has early adopted the revised requirements in its annual financial statements 2009. The revised standard amends the definition of related parties, in particular the relationship between UBS and associated companies of UBS's key management personnel or their close family members. Transactions between UBS and associated companies of UBS key management personnel over which UBS key management personnel does not have control or joint control are no longer considered related-party transactions.

Note 1 Summary of significant accounting policies (continued)

c) International Financial Reporting Standards and Interpretations to be adopted in 2012 and later

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 SIC *Interpretation 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets* and that Interpretation was withdrawn.

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 carry 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 and will not have a material impact on UBS's financial statements.

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.

UBS is currently assessing the impact of the new standard on the financial statements. 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 financial statements for the effect of applying IFRS 9. Early application of IFRS 9 is still permitted.

Amendments to IFRS 7 Financial instruments: Disclosures
In October 2010, the IASB issued revised IFRS 7 *Financial Instruments: Disclosures* to provide additional disclosures around 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 will adopt the new standard as of 1 January 2012.

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. Voting rights or contractual rights may be evidence of power, or a combination of the two may give an investor power. Power does not need to be exercised for control to exist. An investor with more than half the voting rights would meet the power criteria in the absence of restrictions or other circumstances.

The standard provides additional guidance to assist in the determination of control in circumstances 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; only entities that are principals can have control.

UBS is currently assessing the impact of the new standard on its financial statements. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted.

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 (as is currently the case). 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 does not expect the new standard to have a significant impact on its financial statements, as we do not currently apply the proportionate consolidation approach. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted.

IFRS 12 Disclosures of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which provides new and comprehensive guidance on disclosure requirements for all entities reporting under the two new standards, IFRS 10 *Consolidated Financial Statements* and IFRS 11 *Joint Arrangements*. It 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 the entity's interests in subsidiaries, associates, joint arrangements and, in particular, unconsolidated structured entities.

UBS is currently assessing the impact of the new standard on its financial statements. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*, which completes a major project of the IASB and the US Financial Accounting Standards Board (FASB) to improve IFRS and US GAAP and bring about their convergence. The new standard defines fair value, provides guidance on its determination and introduces consistent requirements for disclosures on fair value measurements. The standard does not introduce new fair value measurements, nor does it eliminate practicability exceptions to fair value measurements.

IFRS 13 improves consistency and reduces complexity by providing, for the first time, a precise definition of 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 definition emphasizes that fair value is a market-based measurement, not an entity-specific measurement. As such, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value. IFRS 13 allows a limited exception to the basic fair value measurement principles for a reporting entity that holds a group of financial assets and financial liabilities with offsetting positions in particular market risks or counterparty credit risk and manages those holdings on the basis of the entity's net exposure to either risk. This exception allows the reporting entity, if certain criteria are met, to measure the fair value of the net asset or liability position in a manner consistent with how market participants would price the net risk position.

The standard setters did not achieve convergence with respect to the treatment of "Day 1" profits as the IAS 39 guidance is still applicable. UBS is currently assessing the impact of the new standard on its financial statements. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted.

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 recycled 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. Currently, all items in our OCI may be recycled to profit or loss, but this will change with the adoptions of IAS 19 (revised) *Employee Benefits* and 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. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted.

IAS 19 (revised) Employee Benefits

In June 2011, the IASB issued revisions to IAS 19 Employee Benefits ('IAS 19R' or 'the revised standard'). The revised standard introduces changes to the recognition, 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, all actuarial gains and losses are recognized immediately in Other Comprehensive Income (OCI). In addition, IAS 19R requires the income statement recognition to be based on the net interest on the net defined benefit obligation (asset), using the discount rate that is used to measure the defined benefit obligation. The effect of this is to remove the current concept of recognizing an expected return on plan assets. The revised standard also enhances the disclosure requirements for defined benefit plans, providing more information about the characteristics of defined benefit plans and the risks to which entities are exposed through participation in those plans. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted. UBS is assessing whether to adopt IAS 19R earlier than its mandatory date.

The main impact of adopting IAS 19R will be that UBS will derecognize the deferred pension expenses and accrued pension liabilities included in *Other assets* and *Other liabilities* and will recognize the aggregate accounting deficits of the defined benefit plans in *Other liabilities.* The income statement will be changed to remove the interest cost, expected return on plan assets and amortization of actuarial variances. This will be replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit obligation.

If UBS had applied IAS 19R in its 2011 financial statements, as at the year end *Other assets* would have been lower by approximately CHF 3.3 billion, *Other liabilities* would have been higher by approximately CHF 3.1 billion and *Deferred tax assets* would have been higher by approximately CHF 1.2 billion. The impact of these changes will flow through a component of equity at the time of adoption. These estimates do not take into

Note 1 Summary of significant accounting policies (continued)

account any potential reduction in the defined benefit obligation to reflect the risk-sharing features of the Swiss pension plan, as it is not yet practicable to determine this. In addition, the impact of these changes on UBS's regulatory capital remains subject to clarifying guidance from FINMA. Should UBS choose to adopt IAS 19R earlier than its mandatory date, UBS will disclose further information later in 2012.

IAS 32 Financial Instruments: Presentations and IFRS 7 Financial Instruments: Disclosures

In December 2011, the IASB amended the accounting requirements 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 legally enforceable in the event of default, bankruptcy or insolvency in addition to the normal course of business. Further, it must be demonstrated that the right of offset is reciprocal among all parties. The amendments also provide incremental guidance for determining when gross settlement systems effectively achieve the functional equivalent of net settlement.

Additionally, 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. The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013.

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 four business divisions: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank. For the purpose of segment reporting, the business division Wealth Management & Swiss Bank is split into two separate reportable segments, namely Wealth Management and Retail & Corporate. There are therefore five reportable segments altogether, in addition to the Corporate Center presented in the financial statements, which reflects the internal management structure and responsibilities. The Corporate Center is not considered an operating segment.

Wealth Management & Swiss Bank

Wealth Management & Swiss Bank focuses on delivering comprehensive financial services to high net worth and ultra high net worth individuals around the world – except to those served by Wealth Management Americas – as well as private and corporate clients in Switzerland. Our Wealth Management business unit provides clients in over 40 countries, including Switzerland, with financial advice, products and tools to fit their individual needs. Our Retail & Corporate business unit provides individual and business clients with an array of banking services, such as deposits and lending, and maintains a leading position across its client segments in Switzerland. Starting with the first quarter of 2012, we will report Wealth Management and Retail & Corporate as separate business divisions and will no longer report Wealth Management & Swiss Bank which will cease to be a business division.

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.

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, currency, hedge fund, real estate, infrastructure and private equity that can also be combined into multi-asset strategies. The fund services unit provides professional services including legal fund set-up, accounting and reporting for traditional investment funds and alternative funds.

Investment Bank

The Investment Bank provides a broad 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 broad range of securities. It provides financial solutions to a wide range of clients, and offers advisory and analytics services in all major capital markets.

Corporate Center

The Corporate Center provides treasury services, and manages support and control functions for the business divisions and the Group in such areas as risk control, finance, legal and compliance, funding, capital and balance sheet management, management of non-trading risk, communications and branding, human resources, information technology, real estate, procurement, corporate development and service centers. It allocates most of the 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 (starting with the first quarter 2012 reporting) the legacy portfolio formerly in the Investment Bank.

Note 2a Segment reporting (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 & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Corporate Center	UBS
CHF million	Wealth Management	Retail & Corporate					
For the year ended 31 December 2011							
Net interest income	1,968	2,328	729	(15)	1,933	(117)	6,826
Non-interest income	5,666	1,858	4,571	1,817	7,096	37	21,046
Income[1, 2, 3]	7,634	4,186	5,300	1,803	9,029	(80)	27,872
Credit loss (expense) / recovery	11	(101)	(6)	0	12	(1)	(84)
Total operating income	7,645	4,085	5,295	1,803	9,040	(80)	27,788
Personnel expenses	3,258	1,666	3,840	955	5,801	71	15,591
General and administrative expenses	1,192	834	783	375	2,637	139	5,959
Services (to) / from other business divisions	318	(470)	(9)	(1)	161	3	0
Depreciation of property and equipment	165	136	99	38	254	70	761
Amortization of intangible assets[4]	37	0	48	8	34	0	127
Total operating expenses[5, 6]	4,969	2,166	4,760	1,375	8,886	283	22,439
Performance from continuing operations before tax	**2,676**	**1,919**	**534**	**428**	**154**	**(363)**	**5,350**
Performance from discontinued operations before tax	0	0	0	0	0	0	0
Performance before tax	**2,676**	**1,919**	**534**	**428**	**154**	**(363)**	**5,350**
Tax expense / (benefit) on continuing operations							923
Tax expense on discontinued operations							0
Net profit							**4,427**
Additional information							
Total assets[7, 8]	100,598	148,697	54,150	15,352	1,073,590	26,775	1,419,162
Additions to non-current assets	5	22	25	18	110	1,012	1,192

1 Impairments of financial investments available-for-sale for the year ended 31 December 2011 were as follows: Wealth Management & Swiss Bank CHF 28 million; Investment Bank CHF 12 million. 2 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. 3 Refer to "Note 26 Fair value of financial instruments" for further information on own credit in the Investment Bank. 4 Refer to "Note 16 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. 5 Refer to "Note 37 Reorganizations and disposals" for further information on restructuring charges. 6 Refer to "Note 1b) Changes in accounting policies, comparability and other adjustments" for more information on the allocation of additional Corporate Center costs to business divisions from 2010 onwards. 7 The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances. 8 On 30 December 2011, an agreement was reached to transfer the legacy portfolio from the Investment Bank to Corporate Center. The legacy portfolio will be presented as a reportable segment within Corporate Center beginning in the first quarter of 2012, when all necessary internal reporting changes will have been put into place.

Note 2a Segment reporting (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 & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Corporate Center	UBS
CHF million	Wealth Management	Retail & Corporate					
For the year ended 31 December 2010							
Net interest income	1,737	2,422	695	(17)	2,235	(858)	6,215
Non-interest income	5,608	1,524	4,870	2,075	9,775	1,993	25,845
Income[1, 2, 3]	7,345	3,946	5,565	2,058	12,010	1,135	32,060
Credit loss (expense) / recovery	11	(76)	(1)	0	0	0	(66)
Total operating income	7,356	3,870	5,564	2,058	12,010	1,135	31,994
Personnel expenses	3,153	1,625	4,225	1,096	6,743	78	16,920
General and administrative expenses	1,264	836	1,223	400	2,693	168	6,585
Services (to) / from other business divisions	449	(509)	(6)	(5)	64	8	0
Depreciation of property and equipment	163	146	198	43	278	89	918
Amortization of intangible assets[4]	19	0	55	8	34	0	117
Total operating expenses[5]	5,049	2,098	5,694	1,542	9,813	343	24,539
Performance from continuing operations before tax	**2,308**	**1,772**	**(130)**	**516**	**2,197**	**793**	**7,455**
Performance from discontinued operations before tax	0	0	0	0	0	2	2
Performance before tax	**2,308**	**1,772**	**(130)**	**516**	**2,197**	**795**	**7,457**
Tax expense / (benefit) on continuing operations							(381)
Tax expense on discontinued operations							0
Net profit							**7,838**
Additional information							
Total assets[6]	94,056	153,101	50,071	15,894	966,945	37,180	1,317,247
Additions to non-current assets	25	12	48	8	32	467	593

1 Impairments of financial investments available-for-sale for the year ended 31 December 2010 were as follows: Wealth Management & Swiss Bank CHF 45 million; Global Asset Management CHF 2 million; Investment Bank CHF 41 million; Corporate Center CHF (16) million. 2 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. 3 Refer to "Note 26 Fair value of financial instruments" for further information on own credit in the Investment Bank. 4 Refer to "Note 16 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. 5 Refer to "Note 1b) Changes in accounting policies, comparability and other adjustments" for more information on the allocation of additional Corporate Center costs to business divisions from 2010 onwards. 6 The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances.

Note 2a Segment reporting (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 & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Corporate Center	UBS
CHF million	Wealth Management	Retail & Corporate					
For the year ended 31 December 2009							
Net interest income	1,853	2,681	800	2	2,339	(1,229)	6,446
Non-interest income	5,574	1,415	4,746	2,134	2,494	1,623	17,987
Income[1, 2, 3]	7,427	4,096	5,546	2,137	4,833	394	24,433
Credit loss (expense) / recovery	45	(178)	3	0	(1,698)	(5)	(1,832)
Total operating income	7,471	3,918	5,550	2,137	3,135	389	22,601
Personnel expenses	3,360	1,836	4,231	996	5,568	551	16,543
General and administrative expenses	1,182	835	1,017	387	2,628	199	6,248
Services (to) / from other business divisions	428	(518)	4	(74)	(147)	306	0
Depreciation of property and equipment	154	136	170	36	360	193	1,048
Impairment of goodwill	0	0	34	340	749	0	1,123
Amortization of intangible assets	67	0	62	13	59	0	200
Total operating expenses[4]	5,191	2,289	5,518	1,698	9,216	1,250	25,162
Performance from continuing operations before tax	**2,280**	**1,629**	**32**	**438**	**(6,081)**	**(860)**	**(2,561)**
Performance from discontinued operations before tax	0	0	0	0	0	(7)	(7)
Performance before tax	**2,280**	**1,629**	**32**	**438**	**(6,081)**	**(867)**	**(2,569)**
Tax expense / (benefit) on continuing operations							(443)
Tax expense on discontinued operations							0
Net profit							**(2,125)**
Additional information							
Total assets[5]	109,627	138,513	53,197	20,238	991,964	26,999	1,340,538
Additions to non-current assets	13	30	59	11	81	745	939

1 Impairments of financial investments available-for-sale for the year ended 31 December 2009 were as follows: Wealth Management & Swiss Bank CHF 158 million; Global Asset Management CHF 20 million; Investment Bank CHF 142 million; Corporate Center CHF 29 million. 2 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. 3 Refer to "Note 26 Fair value of financial instruments" for further information on own credit in the Investment Bank. 4 Refer to "Note 1b) Changes in accounting policies, comparability and other adjustments" for more information on the allocation of additional Corporate Center costs to business divisions from 2010 onwards. 5 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 2011

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Switzerland	11,494	41	5,045	31
United Kingdom	1,385	5	653	4
Rest of Europe	1,638	6	1,026	6
United States	9,324	34	8,617	53
Asia Pacific	3,689	13	407	3
Rest of the world	258	1	429	3
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 %
Switzerland	12,670	40	4,922	31
United Kingdom	2,791	9	594	4
Rest of Europe	1,514	5	1,078	7
United States	10,752	34	8,673	54
Asia Pacific	3,796	12	394	2
Rest of the world	470	1	418	3
Total	**31,994**	**100**	**16,080**	**100**

For the year ended 31 December 2009

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Switzerland	11,939	53	5,137	28
United Kingdom	(3,999)	(18)	743	4
Rest of Europe	1,264	6	1,266	7
United States	9,333	41	9,928	55
Asia Pacific	3,770	17	451	2
Rest of the world	294	1	565	3
Total	**22,601**	**100**	**18,090**	**100**

Income statement notes

Note 3 Net interest and trading income

The "Breakdown by businesses" table below analyzes net interest and trading income according to the businesses that drive it: Net income from trading businesses includes both interest and trading income generated by the Investment Bank, including its lending activities, and trading income generated by the other business divisions; Net income from interest margin businesses comprises interest income from the loan portfolios of Wealth Management & Swiss Bank and Wealth Management Americas; Net income from treasury activities and other reflects all income from the Group's centralized treasury function.

	For the year ended			% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Net interest and trading income				
Net interest income	**6,826**	6,215	6,446	10
Net trading income	**4,343**	7,471	(324)	(42)
Total net interest and trading income	**11,169**	13,686	6,122	(18)
Breakdown by businesses				
Net income from trading businesses[1]	**5,964**	7,508	382	(21)
Net income from interest margin businesses	**4,874**	4,624	5,053	5
Net income from treasury activities and other	**332**	1,554	687	(79)
Total net interest and trading income	**11,169**	13,686	6,122	(18)
Net interest income[2]				
Interest income				
Interest earned on loans and advances[3, 4]	**9,925**	10,603	13,202	(6)
Interest earned on securities borrowed and reverse repurchase agreements	**1,716**	1,436	2,629	19
Interest and dividend income from trading portfolio	**5,466**	6,015	7,150	(9)
Interest income on financial assets designated at fair value	**248**	262	316	(5)
Interest and dividend income from financial investments available-for-sale	**615**	557	164	10
Total	**17,969**	18,872	23,461	(5)
Interest expense				
Interest on amounts due to banks and customers[5]	**2,040**	1,984	3,873	3
Interest on securities lent and repurchase agreements	**1,352**	1,282	2,179	5
Interest and dividend expense from trading portfolio	**2,851**	3,794	3,878	(25)
Interest on financial liabilities designated at fair value	**1,993**	2,392	2,855	(17)
Interest on debt issued	**2,907**	3,206	4,231	(9)
Total	**11,143**	12,657	17,016	(12)
Net interest income	**6,826**	6,215	6,446	10

1 Includes lending activities of the Investment Bank. 2 Interest includes forward points on foreign exchange swaps used to manage short-term interest rate risk on foreign currency loans and deposits. 3 Includes interest income on impaired loans and advances of CHF 20 million for 2011, CHF 37 million for 2010 and CHF 66 million for 2009. 4 Includes interest income on Cash collateral receivables on derivative instruments. 5 Includes interest expense on Cash collateral payables on derivative instruments.

Note 3 Net interest and trading income (continued)

	For the year ended			% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Net trading income[1]				
Investment Bank equities and investment banking	**601**	2,356	2,462	(74)
Investment Bank fixed income, currencies and commodities	**2,183**	2,000	(5,455)	9
Other business divisions and Corporate Center	**1,559**	3,115	2,668	(50)
Net trading income	**4,343**	7,471	(324)	(42)
of which: net gains / (losses) from financial assets designated at fair value	***419***	*465*	*678*	*(10)*
of which: net gains / (losses) from financial liabilities designated at fair value[2]	***7,437***	*(1,001)*	*(6,741)*	

1 Refer to the table "Net interest and trading income" on the previous page for the Net income from trading businesses (for an explanation, refer to the corresponding introductory comment). 2 Fair value changes of hedges related to financial liabilities designated at fair value are also reported in Net trading income. For more information on own credit refer to "Note 26 Fair value of financial instruments".

Net trading income in 2011 included a loss of CHF 1,849 million due to the unauthorized trading incident reflected in Investment Bank equities.

Net trading income in 2011 included a loss of CHF 284 million from credit valuation adjustments for monoline credit protection reflected in the Investment Bank's fixed income, currencies and commodities business, compared with a CHF 667 million gain in 2010.

➔ **Refer to the "Risk management and control" section of this report for more information on exposure to monolines**

Net trading income in 2011 included a loss of CHF 133 million from the valuation of our option to acquire the SNB StabFund's equity reflected in Other business divisions and Corporate Center, compared with a CHF 745 million gain in 2010.

➔ **Refer to the "Risk management and control" section of this report for more information on the valuation of our option to acquire the SNB StabFund's equity**

Note 4 Net fee and commission income

	For the year ended			% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Equity underwriting fees	**626**	1,157	1,590	(46)
Debt underwriting fees	**554**	755	796	(27)
Total underwriting fees	**1,180**	1,912	2,386	(38)
M&A and corporate finance fees	**992**	857	881	16
Brokerage fees	**4,169**	4,930	5,400	(15)
Investment fund fees	**3,577**	3,898	4,000	(8)
Portfolio management and advisory fees	**5,551**	5,959	5,863	(7)
Insurance-related and other fees	**368**	361	264	2
Total securities trading and investment activity fees	**15,837**	17,918	18,794	(12)
Credit-related fees and commissions	**438**	448	339	(2)
Commission income from other services	**827**	850	878	(3)
Total fee and commission income	**17,102**	19,216	20,010	(11)
Brokerage fees paid	**933**	1,093	1,231	(15)
Other	**933**	964	1,068	(3)
Total fee and commission expense	**1,866**	2,057	2,299	(9)
Net fee and commission income	**15,236**	17,160	17,712	(11)
of which: net brokerage fees	***3,236***	*3,837*	*4,169*	*(16)*

Note 5 Other income

	For the year ended			% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Associates and subsidiaries				
Net gains / (losses) from disposals of consolidated subsidiaries[1]	**(18)**	(7)	96	157
Net gains / (losses) from disposals of investments in associates	**20**	256	(1)	(92)
Share of net profits of associates	**42**	81	37	(48)
Total	**44**	331	133	(87)
Financial investments available-for-sale				
Net gains / (losses) from disposals	**926**	204	110	354
Impairment charges	**(39)**	(72)	(349)	(46)
Total	**887**	132	(239)	572
Net income from properties[2]	**38**	53	72	(28)
Net gains / (losses) from investment properties[3]	**9**	8	(39)	13
Other[4]	**490**	690	672	(29)
Total other income	**1,467**	1,214	599	21

1 Includes foreign exchange gains / losses reclassified from equity upon disposal or deconsolidation of 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. 4 Includes net gains / losses from disposals of loans and receivables and own-used property.

Net gains from disposals of Financial investments available-for-sale in 2011 includes a gain of 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.

The line Other included gains from sale of loans and receivables of CHF 344 million in 2011, CHF 324 million in 2010 and CHF 205 million in 2009. The 2011 gains were mainly due to the sale of collateralized loan obligations, which were reclassified from held-for-trading to loans and receivables in 2008, and were largely offset by related hedge termination losses recorded in net trading income. Additionally, it included a gain of CHF 78 million on sale of a property in Switzerland in 2011, compared with a gain of CHF 158 million on sale of a property in Switzerland in 2010. 2009 included a gain of CHF 304 million on the buyback of subordinated bonds for a total consideration below the principal amount. 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.

Impairment charges on Financial investments available-for-sale in 2009 included impairments for a global real estate fund of CHF 155 million, Asian debt instruments of CHF 86 million and private equity investments of CHF 55 million.

Note 6 Personnel expenses

	For the year ended			% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Salaries	**6,859**	7,033	7,383	(2)
Variable compensation – discretionary bonus[1]	**3,392**	4,082	2,809	(17)
Variable compensation – other[1, 2]	**316**	230	699	37
of which: replacement payments[3]	***121***	*107*	*41*	*13*
of which: guarantees for new hires	***173***	*135*	*56*	*28*
of which: forfeiture credits	***(215)***	*(167)*	*(81)*	*29*
of which: severance payments[4]	***216***	*69*	*433*	*213*
of which: retention plan payments[5]	***21***	*85*	*250*	*(75)*
Contractors	**217**	232	275	(6)
Social security	**743**	826	804	(10)
Pension and other post-employment benefit plans[6]	**788**	724	988	9
Wealth Management Americas: Financial advisor compensation[1, 7]	**2,518**	2,667	2,426	(6)
Other personnel expenses[2]	**758**	1,127	1,159	(33)
Total personnel expenses	**15,591[8]**	16,920	16,543	(8)

1 Refer to "Note 30 Equity participation and other compensation plans" of this report for more information. 2 In 2011, we reclassified the costs related to our voluntary employee share ownership plan (Equity Plus) from Variable compensation – other to Other personnel expenses. Prior periods were adjusted for this change. As a result, Other personnel expenses were increased by CHF 80 million and CHF 132 million for the year ended 31 December 2010 and for the year ended 31 December 2009, respectively, with a corresponding decrease in 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. 5 Retention plan payments related to strategic retention programs. 6 Refer to "Note 29 Pension and other post-employment benefit plans" of this report for more information. 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, 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. 8 Includes restructuring charges of CHF 261 million. Refer to "Note 37 Reorganizations and disposals" for more information.

Note 7 General and administrative expenses

	For the year ended			% change from
CHF million	**31.12.11**	31.12.10	31.12.09	31.12.10
Occupancy	**1,059**	1,252	1,420	(15)
Rent and maintenance of IT and other equipment	**429**	555	623	(23)
Communication and market data services	**616**	664	697	(7)
Administration	**621**	669	695	(7)
Marketing and public relations	**393**	339	225	16
Travel and entertainment	**470**	466	412	1
Professional fees	**822**	754	830	9
Outsourcing of IT and other services	**1,151**	1,078	836	7
Litigation and regulatory matters[1]	**276**	631	233	(56)
Other[2]	**122**	175	279	(30)
Total general and administrative expenses	**5,959**	6,585	6,248	(10)

1 Reflects the net increase / release of provisions for Litigation and regulatory matters recognized in the income statement and recoveries from third parties. 2 Includes mainly real estate related restructuring charges of CHF 93 million, CHF 79 million and CHF 256 million for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively. Refer to "Note 37 Reorganizations and disposals" for more information.

Note 8 Earnings per share (EPS) and shares outstanding

	As of or for the year ended			% change from
	31.12.11	31.12.10	31.12.09	31.12.10
Basic earnings (CHF million)				
Net profit attributable to UBS shareholders	4,159	7,534	(2,736)	(45)
from continuing operations	4,158	7,533	(2,719)	(45)
from discontinued operations	0	1	(17)	(100)
Diluted earnings (CHF million)				
Net profit attributable to UBS shareholders	4,159	7,534	(2,736)	(45)
Less: (profit)/loss on equity derivative contracts	(3)	(2)	(5)	50
Net profit attributable to UBS shareholders for diluted EPS	4,156	7,532	(2,741)	(45)
from continuing operations	4,155	7,531	(2,724)	(45)
from discontinued operations	0	1	(17)	(100)
Weighted average shares outstanding				
Weighted average shares outstanding for basic EPS	3,774,036,437	3,789,732,938	3,661,086,266	0
Potentially dilutive ordinary shares resulting from unvested exchangeable shares, in-the-money options and warrants outstanding[1]	61,259,378	48,599,111	754,948	26
Weighted average shares outstanding for diluted EPS	3,835,295,815	3,838,332,049	3,661,841,214	0
Potential ordinary shares from unexercised employee shares and in-the-money options not considered due to the anti-dilutive effect	0	0	20,166,373	
Earnings per share (CHF)				
Basic	1.10	1.99	(0.75)	(45)
from continuing operations	1.10	1.99	(0.74)	(45)
from discontinued operations	0.00	0.00	0.00	
Diluted	1.08	1.96	(0.75)	(45)
from continuing operations	1.08	1.96	(0.74)	(45)
from discontinued operations	0.00	0.00	0.00	
Shares outstanding				
Ordinary shares issued	3,832,121,899	3,830,840,513	3,558,112,753	0
Treasury shares	84,955,551	38,892,031	37,553,872	118
Shares outstanding	3,747,166,348	3,791,948,482	3,520,558,881	(1)
Mandatory convertible notes and exchangeable shares[2]	509,243	580,261	273,264,461	(12)
Shares outstanding for EPS	3,747,675,591	3,792,528,743	3,793,823,342	(1)

1 Total equivalent shares outstanding on out-of-the-money options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 244,151,646; 241,320,185 and 288,915,585 for the years ended 31 December 2011, 31 December 2010 and 31 December 2009, respectively. An additional 100 million ordinary shares ("contingent share issue") related to the SNB transaction were not dilutive for any periods presented, but could potentially dilute earnings per share in the future. 2 31 December 2009 includes 272,651,005 shares for the mandatory convertible notes issued to two investors in March 2008. All other numbers related to exchangeable shares.

Balance sheet notes: assets

Note 9a Due from banks and loans (held at amortized cost)

CHF million	**31.12.11**	31.12.10
By type of exposure		
Banks, gross	**23,235**	17,158
Allowance for credit losses	**(17)**	(24)
Net due from banks	**23,218**	17,133
Loans, gross		
Residential mortgages	**125,775**	122,499
Commercial mortgages	**21,247**	20,362
Current accounts and loans[1]	**108,887**	99,710
Securities[2]	**11,520**	21,392
Subtotal	**267,429**	263,964
Allowance for credit losses	**(825)**	(1,087)
of which: related to securities	***(83)***	*(273)*
Net loans	**266,604**	262,877
Net due from banks and loans (held at amortized cost)	**289,822**	280,010
By geographical region (based on the location of the borrower)		
Switzerland	**161,365**	161,108
United Kingdom	**8,222**	6,978
Rest of Europe	**24,396**	21,257
United States	**48,542**	50,701
Asia Pacific	**20,645**	16,614
Rest of the world	**27,494**	24,464
Subtotal	**290,664**	281,121
Allowance for credit losses	**(842)**	(1,111)
Net due from banks, loans (held at amortized cost)	**289,822**	280,010
By type of collateral		
Secured by real estate	**148,319**	144,403
Collateralized by securities	**56,613**	46,565
Guarantees and other collateral	**32,201**	29,303
Unsecured	**53,532**	60,851
Subtotal	**290,664**	281,121
Allowance for credit losses	**(842)**	(1,111)
Net due from banks, loans (held at amortized cost)	**289,822**	280,010

1 Includes leveraged finance loans of CHF 0.4 billion (gross of allowances) reclassified from held-for trading as of 31 December 2011 (31 December 2010: CHF 0.5 billion). Refer to Note 1a)10) and Note 28b for more information on reclassified assets. Refer to Note 9b for more information on allowances for reclassified assets. 2 Includes US student loan auction rate securities (ARS) of CHF 2.8 billion (gross of allowances) reclassified from held-for-trading as of 31 December 2011 (31 December 2010: CHF 4.3 billion), other securities of CHF 2.2 billion (gross of allowances) reclassified from held-for-trading as of 31 December 2011 (31 December 2010: CHF 7.4 billion) and CHF 6.5 billion (gross of allowances) similar acquired securities from clients as of 31 December 2011 (31 December 2010: CHF 9.7 billion). Refer to Note 1a)10) and Note 28b for more information on reclassified assets. Refer to Note 9b for more information on allowances for reclassified assets.

Note 9b Allowances and provisions for credit losses

CHF million	Specific allowances	Collective loan loss allowances	Provisions[1]	Total 31.12.11	Total 31.12.10
Balance at the beginning of the year	1,109	47	130	1,287	2,820
Write-offs / usage of provisions	(486)	(1)	(14)	(501)	(1,505)
Recoveries	51	0	0	51	79
Increase / (decrease) in credit loss allowances and provisions recognized in the income statement	22	84	(22)	84	66
Foreign currency translation and other adjustments	18	0	(2)	17	(173)
Balance at the end of the year	714	131	93	938	1,287
of which: a reduction of due from banks	*17*	*0*		*17*	*24*
of which: a reduction of loans	*694*[2]	*131*		*825*	*1,087*
of which: a reduction of cash collateral on securities borrowed	*3*	*0*		*3*	*46*

1 Provisions for loan commitments and guarantees, which are included in Other liabilities. Refer to "Note 21 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. 2 Includes allowances of CHF 43 million (31 December 2010: CHF 157 million) related to US student loan auction rate securities reclassified from held-for-trading, CHF 25 million (31 December 2010: CHF 63 million) related to other securities reclassified from held-for-trading, CHF 15 million (31 December 2010: CHF 52 million) related to similar acquired securities and CHF 32 million (31 December 2010: CHF 33 million) related to leveraged finance loans reclassified from held-for-trading. Refer to Note 1a)10) and Note 28b for more information on reclassified assets.

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 controls 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 31.12.11	Reverse repurchase agreements 31.12.11	Cash collateral receivables on derivative instruments 31.12.11	Cash collateral on securities borrowed 31.12.10	Reverse repurchase agreements 31.12.10	Cash collateral receivables on derivative instruments 31.12.10
By counterparty						
Banks	17,236	133,010	22,341	20,302	91,788	20,230
Customers	41,527	80,491	18,980	42,153	51,002	17,841
Total	58,763	213,501	41,322	62,454	142,790	38,071

Balance sheet liabilities

CHF million	Cash collateral on securities lent 31.12.11	Repurchase agreements 31.12.11	Cash collateral payables on derivative instruments 31.12.11	Cash collateral on securities lent 31.12.10	Repurchase agreements 31.12.10	Cash collateral payables on derivative instruments 31.12.10
By counterparty						
Banks	7,601	16,986	38,890	5,820	28,201	34,930
Customers	536	85,443	28,224	831	46,595	23,994
Total	8,136	102,429	67,114	6,651	74,796	58,924

Note 11 Trading portfolio

CHF million	31.12.11	31.12.10
Trading portfolio assets by issuer type		
Debt instruments		
Government and government agencies	62,118	83,952
of which: Switzerland	*418*	*13,292*
of which: United States	*22,958*	*19,843*
of which: Japan	*14,258*	*25,996*
of which: United Kingdom	*3,709*	*2,707*
of which: Germany	*3,547*	*3,679*
of which: Australia	*3,540*	*4,463*
Banks	10,597	14,711
Corporates and other[1]	36,330	48,818
Total debt instruments[1]	**109,045**	**147,481**
Equity instruments[1]	**37,400**	**44,335**
Financial assets for unit-linked investment contracts	16,376	18,056
Financial assets held for trading	**162,821**	**209,873**
Precious metals and other physical commodities	18,704	18,942
Total trading portfolio assets	**181,525**	**228,815**
Trading portfolio liabilities by issuer type		
Debt instruments		
Government and government agencies	18,913	29,628
of which: Switzerland	*261*	*237*
of which: United States	*5,634*	*11,729*
of which: Japan	*3,894*	*7,699*
of which: United Kingdom	*1,946*	*3,103*
of which: Germany	*2,492*	*2,350*
of which: Australia	*756*	*953*
Banks	1,913	3,107
Corporates and other[1]	4,716	5,474
Total debt instruments[1]	**25,542**	**38,209**
Equity instruments[1]	**13,937**	**16,765**
Total trading portfolio liabilities	**39,480**	**54,975**

1 From 2011 onwards, investment fund units have been classified as Corporates and other debt instruments; previously these investment fund units were classified as equity instruments. The comparative period has been adjusted accordingly; refer to "Note 1b) Changes in accounting policies, comparability and other adjustments" for more information.

Note 11 Trading portfolio (continued)

	31.12.11				31.12.10
CHF million	Level 1	Level 2	Level 3	Total	
Trading portfolio assets by product type					
Debt instruments					
Government bills / bonds	34,449	10,753	95	45,297	66,435
Corporate bonds, municipal bonds, including bonds issued by financial institutions	695	29,699	2,371	32,765	47,237
Loans	0	2,698	1,390	4,088	5,543
Investment fund units[1]	3,779	6,048	33	9,859	13,171
Asset-backed securities	9,513	3,785	3,737	17,035	15,098
of which: mortgage-backed securities	*9,513*	*2,673*	*1,684*	*13,868*	*10,355*
Total debt instruments[1]	48,436	52,983	7,625	109,045	147,481
Equity instruments[1]	35,312	1,933	155	37,400	44,335
Financial assets for unit-linked investment contracts	15,616	760	0	16,376	18,056
Financial assets held for trading	99,363	55,677	7,781	162,821	209,873
Precious metals and other physical commodities				18,704	18,942
Total trading portfolio assets				181,525	228,815
Trading portfolio liabilities by product type					
Debt instruments					
Government bills / bonds	15,418	1,608	0	17,026	26,650
Corporate bonds, municipal bonds, including bonds issued by financial institutions	471	6,315	335	7,122	10,525
Investment fund units[1]	921	161	1	1,083	834
Asset-backed securities	0	17	296	312	200
of which: mortgage-backed securities	*0*	*9*	*278*	*287*	*123*
Total debt instruments[1]	16,809	8,101	632	25,542	38,209
Equity instruments[1]	13,621	313	3	13,937	16,765
Total trading portfolio liabilities	30,430	8,414	636	39,480	54,975

1 From 2011 onwards, investment fund units have been classified as debt instruments; previously these investment fund units were classified as equity instruments. The comparative period has been adjusted accordingly; refer to "Note 1b) Changes in accounting policies, comparability and other adjustments" for more information.

Note 12 Financial assets designated at fair value

CHF million	**31.12.11**	31.12.10[1]
Loans	**2,358**	2,173
Structured loans	**960**	833
Reverse repurchase and securities borrowing agreements	**6,071**	4,383
of which: banks	***3,514***	*3,038*
of which: customers	***2,557***	*1,345*
Other debt instruments	**218**	258
Financial assets designated at fair value – debt instruments	**9,607**	7,647
Investment fund units and other	**730**	856
Total financial assets designated at fair value	**10,336**	8,504

1 In 2011, we corrected the amounts presented for 31 December 2010. As a result, Loans were reduced by CHF 158 million, Structured loans were reduced by CHF 96 million and Reverse repurchase and securities borrowing agreements of which: banks were increased by CHF 254 million.

The maximum exposure to credit risk of financial assets designated at fair value – debt instruments is equal to the fair value, except for Other debt instruments. The maximum exposure is mitigated by collateral, which mainly relates to structured loans and reverse repurchase and securities borrowing agreements of CHF 6,919 million and CHF 3,929 million for 31 December 2011 and 31 December 2010, 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 4,423 million and CHF 2,198 million as of 31 December 2011 and as of 31 December 2010, respectively. The maximum exposure to credit risk of these instruments is generally hedged through derivative transactions. Investment fund units and other are not directly exposed 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	**31.12.11**	31.12.10
Loans – notional amount	**2,595**	2,204
Credit derivatives related to loans – notional amount[1]	**1,404**	1,730
Credit derivatives related to loans – fair value[1]	**37**	(5)

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 attributable to changes in credit risk

	For the year ended		Cumulative from inception until the year ended	
CHF million	**31.12.11**	31.12.10	**31.12.11**	31.12.10
Changes in fair value of loans designated at fair value, attributable to changes in credit risk[1]	**(15)**	100	**(49)**	(27)
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]	**35**	(94)	**37**	(5)

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 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 13 Financial investments available-for-sale

CHF million	**31.12.11**	31.12.10
Financial investments available-for-sale by issuer type		
Debt instruments		
Government and government agencies	**47,144**	67,552
of which: Switzerland	***357***	*3,206*
of which: United States	***25,677***	*38,070*
of which: Japan	***8,854***	*6,541*
of which: United Kingdom	***3,477***	*8,303*
of which: France	***2,170***	*3,005*
Banks	**4,271**	5,091
Corporates and other[1]	**1,060**	1,206
Total debt instruments[1]	**52,475**	73,850
Equity instruments[1]	**699**	918
Total financial investments available-for-sale	**53,174**	74,768
Unrealized gains – before tax	**477**	514
Unrealized (losses) – before tax[2]	**(55)**	(662)
Net unrealized gains / (losses) – before tax	**422**	(148)
Net unrealized gains / (losses) – after tax	**250**	(243)

1 From 2011 onwards, investment fund units have been classified as Corporates and other debt instruments; previously these investment fund units were classified as equity instruments. The comparative period has been adjusted accordingly; refer to "Note 1b) Changes in accounting policies, comparability and other adjustments" for more information. 2 Includes losses of CHF 28 million with a duration of more than 12 months as of 31 December 2011 (31 December 2010: CHF 31 million).

	31.12.11				31.12.10
CHF million	**Level 1**	**Level 2**	**Level 3**	**Total**	
Financial investments available-for-sale by product					
Debt instruments					
Government bills / bonds	**33,999**	**868**	**33**	**34,899**	57,642
Corporate bonds, municipal bonds, including bonds issued by financial institutions	**632**	**7,881**	**77**	**8,590**	11,670
Investment fund units[1]	**24**	**416**	**5**	**445**	441
Asset-backed securities	**0**	**8,541**	**0**	**8,541**	4,097
of which: mortgage-backed securities	***0***	***8,541***	***0***	***8,541***	*4,093*
Total debt instruments[1]	**34,654**	**17,706**	**115**	**52,475**	73,850
Equity instruments					
Shares	**155**	**30**	**296**	**481**	690
Private Equity investments	**0**	**1**	**216**	**218**	227
Total equity instruments[1]	**155**	**32**	**512**	**699**	918
Total financial investments available-for-sale	**34,810**	**17,738**	**627**	**53,174**	74,768

1 From 2011 onwards, investment fund units have been classified as debt instruments; previously these investment fund units were classified as equity instruments. The comparative period has been adjusted accordingly. Refer to "Note 1 Summary of significant accounting policies" for more information.

Note 14 Investments in associates

CHF million	31.12.11	31.12.10
Carrying amount at the beginning of the year	790	870
Additions	1	19
Disposals	(4)	(93)
Income	42	86
Other comprehensive income	(27)	(1)
Impairments	0	(6)
Dividends paid	(28)	(29)
Foreign currency translation	21	(55)
Carrying amount at the end of the year	**795**	790

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 33 Significant subsidiaries and associates".

CHF million	31.12.11	31.12.10
Assets	5,806	6,391
Liabilities	3,789	4,391
Revenues	1,356	1,371
Net profit	181	239

Note 15 Property and equipment

At historical cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improvements	IT hardware, software and communication	Other machines and equipment	Projects in progress	31.12.11	31.12.10
Historical cost							
Balance at the beginning of the year	8,617	2,832	4,002	700	213	16,364	17,169[1]
Additions	62	76	393	55	542	1,129	538
Additions from acquired companies	0	1	1	0	0	2	0
Disposals / write-offs[2]	(69)	(336)	(357)	(29)	0	(791)	(629)[1]
Reclassifications	67	93	5	11	(216)	(40)	(132)
Foreign currency translation	1	8	5	(1)	6	19	(583)
Balance at the end of the year	8,679	2,674	4,049	736	545	16,683	16,364[1]
Accumulated depreciation							
Balance at the beginning of the year	4,844	2,005	3,625	518	0	10,991	11,073[1]
Depreciation[3]	194	217	293	57	0	761	918
Disposals / write-offs[2]	(69)	(327)	(328)	(28)	0	(752)	(575)[1]
Reclassifications	(34)	23	0	(1)	0	(12)	12
Foreign currency translation	(2)	12	5	1	0	16	(437)
Balance at the end of the year	4,934	1,930	3,596	546	0	11,005	10,991[1]
Net book value at the end of the year[4]	**3,745**	**744**	**453**	**190**	**545**	**5,678**	**5,373**

1 In 2011, we corrected the amounts presented for 2010 for both historical cost and accumulated depreciation. Net book value at the end of the year was not impacted. 2 Includes write-offs of fully depreciated assets. 3 In 2011, amounts presented include a CHF 22 million net reversal of impairments of own used property, CHF 29 million net impairments of leasehold improvements and CHF 3 million net impairments of other machines and equipment. 4 Fire insurance value of property and equipment is CHF 13,075 million (2010: CHF 13,092 million), predominantly related to real estate.

Investment properties at fair value

CHF million	31.12.11	31.12.10
Balance at the beginning of the year	94	116
Additions	0	3
Sales	(87)	(23)
Revaluations	4	2
Reclassifications	(1)	6
Foreign currency translation	(1)	(10)
Balance at the end of the year	**10**	94

Note 16 Goodwill and intangible assets

Introduction

As of 31 December 2011, the following four segments carried goodwill: Wealth Management (CHF 1.3 billion), Wealth Management Americas (CHF 3.3 billion), Global Asset Management (CHF 1.4 billion), and the Investment Bank (CHF 3.0 billion). For the purpose of testing goodwill for impairment, UBS considers the segments as reported in "Note 2a Segment reporting" as separate cash-generating units, and determines the recoverable amount of a segment on the basis of the value in use. On the basis of the impairment testing methodology described below, UBS concluded that the year-end 2011 balances of goodwill allocated to its segments remain recoverable.

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 individually 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, RWA 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.

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 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.

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 up to 20%, the discount rates were changed by 1% and the long-term growth rates were changed by 0.5%. Under all but one scenario, the recoverable amounts for each of the segments exceeded their respective carrying amounts such that the reasonably possible changes in key assumptions would not result in impairment. When forecast earnings from the Investment Bank are changed by 20%, the Investment Bank's carrying amount exceeds the recoverable amount. At 31 December 2011, the Investment Bank's recoverable amount exceeds its carrying amount by CHF 3.8 billion. If forecast earnings for the Investment Bank were changed by approximately 12%, then the Investment Bank's recoverable amount would be equal to its carrying amount.

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. This may be the case if the regulatory pressure on the banking industry further intensifies and conditions in the financial markets diminish our performance relative to forecast. 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, there would be no impact to the BIS tier 1 capital ratio or BIS total capital ratio of the UBS Group.

Discount and growth rates

	Discount rates		Growth rates	
In %	**31.12.11**	31.12.10	**31.12.11**	31.12.10
Wealth Management	**10.7**	9.0	**1.7**	1.2
Wealth Management Americas	**10.0**	9.0	**2.4**	2.4
Global Asset Management	**10.0**	9.0	**2.4**	2.4
Investment Bank	**12.0**	11.0	**2.4**	2.4

Note 16 Goodwill and intangible assets (continued)

	Goodwill	Intangible assets				
CHF million	Total	Infrastructure	Customer relationships, contractual rights and other	Total	**31.12.11**	31.12.10
Historical cost						
Balance at the beginning of the year	9,115	710	809	1,519	**10,634**	11,795
Additions and reallocations	(7)[1]	0	47	47	**40**	34
Disposals	0	0	(2)	(2)	**(2)**	(3)
Write-offs[2]	0	0	0	0	**0**	(1)
Foreign currency translation	(35)	3	0	3	**(32)**	(1,190)
Balance at the end of the year	9,074	713	854	1,567	**10,641**	10,634
Accumulated amortization and impairment						
Balance at the beginning of the year	0	362	450	812	**812**	787
Amortization	0	34	56	90	**90**	105
Impairment	0	0	37	37	**37**	12
Disposals	0	0	0	0	**0**	0
Write-offs[2]	0	0	0	0	**0**	(1)
Foreign currency translation	0	4	4	8	**8**	(91)
Balance at the end of the year	0	399	547	946	**946**	812
Net book value at the end of the year	9,074	314	307	621	**9,695**	9,822

1 Mainly includes the addition of CHF 11 million related to two business acquisitions completed in 2011, more than offset by a downward purchase price adjustment of CHF 20 million for an acquisition completed prior to the adoption of IFRS 3 revised. Refer to "Note 35 Business combinations" for more information. 2 Represents write-offs of fully amortized intangible assets.

Note 16 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 2011.

CHF million	Balance at the beginning of the year	Additions and reallocations	Disposals	Amortization	Impairment	Foreign currency translation	Balance at the end of the year
Goodwill							
Wealth Management	1,351	(20)[1]				(12)	1,319
Wealth Management Americas	3,303					(10)	3,293
Global Asset Management	1,448	7				(13)	1,442
Investment Bank	3,013	7				0	3,019
UBS	**9,115**	**(7)**				**(35)**	**9,074**
Intangible assets							
Wealth Management	100	1		(6)	(31)	(2)	62
Wealth Management Americas	425	6		(48)		(1)	382
Global Asset Management	40	9		(7)	(1)	(1)	41
Investment Bank	143	30	(2)	(30)	(4)	(1)	136
UBS	**707**	**47**	**(2)**	**(90)**	**(37)**	**(5)**	**621**

1 Reflects a downward purchase price adjustment of CHF 20 million for an acquisition completed prior to the adoption of IFRS 3 revised.

The estimated, aggregated amortization expenses for intangible assets are as follows:

CHF million	Intangible assets
Estimated, aggregated amortization expenses for:	
2012	90
2013	83
2014	76
2015	75
2016	63
2017 and thereafter	212
Not amortized due to indefinite useful life	22
Total	**621**

Note 17 Other assets

CHF million	**31.12.11**	31.12.10
Prime brokerage receivables	**6,103**	16,395
Deferred pension expenses[1]	**3,300**	3,174
Settlement and clearing accounts	**482**	708
Properties and other non-current assets held for sale	**183**	302
VAT and other tax receivables	**176**	275
Other receivables	**2,222**	1,827
Total other assets	**12,465**	22,681

1 Refer to "Note 29 Pension and other post-employment benefit plans" of this report for more information.

Balance sheet notes: liabilities

Note 18 Due to banks and customers

CHF million	**31.12.11**	31.12.10
Due to banks	**30,201**	41,490
Due to customers in savings and investment accounts	**114,079**	104,607
Other amounts due to customers	**228,330**	227,694
Total due to customers	**342,409**	332,301
Total due to banks and customers	**372,610**	373,791

Note 19 Financial liabilities designated at fair value and debt issued held at amortized cost

Financial liabilities designated at fair value

CHF million	**31.12.11**	31.12.10[1]
Bonds and structured debt instruments issued		
Equity linked	**40,104**	47,810
Credit linked	**10,481**	13,100
Rates linked	**22,561**	23,462
Other	**1,912**	3,671
Total	**75,059**	88,043
Structured debt instruments – OTC	**13,001**	12,475
Repurchase agreements	**477**	93
Loan commitments[2]	**445**	145
Total	**88,982**	100,756

1 In 2011, we corrected the classification of bonds and structured debt instruments issued. See Note 1a) 8) for additional information. 2 Loan commitments recognized as "Financial liabilities designated at fair value" until drawn down and recognized as loans.

As of 31 December 2011, the contractual redemption amount at maturity of *Financial liabilities designated at fair value* through profit or loss was CHF 6.1 billion higher than the carrying value. As of 31 December 2010, the contractual redemption amount at maturity of such liabilities was CHF 3.7 billion higher than the carrying value. The 2010 number has been corrected from CHF 11.1 billion to CHF 3.7 billion. Refer to Note 1a) 8) for details on Financial liabilities designated at fair value through profit or loss.

Debt issued (held at amortized cost)

CHF million	**31.12.11**	31.12.10
Short-term debt	**71,377**	56,039
Long-term debt:		
Senior bonds	**53,113**	54,627
Subordinated bonds	**7,035**	8,547
Debt issued through the central bond institutions of the Swiss regional or cantonal banks	**7,141**	8,455
Medium-term notes	**1,951**	2,605
Total[1]	**140,617**	130,271

1 Net of bifurcated embedded derivatives with a net fair value of CHF 955 million as of 31 December 2011 (31 December 2010: CHF 1,357 million).

Note 19 Financial liabilities designated at fair value and debt issued held at amortized cost (continued)

The Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt issues (held at amortized cost). In certain cases, the Group applies hedge accounting for interest rate risk as discussed in Note 1a) 15) and "Note 23 *Derivative instruments and hedge accounting*". As a result of applying hedge accounting, as of 31 December 2011 and 31 December 2010, the carrying value of debt issued was CHF 2,051 million and CHF 913 million higher, respectively, reflecting changes in fair value due to interest rate movements.

The Group issues both CHF- and non-CHF- denominated fixed-rate and floating-rate debt.

Subordinated debt securities are unsecured obligations of the Group that are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. As of 31 December 2011 and 31 December 2010, the Group had CHF 7,035 million and CHF 8,547 million in subordinated debt, respectively. A majority of the subordinated debt outstanding as of 31 December 2011 pays a fixed rate of interest, 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 2011 and 31 December 2010, the Group had CHF 137,263 million and CHF 153,730 million in unsubordinated debt (excluding short-term debt, compound debt instruments – OTC, repurchase agreements and loan commitments designated at fair value), respectively.

The following table shows the split between fixed-rate and floating-rate debt issues based on the contractual terms and does not consider early redemption features. It should be noted that the Group uses interest rate swaps to hedge many of the fixed-rate debt issues, which changes their re-pricing characteristics into those of floating-rate debt.

Contractual maturity dates

CHF million, except where indicated	2012	2013	2014	2015	2016	2017–2021	Thereafter	**Total 31.12.11**	Total 31.12.10
UBS AG (Parent Bank)									
Senior debt									
Fixed rate	61,969	15,694	10,443	8,193	4,865	20,365	5,486	**127,015**	116,193[1]
Interest rates (range in %)	0–10.0	0–10.0	0–8.8	0–8.4	0–10.0	0–8.4	0–8.0		
Floating rate	19,620	10,244	6,471	6,087	4,235	6,280	11,403	**64,339**	81,946[1]
Subordinated debt									
Fixed rate	0	0	386	1,064	1,422	2,457	1,022	**6,350**	6,412
Interest rates (range in %)			3.1	2.4–7.4	3.1–5.9	4.1–7.4	6.4–8.8		
Floating rate	0	0	0	0	0	685	0	**685**	2,134
Subtotal	81,589	25,938	17,300	15,344	10,522	29,787	17,911	**198,390**	206,685
Subsidiaries									
Senior debt									
Fixed rate	17,961	266	137	104	713	3,411	849	**23,443**	14,396
Interest rates (range in %)	0–8.2	0–2.8	0–7.6	0–7.4	0–8.3	0–8.1	0–6.2		
Floating rate	605	1,327	624	1,076	313	1,328	2,492	**7,766**	9,947
Subtotal	18,566	1,593	762	1,181	1,027	4,739	3,341	**31,208**	24,342
Total	100,155	27,531	18,062	16,525	11,548	34,526	21,252	**229,599**	231,027

1 In 2011, we corrected the split of fixed rate and floating rate senior debt. Total fixed rate senior debt was corrected from CHF 138,767 million to CHF 116,193 million. Total floating rate senior debt was corrected from CHF 59,372 million to CHF 81,946 million. Total senior debt was not impacted.

The table above indicates fixed interest rate coupons on the Group's bonds. The high or low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate on such debt issues generally does not reflect the effective interest rate the Group is paying to service its debt after the embedded derivative has been separated and, where applicable, the application of hedge accounting.

Note 20 Other liabilities

CHF million	31.12.11	31.12.10
Prime brokerage payables	36,746	36,383
Amounts due under unit-linked investment contracts	16,481	18,125
Provisions[1]	1,626	1,704
Settlement and clearing accounts	874	961
Current tax liabilities	505	750
Deferred tax liabilities[2]	79	97
VAT and other tax payables	492	579
Accrued pension and post-employment benefit liability[3]	406	395
Other payables[4]	4,482	4,726
Total other liabilities	**61,692**	63,719

1 Presentational changes have been made in 2011. Total provisions now also include provisions for loan commitments and guarantees. Refer to "Note 21 Provisions and contingent liabilities" for more information. 2 Refer to "Note 22 Income taxes" for more information. 3 Refer to "Note 29 Pension and other post-employment benefit plans" for more information. 4 2011 includes third-party interest in consolidated limited partnerships of CHF 1.4 billion (2010: CHF 0.9 billion) and liabilities from cash settled employee compensation plans of CHF 1.6 billion (2010: CHF 1.7 billion).

Note 21 Provisions and contingent liabilities

a) Provisions

CHF million	Operational risks[1]	Litigation and regulatory matters[2]	Restructuring	Loan commitments and guarantees	Other[3]	Total 31.12.11	Total 31.12.10[4]
Balance at the beginning of the year	56	618	281	130	619	1,704	2,401
Additions from acquired companies	0	0	0	0	2	2	0
Increase in provisions recognized in the income statement	60	396	393	6	92	947	1,126
Release of provisions recognized in the income statement	(9)	(87)	(55)	(28)	(109)	(288)	(286)
Provisions used in conformity with designated purpose	(50)	(455)	(115)	(14)	(82)	(716)	(1,341)
Capitalized reinstatement costs	0	0	0	0	(2)	(2)	(24)
Disposal of subsidiaries	0	0	0	0	(1)	(1)	(1)
Reclassifications	0	0	(49)[5]	(2)	0	(52)	8
Foreign currency translation / Unwind of discount	2	10	13	1	7	32	(180)
Balance at the end of the year	58	482	467	93	525	**1,626**	1,704

1 Includes provisions for litigation resulting from security risks and transaction processing risks. 2 Includes litigation resulting from legal, liability and compliance risks. Additionally, includes a provision established in connection with demands for repurchase of US mortgage loans sold or securitized by UBS as described in section c) of this Note. 3 Includes reinstatement costs for leasehold improvements which amounted to CHF 109 million on 31 December 2011 (CHF 122 million on 31 December 2010), provisions for onerous lease contracts, provisions for employee benefits (service anniversaries and sabbatical leave) and other items. 4 Presentational changes have been made in 2011. Total provisions now also include provisions for loan commitments and guarantees. These provisions were previously separately disclosed in "Note 20 Other liabilities". 5 Reflects a reclassification to share premium of the restructuring provisions related to share-based compensation.

Note 21 Provisions and contingent liabilities (continued)

b) Litigation and regulatory matters

The Group operates in a legal and regulatory environment that exposes it to significant litigation risks. 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 cases are subject to many uncertainties, and the outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. In certain circumstances, to avoid the expense and distraction of legal proceedings, UBS may, based on a cost-benefit analysis, enter into a settlement even though denying any wrongdoing. The Group makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reliably estimated.

Certain potentially significant legal proceedings or threatened proceedings as of 31 December 2011 are described below. In some cases we provide the amount of damages claimed, the size of a transaction or other information in order to assist investors in considering the magnitude of any potential exposure. We are unable to provide an estimate of the possible financial effect of particular claims or proceedings (where the possibility of an outflow is more than remote) beyond the level of current reserves established. Doing so would require us to provide speculative legal assessments as to claims and proceedings which 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. In many cases a combination of these factors impedes our ability to estimate the financial effect of contingent liabilities. We also believe that such estimates could seriously prejudice our position in these matters.

1) Municipal bonds

On 4 May 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. However, approximately USD 63 million of the regulatory settlement will be made available to potential claimants through a settlement fund, and payments made through the fund should reduce the total monetary amount at issue in the class actions for UBS. In December 2010, three former UBS employees were indicted in connection with the Federal criminal antitrust investigation; those individual matters also remain pending.

2) Auction rate securities

In late 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 (USD 75 million to the NYAG and USD 75 million to the other states). 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 mid-February 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; (ii) arbitration and litigation claims asserted by investors relating to ARS, including a pending consequential damages claim by a former customer for damages of USD 76 million; and (iii) arbitration and litigation claims asserted by 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 recently filed arbitration claims alleging violations of state and federal securities law that seek compensatory and punitive damages, among other relief.

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. UBS is cooperating with these requests within the limits of financial privacy obligations under Swiss and other applicable laws.

4) Matters related to the credit 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 credit crisis and in particular mortgage-related securities and other structured transactions and derivatives. In particular, the SEC is investigating UBS's valuation of super senior tranches of collateralized debt obligations (CDO) during the third quarter of 2007, UBS's structuring and underwriting of certain CDOs during the first and second quarters of 2007, and UBS's reclassification of financial assets pursuant to amendments to IAS 39 during the fourth quarter of 2008. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC in its investigations. UBS has also communicated with and has responded to other inquiries by various governmental and regulatory authorities, including the Swiss Financial Market Supervisory Authority (FINMA), the UK Financial Services Authority (FSA), the SEC, the US Financial Industry Regulatory Authority (FINRA), the Financial Crisis Inquiry Commission (FCIC), the New York Attorney General, and the US Department of Justice, concerning various matters related to the credit 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.

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. UBSFS has been named along with other defendants in a putative class action alleging materially misleading statements and omissions in the prospectuses relating to these notes and asserting claims under US securities laws. UBSFS has also been named in numerous individual civil suits and customer arbitrations (some of which have resulted in settlements or adverse judgments), was named in a proceeding brought by the New Hampshire Bureau of Securities which was settled for USD 1 million, and is responding to investigations by other state regulators relating to the sale of these notes to UBSFS's customers. The customer litigations and regulatory investigations relate primarily to whether UBSFS adequately disclosed the risks of these notes to its customers. In April 2011, UBSFS entered into a settlement with FINRA related to the sale of these notes, pursuant to which UBSFS agreed to pay a USD 2.5 million fine and approximately USD 8.25 million in restitution and interest to a limited number of investors in the US.

6) Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through about 2007, UBS was a substantial underwriter and issuer of US residential mortgage-backed securities (RMBS). 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 45 billion in original face amount of RMBS underwritten or issued by UBS. Many 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 9 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 36 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 an action 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, which were initially filed in July 2011 and then amended in September 2011, assert claims for damages and rescission under federal and state securities laws and state common law and allege losses of approximately USD 1.2 billion. The FHFA also filed suits in September 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. Additionally, UBS is named as a defendant in three lawsuits brought by insurers of RMBS seeking recovery of insurance paid to RMBS investors. These insurers allege that UBS and other RMBS underwriters aided and abetted misrepresentations and fraud by RMBS issuers, and claim equitable and contractual subrogation rights.

On 29 September 2011 a federal court in New Jersey dismissed 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 plaintiff filed an amended complaint on 31 October 2011, which UBS has again moved to dismiss on statute of limitations grounds, among others. The motion remains pending.

As described below under "c) Other contingent liabilities", UBS has also 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.

On 2 February 2012, Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, filed suit against UBS Real Estate Securities Inc. (UBS RESI) in a 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 by Assured Guaranty. Assured Guaranty also claims that UBS RESI breached representations and warran-

Note 21 Provisions and contingent liabilities (continued)

ties 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 to date, compensatory and consequential losses, fees, expenses and pre-judgment interest.

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 September 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US. On 15 December 2011, Defendants moved to dismiss the claims based on purchases or sales of UBS ordinary shares made in the US for failure to state a claim. 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 March 2011, the court dismissed the ERISA complaint. The plaintiffs have sought leave to file an amended complaint.

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 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. Between February and May 2009, UBS (Luxembourg) SA responded to criticisms made by the CSSF in relation to its responsibilities as custodian bank and demonstrated to the satisfaction of the CSSF that it has the infrastructure and internal organization in place in accordance with professional standards applicable to custodian banks in Luxembourg. UBS (Luxembourg) SA and certain other UBS subsidiaries are also responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In December 2009 and March 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. The 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 against the March 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 November 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 was not less than USD 2 billion. A second claim was filed in December 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 November 2011 the District Court dismissed all of the 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 Trustee lacks standing to bring such claims. 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 City of Milan and other Italian public sector entities

In January 2009, the City of Milan (City) 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 the City between 2005 and 2007. The claim is to recover alleged damages in an amount which will compensate for terms of the related derivatives which the City claims to be objectionable. In the alternative, the City seeks to recover alleged hidden profits asserted to have been made by the banks in an amount of approximately EUR 88 million (of which UBS Limited is alleged to have received approximately EUR 16 million) together with further damages of not less than EUR 150 million. The claims are made against all of the banks on a joint and several basis. The case is currently stayed following a petition filed by the four banks to the Italian Court of Cassation challenging the jurisdiction of the Italian courts but is likely to be resumed following the recent decision of the Court which confirmed jurisdiction of the Italian courts. In addition, two current UBS employees and one former employee, together with employees from other banks, a former City officer and a former adviser to the City, are facing a criminal trial for alleged "aggravated fraud" in relation to the City's 2005 bond issue and the execution, and subsequent restructuring, of certain related derivative transactions. The primary allegation is that UBS Limited and the other international banks obtained hidden and/or illegal profits by entering into the derivative contracts with the City. In the criminal proceedings, UBS Limited also faces an administrative charge of failing to have in place a business organizational model to avoid the alleged misconduct by employees, the sanctions for which could include a limitation on activities in Italy. The City has separately asserted claims for damages against UBS Limited and UBS individuals in those proceedings. UBS is engaged in discussions with the City in relation to a possible settlement of the City's claims. A number of transactions with other public entity counterparties in Italy have also been called into question or become the subject of legal proceedings and claims for damages and other awards. These include derivative transactions with the Regions of Calabria, Tuscany, Lombardy and Lazio and the City of Florence. 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. UBS is resisting these attempts.

UBS has itself commenced proceedings before English courts against the City of Milan and certain other Italian public entities in connection with various derivative transactions with Italian public entities. These proceedings are aimed at obtaining declaratory judgments as to the validity and enforceability of UBS's English law contractual arrangements with its counterparties and, to the extent relevant, the legitimacy of UBS's conduct in respect of those counterparties. The English proceedings against the City of Milan and the Region of Tuscany have been stayed by agreement of the parties.

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. Following orders issued in 2008 and 2009, in which the court dismissed most of HSH's claims and its punitive damages demand and later partially denied a motion to dismiss certain repleaded claims, the claims remaining in the case are for fraud, breach of contract and breach of the implied covenant of good faith and fair dealing. Both sides have appealed the court's most recent partial dismissal order, and a decision on the appeal is pending.

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. Under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in October 2010, a net sum of approximately USD 138 million has fallen due from KWL but not been paid. In January 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. In October 2010, the English court ruled 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 served Particulars of Claim and KWL has served its Defence and Counterclaim which also joins UBS Limited and another bank to the proceedings.

In March 2010, KWL commenced proceedings in Leipzig, Germany, against UBS and other banks involved in these contracts, 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 has also withdrawn its civil claims against UBS and one of the other banks in the German courts and no civil claim will proceed against either of them in Germany. The proceedings brought by KWL against the third bank are now proceeding before the German courts. In December 2011, the Leipzig court 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 Landesbank Baden-Wurttemberg on UBS in the Leipzig proceedings.

The other two banks that entered into CDS transactions with KWL entered into back-to-back CDS transactions with UBS. In April 2010, UBS commenced separate proceedings in the English

Note 21 Provisions and contingent liabilities (continued)

High Court against those bank swap counterparties seeking declarations as to the parties' obligations under those transactions. The back-to-back CDS transactions were terminated in April and June 2010. The aggregate amount that UBS contends is outstanding under those transactions is approximately USD 183 million plus interest. The stay of the court proceedings against one of the bank swap counterparties has been terminated by UBS, and UBS has added a money claim to the proceedings. The other swap counterparty has terminated the stay of the proceedings brought against it by UBS Limited and has added a claim against KWL to those proceedings, which will now proceed.

In January 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.

In November 2011, the SEC commenced an inquiry regarding the KWL transactions and UBS is providing information to the SEC relating to those transactions.

12) Puerto Rico

The SEC has been investigating UBS's secondary market trading and associated disclosures involving shares of closed-end funds managed by UBS Asset Managers of Puerto Rico, principally in 2008 and 2009. In November 2010, the SEC issued a "Wells notice" to two UBS subsidiaries, advising them that the SEC staff is considering whether to recommend that the SEC bring a civil action against them relating to these matters. UBS is engaged in settlement discussions with the SEC staff; however, there is no assurance that a settlement will be reached. UBS and several unrelated parties were also sued in Puerto Rico superior court in October 2011 in a purported civil derivative action seeking to bring claims on behalf of the Employee Retirement System of Puerto Rico related to, among other things, the issuance of the bonds underwritten by UBS and the investment of the proceeds of those bond issuances.

13) LIBOR

Several government agencies, including the SEC, the US Commodity Futures Trading Commission, the DOJ and the FSA, are conducting investigations regarding submissions with respect to British Bankers' Association LIBOR rates. We understand that the investigations focus on whether there were improper attempts by UBS (among others), either acting on our own or together with others, to manipulate LIBOR rates at certain times. In addition, the Swiss Competition Commission (WEKO) has commenced an investigation of numerous banks and financial intermediaries concerning possible collusion relating to LIBOR and TIBOR reference rates and certain derivatives transactions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ and 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 we reported to those authorities, 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 against us. 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.

On 16 December 2011, the Japan Financial Services Agency (JFSA) commenced an administrative action against UBS Securities Japan Ltd (UBS Securities Japan) based on findings by the Japan Securities and Exchange Surveillance Commission (SESC) that (i) a trader of UBS Securities Japan engaged in inappropriate conduct relating to Euroyen TIBOR (Tokyo Interbank Offered Rate) 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; and (ii) serious problems in the internal controls of UBS Securities Japan resulted in its failure to detect this conduct. Based on the findings, the JFSA issued a Business Suspension Order requiring UBS Securities Japan to suspend trading in derivatives transactions related to Yen LIBOR and Euroyen TIBOR from 10 January to 16 January 2012 (excluding transactions required to perform existing contracts). The JFSA also issued a Business Improvement Order that requires UBS Securities Japan to (i) develop a plan to ensure compliance with its legal and regulatory obligations and to establish a control framework that is designed to prevent recurrences of the conduct identified in the JFSA's administrative action, and (ii) provide periodic written reports to the JFSA regarding the company's implementation of the measures required by the order. On the same day the JFSA also commenced an administrative action against UBS AG, Tokyo Branch, based on a finding that an employee of the Tokyo branch "continuously received approaches" from an employee of UBS Securities Japan regarding Euroyen TIBOR rate submissions, which was determined to be an inappropriate practice that was not reported to the branch's management. Pursuant to this administrative action, the JFSA issued an order under the Japan Banking Act which imposes requirements similar to those imposed under the Business Improvement Order directed to UBS Securities Japan.

A number of putative class actions and other actions have been filed in federal courts in the US against UBS and numerous other banks on behalf of certain parties who transacted in LIBOR-based derivatives. The complaints allege manipulation, through various means, of the US dollar LIBOR rate and prices of US dollar LIBOR-based derivatives in various markets. Claims for damages are asserted under various legal theories, including violations of the US Commodity Exchange Act and antitrust laws.

14) SinoTech Energy Limited

Since August 2011, multiple putative class action complaints have been filed, and have since been consolidated, in the United States District Court for the Southern District of New York against SinoTech Energy Limited (SinoTech), its officers and directors, its auditor at the time of the offering, and its underwriters, including UBS, alleging, among other claims, that the registration statement and prospectus in connection with SinoTech's 3 November 2010 USD 168 million initial public offering of American Depositary Shares contained materially misleading statements and omissions, in violation of the US federal securities laws. UBS underwrote 70% of the offering. Plaintiffs seek unspecified compensatory damages, among other relief.

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. If the holding in this case is not reversed on appeal and is followed in other cases, UBS (like other banks in Switzerland) could be subject to reimbursement claims by certain clients for fees retained in the past.

16) Unauthorized trading incident

FINMA and the FSA have been conducting a joint investigation of the unauthorized trading incident that occurred in the Investment Bank and was announced in September 2011. In addition, FINMA and the FSA have announced that they have commenced enforcement proceedings against UBS in relation to this matter.

c) Other contingent liabilities

Demands related to sales of mortgages and RMBS

For several years prior to the crisis in the US residential mortgage loan market, we sponsored securitizations of US residential mortgage-backed securities (RMBS) and were a purchaser and seller of US residential mortgages. A subsidiary of UBS, 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. The overall market for privately issued US RMBS during this period was approximately USD 3.9 trillion.

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.

When we 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. We have been notified by certain institutional purchasers and insurers of mortgage loans and RMBS, including a GSE, that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. We have tolling agreements with some of these institutional purchasers and insurers concerning their potential claims. The table below summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 29 February 2012.

Note 21 Provisions and contingent liabilities (continued)

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

USD million	2006–2008	2009	2010	2011	through 29 February 2012	Total
Actual or agreed loan repurchases / make whole payments by UBS	11.7	1.4				**13.1**
Demands resolved or expected to be resolved through enforcement of indemnification rights against third party originators		77.4	1.8	46.2	5.3	**130.7**
Demands resolved in litigation	0.6	20.7				**21.3**
Demands in litigation[2]			345.6	652.1		**997.1**
Demands rebutted by UBS but not yet rescinded by counterparty		4.0	1.8	368.5	12.1	**386.4**
Demands rescinded by counterparty	110.2	99.6	18.8	8.1		**236.8**
Demands in review by UBS		2.1	0.1	9.1	85.6	**97.5**
Total	**122.5**	**205.1**	**368.2**	**1,084.1**	**103.1**	**1,882.9**

1 Loans submitted by multiple counterparties are counted only once. This is a change from our prior practice in the presentation of this information. For this reason, the comparable table in our fourth quarter 2011 report included double-counted loans with an original principal balance of approximately USD 42.4 million. 2 Includes (i) USD 124.9 million of demands in litigation which were previously classified as *Demands resolved or expected to be resolved through enforcement of UBS's indemnification rights against third-party originators;* and (ii) USD 47.7 million of demands in litigation which were previously classified as *Actual or agreed loan repurchases / make whole payments by UBS.*

Our balance sheet as of 31 December 2011 reflected a provision of USD 104 million (adjusted from USD 93 million previously reported) based on our best estimate of the loss arising from certain loan repurchase demands received since 2006 to which we have agreed or which remain unresolved, and for certain anticipated loan repurchase demands of which we have been informed. Assured Guaranty advised UBS in 2011 that it intended to make loan repurchase demands that were estimated to be at least USD 900 million in original principal balance. Of the USD 598 million (by original principal balance) of purported loan repurchase demands received in the fourth quarter of 2011 and through 29 February 2012, approximately USD 489 million of such demands were received from Assured Guaranty. As described above under "b) Litigation and regulatory matters", Assured Guaranty filed a lawsuit against UBS RESI on 2 February 2012 relating to certain of these repurchase demands, among others. It is not clear when or to what extent additional demands will be made by Assured Guaranty or others. UBS also cannot reliably estimate when or to what extent the provision will be utilized in connection with actual loan repurchases or payments for liquidated loans, because both the submission of loan repurchase demands and the timing of resolution of such demands are uncertain.

Payments made by UBS to date to resolve repurchase demands have been for liquidated adjustable rate mortgages that provide the borrower with a choice of monthly payment options (Option ARM loans). These payments were equivalent to approximately 62% of the original principal balance of the Option ARM loans. The corresponding percentages for other loan types can be expected to vary. With respect to unliquidated Option ARM loans that UBS has agreed to repurchase, UBS expects severity rates will be similar to payments made for liquidated loans. 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 indemnity rates or percentage losses upon repurchase for reasons including timing and market uncertainties as well as possible differences in the characteristics of loans that may be the subject of future demands compared with those that have been the subject of past demands.

In most instances in which we would be required to repurchase loans or indemnify against losses 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 and 2011, UBS has in turn asserted indemnity or repurchase demands against originators. Only a small number of our demands have been resolved, and we have not recognized any asset on our balance sheet in respect of the unresolved demands. UBS has also 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.

As described above under "b) Litigation and regulatory matters", we are also subject to claims and threatened claims in connection with our role as underwriter and issuer of RMBS.

Note 22 Income taxes

	For the year ended		
CHF million	31.12.11	31.12.10	31.12.09
Tax expense / (benefit) from continuing operations			
Swiss			
Current	23	(75)	55
Deferred	1,063	668	23
Foreign			
Current	83	300	462
Deferred	(246)	(1,273)	(983)
Total income tax expense / (benefit) from continuing operations	923	(381)	(443)
Tax expense from discontinued operations			
Swiss	0	0	0
Total income tax expense from discontinued operations	0	0	0
Total income tax expense / (benefit)	923	(381)	(443)

The Swiss net deferred tax expense of CHF 1,063 million reflects a tax expense of CHF 949 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.

The foreign net deferred tax benefit of CHF 246 million reflects 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.

The net current tax expense of CHF 106 million (Swiss CHF 23 million, foreign CHF 83 million) reflects tax expenses of CHF 277 million in relation to taxable profits of Group entities, partly offset by current tax benefits of CHF 171 million relating to prior periods. A deferred tax expense of CHF 17 million related to prior years reduces the net tax benefits related to prior years to CHF 155 million.

The Group made net corporate income tax payments, including Swiss and foreign taxes, of CHF 349 million, CHF 498 million and CHF 505 million in 2011, 2010, and 2009 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	31.12.11	31.12.10	31.12.09
Operating profit from continuing operations before tax	5,350	7,455	(2,561)
of which: Swiss	*4,743*	*5,999*	*4,871*
of which: foreign	*607*	*1,456*	*(7,433)*
Income taxes at Swiss tax rate of 21.5% for 2011, 2010 and 2009	1,150	1,603	(551)
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss tax rate	106	(49)	(1,636)
Tax effects of losses not recognized	939	275	1,188
Previously unrecorded tax losses now utilized	(8)	(1,225)	(79)
Non-taxable and lower taxed income	(1,189)	(889)	(932)
Non-deductible expenses and additional taxable income	674	1,985	1,012
Adjustments related to prior years	(155)	(258)	(65)
Change in deferred tax valuation allowances	(676)	(1,820)	552
Adjustments to deferred tax balances arising from changes in tax rates	42	11	14
Other items	39	(14)	55
Income tax expense / (benefit) from continuing operations	923	(381)	(443)

Note 22 Income taxes (continued)

Certain deferred tax asset and liability movements are recognized directly in equity, including the effects of exchange rate changes on tax assets and liabilities denominated in currencies other than Swiss francs. In particular, in 2011, a net deferred tax charge of CHF 218 million was reflected directly in equity. This included a tax charge reflected in other comprehensive income of CHF 498 million, which mainly related to an increase in a Swiss deferred tax liability for cash flow hedges, partly offset by a tax benefit in the share premium account of CHF 280 million, which mainly reflects an increase in recognized Swiss tax losses incurred in previous years that are of an equity nature for IFRS accounting purposes.

In the table below, the valuation allowance represents amounts that are not expected to provide future benefits due to insufficient projected future taxable income.

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 564 million is recognized as deferred tax assets as of 31 December 2011 (CHF 9,147 million as of 31 December 2010).

CHF million	31.12.11			31.12.10		
Deferred tax assets	**Gross**	**Valuation allowance**	**Recognized**	Gross	Valuation allowance	Recognized
Compensation and benefits	**1,780**	**(1,564)**	**216**	1,993	(1,791)	201
Tax loss carry-forwards	**27,171**	**(19,122)**	**8,049**	28,186[1]	(19,258)[1]	8,929
Trading assets	**880**	**(813)**	**67**	1,164	(999)	165
Other	**1,641**	**(1,447)**	**194**	2,002	(1,776)	226
Total deferred tax assets	**31,471**	**(22,946)**	**8,526**	33,345	(23,823)	9,522
Deferred tax liabilities						
Compensation and benefits			**0**			0
Property and equipment			**1**			0
Financial investments and associates			**32**			25
Trading assets			**1**			1
Goodwill and intangible assets			**37**			40
Other			**6**			31
Total deferred tax liabilities			**79**			97

1 In 2011, we corrected the amounts presented for gross deferred tax assets for tax loss carry-forwards as of 31 December 2010 from CHF 28,474 million to CHF 28,186 million and valuation allowance correspondingly from CHF 19,546 million to CHF 19,258 million. Total recognized deferred tax assets were not affected.

The deferred tax assets recognized as of 31 December 2011 in respect of tax losses have been based on profitability assumptions over a five-year horizon. The expected future profitability is based on business plan assumptions, as adjusted to take into account the recognition criteria of IAS 12. 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 2011, tax losses totaling CHF 52,073 million which are not recognized as deferred tax assets, are available to be offset against future taxable income. The tax losses not recognized as deferred tax assets expire as follows:

CHF million	**31.12.11**	31.12.10
Within 1 year	**3**	0
From 2 to 5 years	**29**	3,184
From 6 to 10 years	**85**	54
From 11 to 20 years	**38,647**	38,761[1]
No expiry	**13,309**	11,174
Total	**52,073**	53,173

1 In 2011, we corrected the tax losses not recognized as deferred tax assets as of 31 December 2010 from CHF 36,943 million to CHF 38,761 million.

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 taxes on undistributed earnings of subsidiaries except to the extent that those earnings are indefinitely invested.

As of 31 December 2011, no such earnings were treated as indefinitely invested.

Note 23 Derivative instruments and hedge accounting

Derivatives: overview

A derivative is a financial instrument, the value of which is derived from the value of a variable ("underlying"). Underlyings may be indices, exchange or interest rates, or the value of shares, commodities, bonds, or other financial instruments. A derivative commonly requires no initial 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. 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.

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 2011, 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 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 other 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) Derivative instruments and hedge accounting".

Valuation principles and techniques applied in the measurement of fair value derivative instruments are discussed in "Note 26a) Valuation principles". *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.

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 26c Valuation techniques by product".

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, swaptions and caps and floors.

Note 23 Derivative instruments and hedge accounting (continued)

- *Credit derivatives:* Credit default swaps (CDSs) 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 suffered a loss. After a credit event and settlement, the contract is generally terminated. An elaboration of 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, and the other party making payments based on the return of an underlying asset, which includes both the profit or loss it generates and any changes in its 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) Netting"), 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 page.

The notional amounts presented in the tables indicate a nominal value of transactions outstanding at the reporting date but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks.

Note 23 Derivative instruments and hedge accounting (continued)

Derivative instruments[1]

CHF billion	31.12.11 Total PRV[2]	Notional values related to PRVs[3]	Total NRV[4]	Notional values related to NRVs[3]	Other notional values[3, 5]	31.12.10[6] 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[7]	2.0	1,610.0	2.3	1,637.4	0.0	1.9	1,320.7	2.3	1,233.6	0.0
Swaps	247.3	6,661.7	226.1	6,561.5	15,771.7	170.4	7,527.0	154.3	7,423.7	13,076.0
Options	46.7	1,173.2	48.0	1,185.2	0.0	31.2	785.3	32.5	822.8	0.0
Exchange-traded contracts										
Futures					1,450.5					778.3
Options	0.0	124.0	0.0	127.8	0.0	0.0	43.7	0.0	49.4	0.0
Agency transactions[8]	0.1		0.1			0.2		0.2		
Total	296.1	9,569.0	276.4	9,511.9	17,222.2	203.7	9,676.7	189.3	9,529.5	13,854.3
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	66.6	1,292.2	62.9	1,238.0	172.4	52.2	1,189.8	49.8	1,091.2	0.0
Total rate of return swaps	0.6	2.4	0.5	2.0	0.0	3.5	6.1	1.3	4.2	0.0
Options and warrants	0.1	3.6	0.1	4.6	0.0	0.1	11.9	0.1	9.5	0.0
Total	67.3	1,298.1	63.5	1,244.6	172.4	55.8	1,207.8	51.2	1,104.9	0.0
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	15.7	648.3	14.9	610.5	0.0	16.3	531.1	17.1	554.1	0.0
Interest and currency swaps	75.7	2,177.4	85.5	2,165.5	0.0	88.5	2,279.9	97.0	2,190.5	0.0
Options	5.8	367.8	5.8	346.4	0.0	8.7	515.1	8.8	483.4	0.0
Exchange-traded contracts										
Futures					12.2					9.0
Options	0.0	0.1	0.0	0.6	0.0	0.0	0.0	0.0	0.1	0.0
Agency transactions[8]	0.0		0.0			0.0		0.0		
Total	97.2	3,193.7	106.3	3,123.0	12.2	113.5	3,326.1	123.0	3,228.1	9.0
Equity / index contracts										
Over-the-counter (OTC) contracts										
Forward contracts	2.8	38.3	3.0	39.0	0.0	2.5	31.5	3.5	40.5	0.0
Options	8.7	69.0	8.9	86.9	0.0	8.1	67.0	8.6	81.0	0.0
Exchange-traded contracts										
Futures					14.7					23.3
Options	3.3	84.6	3.7	85.2	0.0	3.8	94.4	3.7	98.2	0.0
Agency transactions[8]	3.9		4.2			7.5		7.6		
Total	18.8	191.8	19.8	211.1	14.7	21.9	192.9	23.4	219.7	23.3

Table continues on the next page.

Note 23 Derivative instruments and hedge accounting (continued)

Table continued from previous page.

CHF billion	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]	31.12.10[6] Total PRV[2]	31.12.10[6] Notional values related to PRVs[3]	31.12.10[6] Total NRV[4]	31.12.10[6] Notional values related to NRVs[3]	31.12.10[6] Other notional values[3, 5]
Commodities contracts										
Over-the-counter (OTC) contracts										
Forward contracts	2.8	29.9	2.3	21.4	0.0	2.8	19.5	3.2	21.7	0.0
Options	1.6	30.4	2.1	28.1	0.0	1.5	19.3	1.8	16.0	0.0
Exchange-traded contracts										
Futures					17.7					37.8
Forward contracts[9]	0.1	36.7	0.2	35.0	0.0					0.0
Options	0.0	4.4	0.0	6.3	0.0	0.0	0.7	0.0	1.2	0.0
Agency transactions[8]	2.3		2.4			1.7		1.7		
Total	6.9	101.3	7.0	90.9	17.7	6.0	39.5	6.6	38.9	37.8
Unsettled purchases of non-derivative financial assets[10]	0.2	39.8	0.2	10.7	0.0	0.2	36.5	0.1	18.8	0.0
Unsettled sales of non-derivative financial assets[10]	0.1	17.9	0.2	30.2	0.0	0.1	34.9	0.1	13.0	0.0
Total derivative instruments, based on IFRS netting	486.6	14,411.6	473.4	14,222.4	17,439.2	401.1	14,514.3	393.8	14,152.9	13,924.4
Replacement value netting, based on capital adequacy rules	(383.3)		(383.3)			(301.5)		(301.5)		
Cash collateral netting, based on capital adequacy rules	(45.6)		(28.0)			(36.5)		(23.9)		
Total derivative instruments, based on capital adequacy netting[11]	57.7		62.1			63.1		68.3		

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 1.1 billion (2010: CHF 2.7 billion) (related notional values of CHF 24.8 billion (2010: CHF 8.6 billion)) and an NRV of CHF 0.2 billion (2010: CHF 1.3 billion) (related notional values of CHF 9.3 billion (2010: CHF 10.4 billion)). 2 PRV: Positive replacement value. 3 For 31 December 2011: in case of netting of replacement values on the balance sheet, notional values of gross derivatives are presented in accordance with the gross positive replacement value and gross negative replacement value of the netted derivatives, respectively. For 31 December 2010: in case of netting of replacement values on the balance sheet, the sum of the notional values of netted derivatives is presented in accordance with the related net positive replacement value or net negative replacement value of the netted derivatives. 4 NRV: Negative replacement value. 5 Receivables resulting from these derivatives are recognized on our balance sheet under Due from banks, Loans and Cash collateral receivables on derivative instruments totaling CHF 2.4 billion (2010: CHF 0.7 billion). Payables resulting from these derivatives are recognized on our balance sheet under Due to banks, Due to customers and Cash collateral payables on derivative instruments totaling CHF 2.7 billion (2010: CHF 2.7 billion). 6 In 2011, we corrected notional values for Interest rate and Equity / index contracts. In addition, we reclassified certain PRVs, NRVs and related notional amounts from Equity / index contracts to Commodities contracts. 7 Negative replacement values as of 31 December 2011 include CHF 0.2 billion related to derivative loan commitments (31 December 2010: 0.3 billion). The maximum irrevocable amount related to these commitments was CHF 6.1 billion as of 31 December 2011 (31 December 2010: CHF 1.0 billion), which is not reflected in the reported notional amounts. 8 Notional values of exchange-traded agency transactions are not disclosed due to their significantly different risk profile. 9 In 2010, these forward contracts were not reported as PRVs and NRVs, but on the balance sheet lines Loans and Due to customers, respectively. Notional values were reported as Other notional values. 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.

On a notional value basis, credit protection bought and sold held as of 31 December 2011 matures in a range of approximately 18% (2010: 10%) within one year, approximately 69% (2010: 70%) within 1 to 5 years and approximately 13% (2010: 20%) after 5 years. The maturity profile of OTC interest rate contracts held as of 31 December 2011, based on notional values, is as follows: approximately 42% (2010: 45%) mature within one year, 35% (2010: 33%) within 1 to 5 years and 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, positioning and arbitrage activities. Market making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning means managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between the same product in different markets or the same economic factor in different products.

Detailed example: Credit derivatives

UBS is an active dealer in the fixed income market, including CDSs and related products, with respect to a large number of issuer's 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

Note 23 Derivative instruments and hedge accounting (continued)

instruments to facilitate client trading activity. UBS also actively 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.

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. In 2010, market innovation and client demand for exposure to related products resulted in an expansion of structured activities and continuation of the Bank's CDS flow trading. These activities included market making on behalf of clients in index, multi-name index, swap index option and first-to-default CDS products. 2011 saw a continuation of this client driven business. Where applicable, these products form part of structured arrangements and solutions, with clients seeking exposure to specific risks.

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.

As of 31 December 2011, the total notional value of protection bought was CHF 1,393 billion (CHF 63 billion *Positive replacement values*, CHF 3 billion *Negative replacement values*) and the total notional value of protection sold was CHF 1,322 billion (CHF 4 billion *Positive replacement values,* CHF 61 billion *Negative replacement values).*

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 participated in these initiatives and continued to do so throughout 2011.

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 and termination 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 2011, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately CHF 0.7 billion and CHF 2.1 billion would have been required in the event of a one-notch and two-notch reduction, respectively, in UBS's long-term credit 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.

Derivatives transacted for hedging purposes

Derivatives used for structural hedging

The Group enters into derivative transactions for the purposes of hedging assets, liabilities, forecast transactions, cash flows and credit exposures. 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) Derivative instruments and hedge accounting", 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 economical 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 certain FX swaps used to manage short-term interest rate risk on foreign currency loans and deposits.

Note 23 Derivative instruments and hedge accounting (continued)

Fair value hedges of interest rate risk

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 issues) due to movements in market interest rates. The fair values of outstanding interest rate swaps designated as fair value hedges were assets of CHF 2,422 million and liabilities of CHF 16 million as of 31 December 2011 and assets of CHF 1,171 million and liabilities of CHF 46 million as of 31 December 2010.

Fair value hedges of interest rate risk

	For the year ended		
CHF million	**31.12.11**	31.12.10	31.12.09
Gains / (losses) on hedging instruments	**1,203**	402	(171)
Gains / (losses) on hedged items attributable to the hedged risk	**(1,172)**	(383)	182
Net gains / (losses) representing ineffective portions of fair value hedges	**31**	19	11

Fair value hedges of portfolio of interest rate risk

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 swaps designated for these hedges as of 31 December 2011 was a liability of CHF 1,389 million (31 December 2010: liability of CHF 972 million).

Fair value hedges of portfolio of interest rate risk[1]

	For the year ended		
CHF million	**31.12.11**	31.12.10	31.12.09
Gains / (losses) on hedging instruments	**(461)**	35	(48)
Gains / (losses) on hedged items attributable to the hedged risk	**452**	(60)	11
Net gains / (losses) representing ineffective portions of fair value hedges	**(9)**	(25)	(37)

1 Hedge effectiveness is calculated on a cumulative basis.

Fair value hedges of foreign currency risk

The Group hedges foreign exchange exposures arising from certain foreign currency denominated non-monetary financial investments available-for-sale using the spot component of foreign exchange forward contracts. As of 31 December 2011 the aggregate notional amount of hedging instruments designated as fair value hedges of foreign currency risk was CHF 244 million (CHF 393 million as of 31 December 2010). The fair values of these hedging instruments were CHF 22 million assets as of 31 December 2011 and CHF 30 million assets as of 31 December 2010. The gains and losses on the hedging instruments and the hedged items, as well as the ineffectiveness of these hedges, were all not material in the periods presented in the financial statements.

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 schedule of forecasted principal balances on which the expected interest cash flows arise as of 31 December 2011 is shown below.

Forecasted cash flows

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Cash inflows	366	500	309	232	18
Cash outflows	70	91	45	58	
Net cash flows	**296**	**409**	**264**	**174**	**18**

Note 23 Derivative instruments and hedge accounting (continued)

To the extent the designated cash flow hedging relationship meets the qualifying criteria, the effective portion of the fair value changes of the designated derivative hedging instruments is recognized in Equity. These gains and losses are transferred from Equity to current period earnings in the same period in which the hedged cash flows affect net profit or loss. The ineffective portion of the fair value changes of the derivative hedging instruments is recognized immediately in the income statement. A CHF 38 million loss, a CHF 22 million loss and a CHF 183 million loss were recognized in 2011, 2010 and 2009, respectively, in Net trading income due to hedge ineffectiveness.

As of 31 December 2011, the fair values of outstanding derivatives designated as cash flow hedges of forecasted transactions were CHF 7,450 million assets and CHF 3,583 million liabilities and as of 31 December 2010 the amounts were CHF 5,397 million assets and CHF 3,392 million liabilities.

At the end of 2011 and 2010, gains of CHF 7 million and CHF 18 million associated with de-designated interest rate swaps were deferred in Equity. They will be removed from Equity when the previously hedged forecasted cash flows have an impact on net profit or loss, or when the forecasted cash flows are no longer expected to occur. Amounts reclassified from Equity to Net interest income of de-designated swaps were CHF 11 million net gain in 2011, CHF 28 million net gain in 2010 and CHF 40 million net gain in 2009.

Hedges of net investments in foreign operations

With effect from the fourth quarter 2011, the Group started to apply hedge accounting for certain net investments in foreign operations. As of 31 December 2011, the positive replacement value and negative replacement value of FX swaps designated as hedging instruments in net investment hedge accounting arrangements were CHF 10 million and CHF 40 million, respectively. The corresponding notional amount was CHF 9.6 billion in total. The effective portion of gains and losses of these FX swaps is transferred directly to Equity 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 other comprehensive income (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 Equity (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 2011, the nominal amount of non-derivative financial assets and liabilities designated as hedging instruments in such net investment hedges was CHF 16.9 billion and CHF 16.9 billion, respectively. No material ineffectiveness of hedges of net investments in foreign operations was recognized in the income statement in 2011.

Refer also to Note 1b) Interests in consolidated investment funds.

Contractual maturities of derivatives designated as hedging instruments in hedge accounting relationships

The contractual maturities of derivatives designated as hedging instruments in hedge accounting relationships are considered "essential" for the understanding of the timing of their cash flows.

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	11	4	19
Cash Outflows		0	0	2	8	4	15
FX swaps / forwards							
Cash Inflows		10					10
Cash Outflows		10					10
Net cash flows	**0**	**0**	**0**	**1**	**3**	**0**	**4**

1 The table includes cash inflows and cash outflows of all interest rate swaps designated in hedge accounting relationships, which are either assets or liabilities of UBS at 31 December 2011.

Off-balance-sheet information

Note 24 Pledgeable off-balance-sheet securities

The Group obtains securities which are not recorded on the balance sheet with the right to sell or repledge them as shown in the table below.

CHF million	**31.12.11**	31.12.10
Fair value of securities received which can be sold or repledged	**551,590**	573,852
as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions	***550,023***	*571,970*
in unsecured borrowings	***1,567***	*1,882*
thereof sold or repledged	**398,110**	428,347
in connection with financing activities	***331,415***	*352,668*
to satisfy commitments under short sale transactions	***39,480***	*54,975*
in connection with derivative and other transactions	***27,216***	*20,705*

Note 25 Operating lease commitments

As of 31 December 2011, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for operational 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. None of our lease agreements contain volume-based or leveraged contingent rent payment clauses or purchase options, or 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 and the Group's operating lease expenses are as follows:

CHF million	**31.12.11**
Operating leases due	
2012	**819**
2013	**705**
2014	**627**
2015	**532**
2016	**445**
2017 and thereafter	**2,591**
Subtotal commitments for minimum payments under operating leases	**5,719**
Less: Sublease rental commitments under non-cancellable leases	**453**
Net commitments for minimum payments under operating leases	**5,266**

CHF million	**31.12.11**	31.12.10	31.12.09
Gross operating lease expense	**837**	1,057	1,191
Sublease rental income	**84**	97	57
Net operating lease expense	**754**	960	1,134

Additional information

Note 26 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 as 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 generally estimated by valuing the gross long and short positions at current mid market prices, with an adjustment at 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 risks, liquidity risk as reflected in the bid/offer spread and credit risk. Based on the established fair value and model governance policies and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly reflect the values of 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 26d) 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.

Pricing models and valuation techniques

The most frequently applied valuation techniques and pricing models include discounted cash flow models, relative value models 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 include such probability-based techniques as binomial and Monte Carlo pricing.

UBS uses widely recognized valuation techniques for determining fair values of less complex financial instruments such as interest rate and currency swaps. For more complex instruments, values may be estimated using a combination of observed transaction prices, independent 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 independent pricing services. UBS also uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry.

Such 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 illiquid. 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 if there is no active market and the transactions are not orderly (i.e., distressed or forced). For positions where observable reference data are not available for some or all parameters, UBS determines the non-market-observable inputs to be used in its valuation models based on a combination of historical experience and knowledge of current market conditions. 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 and 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 and trading restrictions when such factors would be considered by market participants.

Interest rate curves

UBS uses various interest rate curves for valuing its financial instruments. Financial liabilities designated at fair value are measured using UBS's funds transfer price curve. Financial assets designated at fair value are valued in line 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 26 Fair value of financial instruments (continued)

Valuation curve changes
During 2011, we incorporated the use of differentiated valuation curves in the underlying risk management systems which value the substantial portion of our collateralized derivatives. These curves are linked to the terms of our Credit Support Annex (CSA) for the majority of our collateralized discounting exposure. This change in estimate resulted in a pre-tax loss of CHF 134 million recorded in Net trading income.

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 derivatives transactions, 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 traded debt instruments. CVA depends on expected future exposures, default probabilities and recovery rates. The CVA takes into consideration collateral or netting arrangements, break clauses and other contractual factors.

UBS's own credit risk in the valuations of derivative financial liabilities (Negative replacement values)
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 above. The 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, if they applied the same methodology used to calculate UBS's CVA. The DVA takes into account negative expected exposure profiles for the derivatives portfolio, collateral, netting agreements, expected future mark-to-market movements and UBS's credit default spreads to determine the UBS counterparty exposure from the perspective of holders of UBS debt.

As of 31 December 2011 and 2010, the CVA and DVA for derivative financial instruments (replacement values) were as follows:

CVA and DVA for derivative financial instruments

CHF billion	**31.12.11**	31.12.10
DVA		
Gain / (loss) for the year ended	**0.2**	0.2
Life-to-date gain / (loss)	**0.8**	0.5
CVA[1]		
Gain / (loss) for the year ended[2]	**(0.8)**	1.0
of which: Monoline credit protection – negative basis trades	***(0.3)***	*0.7*
of which: Monoline credit protection – other	***(0.1)***	*0.1*
of which: Other instruments	***(0.4)***	*0.2*
Life-to-date gain / (loss)	**(2.9)**	(2.2)
of which: Monoline credit protection – negative basis trades	***(1.3)***	*(1.1)*
of which: Monoline credit protection – other	***(0.2)***	*(0.1)*
of which: Other instruments	***(1.4)***	*(1.0)*

1 Amounts do not include reserves against defaulted counterparties. 2 Amounts do not include commutations.

UBS's own credit risk in the valuations of financial liabilities designated at fair value
Changes in UBS's own credit 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. 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 provides a single level of discounting for uncollateralized funded instruments within UBS. The FTP curve is used by UBS to value uncollateralized and partially collateralized funding transactions designated at fair value, and for relevant tenors is set by reference to the level at which newly issued UBS medium-term notes (MTNs) are priced. The FTP curve spread is considered to be representative of the credit risk which reflects the premium that market participants require to purchase UBS MTNs.

As of 31 December 2011 and 2010, respectively, the own credit results for *Financial liabilities designated at fair value* (predominantly issued structured products) were as follows:

Note 26 Fair value of financial instruments (continued)

Own credit on financial liabilities designated at fair value

	As of or for the year ended		
CHF million	**31.12.11**	31.12.10	31.12.09
Total gain / (loss) for the period ended	**1,537**	(548)	(2,023)
of which: credit spread related only	***1,526***	*(471)*	*(1,958)*
Life-to-date gain	**1,934**	237	890

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. The disclosed own credit amounts are also impacted by foreign currency movements.

A 1 basis point increase in the UBS credit spread over LIBOR is expected to result in an own credit gain of approximately CHF 18.5 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 exposures within a position or portfolio by either liquidating the position or establishing an offsetting market risk position. A liquidity adjustment is therefore made to provide against the expected cost of covering open market risk positions 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 predominantly addressed 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 practice and how it believes other market participants would assess these uncertainties. Model reserves are periodically reassessed in light of information from market transactions, pricing utilities 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 risk-taking 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 appropriateness of modeling approaches and input assumptions which yield fair value estimates derived from valuation models. The output of modeling approaches is also 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 reviews 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' estimate of fair value to either align with independent market information or financial accounting standards.

Note 26 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]

	31.12.11				31.12.10			
CHF billion	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Financial assets held for trading[2]	**99.4**	**55.7**	**7.8**	**162.8**	116.1	83.0	10.8	209.9
of which: pledged as collateral	***33.2***	***6.2***	***0.5***	***39.9***	*38.3*	*22.2*	*0.8*	*61.4*
Positive replacement values	**3.4**	**469.2**	**13.9**	**486.6**	3.6	385.1	12.4	401.1
of which:								
Interest rate contracts	***0.4***	***294.9***	***0.9***	***296.2***	*0.9*	*201.5*	*1.3*	*203.8*
Credit derivative contracts	***0.0***	***58.4***	***8.8***	***67.3***	*0.0*	*48.1*	*7.7*	*55.8*
Foreign exchange contracts	***0.4***	***94.8***	***2.0***	***97.2***	*0.3*	*112.2*	*1.0*	*113.5*
Equity/index contracts	***2.6***	***14.2***	***2.2***	***19.1***	*2.3*	*17.5*	*2.4*	*22.2*
Commodities contracts	***0.0***	***6.9***	***0.0***	***6.9***	*0.0*	*5.8*	*0.0*	*5.9*
Financial assets designated at fair value	**0.7**	**6.9**	**2.7**	**10.3**	0.8	7.3	0.5	8.5
Financial investments available-for-sale	**34.8**	**17.7**	**0.6**	**53.2**	52.9	21.0	0.9	74.8
Total assets	**138.4**	**549.5**	**25.0**	**712.9**	173.4	496.4	24.5	694.3
Trading portfolio liabilities	**30.4**	**8.4**	**0.6**	**39.5**	42.9	11.8	0.3	55.0
Negative replacement values	**3.5**	**459.1**	**10.8**	**473.4**	3.5	379.9	10.4	393.8
of which:								
Interest rate contracts	***0.4***	***275.7***	***0.3***	***276.5***	*1.0*	*187.8*	*0.7*	*189.4*
Credit derivative contracts	***0.0***	***56.3***	***7.1***	***63.4***	*0.0*	*44.9*	*6.2*	*51.1*
Foreign exchange contracts	***0.4***	***103.6***	***2.3***	***106.3***	*0.3*	*120.9*	*1.8*	*123.0*
Equity/index contracts	***2.7***	***16.5***	***0.9***	***20.1***	*2.2*	*20.5*	*1.5*	*24.2*
Commodities contracts	***0.0***	***6.9***	***0.1***	***7.0***	*0.0*	*5.8*	*0.1*	*6.0*
Financial liabilities designated at fair value	**0.0**	**76.9**	**12.1**	**89.0**	0.0	86.7	14.0	100.8
Other liabilities – amounts due under unit-linked investment contracts	**0.0**	**16.4**	**0.0**	**16.4**	0.0	18.1	0.0	18.1
Total liabilities	**34.0**	**560.8**	**23.5**	**618.2**	46.4	496.5	24.7	567.6

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 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. As of 31 December 2010, net bifurcated embedded derivative assets held at fair value, totaling CHF 1.4 billion (of which CHF 1.7 billion were net level 3 assets and CHF 0.3 billion net level 2 liabilities), 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 of the fair value hierarchy

Trading assets of approximately CHF 0.3 billion, of which CHF 0.2 billion are debt instruments, and trading liabilities of approximately CHF 0.4 billion, of which CHF 0.3 billion are debt instruments, were transferred from level 2 to level 1, respectively, due to increased trading activities and volumes.

Trading assets and liabilities with amounts of approximately CHF 1.4 billion and approximately CHF 0.7 billion were transferred from level 1 to level 2, respectively. Trading assets and trading liabilities transferred were primarily comprised of debt instruments of CHF 1.3 billion and CHF 0.5 billion, respectively. These positions were transferred from level 1 to level 2 because actual trading activity no longer met the average market activity as defined in UBS's valuation governance principles in determining whether an instrument is traded in an active market.

Movements of level 3 instruments

The table below includes a roll-forward of the balance sheet amounts of the significant classes of financial instruments classified within level 3.

Note 26 Fair value of financial instruments (continued)

Movements of level 3 instruments

CHF billion	Financial assets held for trading	Derivative instruments: Positive replacement values	Derivative instruments: Negative replacement values	Financial liabilities designated at fair value
Balance at 31 December 2009	**12.2**	**23.8**	**17.0**	**10.3**
Total gains / losses included in the income statement[1]	**0.2**	**1.2**	**1.8**	**0.3**
Net trading income	(0.2)	1.1	1.8	0.1
Other	0.4	0.1	0.0	0.2
Purchases, sales, issuances and settlements	**0.0**	**(7.0)**	**(5.4)**	**(1.4)**
Purchases	3.7	0.0	0.0	0.0
Sales	(3.7)	0.0	0.0	0.0
Issuances	0.0	1.6	1.4	3.3
Settlements	0.0	(8.6)	(6.8)	(4.7)
Transfers into or out of level 3	**(0.4)**	**(2.7)**	**(1.1)**	**4.7**
Transfers into level 3	2.4	1.6	1.8	5.8
Transfers out of level 3	(2.8)	(4.3)	(2.9)	(1.1)
Foreign currency translation	(1.0)	(3.0)	(1.9)	0.1
Balance at 31 December 2010	**10.8**	**12.4**	**10.4**	**14.0**
Balance at 31 December 2010	**10.8**	**12.4**	**10.4**	**14.0**
Total gains / losses included in the income statement[1]	**(0.4)**	**1.9**	**0.7**	**(0.5)**
Net trading income	(0.6)	1.9	0.7	(0.5)
Other	0.2	0.0	0.0	0.1
Purchases, sales, issuances and settlements	**(2.2)**	**(1.1)**	**(0.5)**	**0.4**
Purchases	2.5	0.0	0.0	0.0
Sales	(4.7)	0.0	0.0	0.0
Issuances	0.0	3.3	1.7	5.2
Settlements	0.0	(4.4)	(2.2)	(4.8)
Transfers into or out of level 3	**(0.4)**	**0.6**	**0.1**	**(2.0)**
Transfers into level 3	1.0	1.7	1.3	1.8
Transfers out of level 3	(1.4)	(1.1)	(1.2)	(3.8)
Foreign currency translation	0.1	0.1	0.1	0.0
Balance at 31 December 2011	**7.8**	**13.9**	**10.8**	**12.0**

1 Reflects gains and losses included in the income statement for instruments which were classified as level 3 instruments at both the beginning and the end of the period as well as gains and losses for the entire period for instruments which were transferred into level 3 during the period.

Note 26 Fair value of financial instruments (continued)

Material changes in level 3 instruments

As of 31 December 2011, 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

Financial assets held for trading

Financial assets held for trading transferred into and out of level 3 amounted to CHF 1.0 billion and CHF 1.4 billion, respectively. Transfers into level 3 were comprised primarily of CHF 0.4 billion of corporate bonds, CHF 0.2 billion of financial instruments linked to the Asian real estate market, CHF 0.1 billion of financial instruments related to the European real estate market, CHF 0.1 billion of financial instruments linked to student loans, and CHF 0.1 billion of US RLN where no independent price verification was possible given reduced observability of market inputs. Transfers out of level 3 were comprised primarily of CHF 0.4 billion of financial instruments linked to the Asian real estate market, CHF 0.3 billion of corporate bonds, CHF 0.2 billion of sovereign bonds, CHF 0.2 billion of asset backed securities, and CHF 0.1 of lending-related products as independent price sources became available by which to verify fair values.

Level 3 financial assets held for trading purchased during the year amounted to CHF 2.5 billion. These purchases mainly included CHF 1.1 billion of lending-related products, CHF 0.9 billion of corporate bonds and CHF 0.2 billion of financial instruments linked to the US commercial real estate market.

Sales of level 3 financial assets held for trading amounted to CHF 4.7 billion, which included CHF 1.6 billion of lending-related products, CHF 0.7 billion of financial instruments linked to the US commercial real estate market, CHF 0.7 billion of corporate bonds, CHF 0.5 billion of financial instruments linked to the Asian real estate market, CHF 0.3 billion CLO, and CHF 0.2 billion of equities.

Derivative instruments

Derivative instruments transferred into level 3 include positive replacement values of CHF 1.7 billion and negative replacement values of CHF 1.3 billion. Transfers out of level 3 instruments included positive replacement values of CHF 1.1 billion and negative replacement values of CHF 1.2 billion.

Transfers into level 3 positive replacement values were comprised primarily of CHF 0.8 billion corporate CDS positions as credit curves and recovery rates could no longer be independently verified, CHF 0.4 billion of structured credit bespoke CDO positions due to a reduction in the correlation between the portfolio held and the representative market portfolio used to independently verify market data and CHF 0.2 billion of sovereign CDS positions as credit curves could no longer be independently verified. Transfers into level 3 negative replacement values were comprised primarily of CHF 0.7 billion structured credit bespoke CDO positions due to a reduction in the correlation between the portfolio held and the representative market portfolio used to independently verify market data, CHF 0.3 billion of corporate CDS positions as credit curves and recovery rates could no longer be independently verified and CHF 0.1 billion of sovereign CDS positions as credit curves could no longer be independently verified.

Transfers out of level 3 positive replacement values were comprised primarily of CHF 0.2 billion of corporate CDS positions where credit curves and recovery rates could be independently verified, CHF 0.2 billion of US residential CDS positions as the reliability of independent underlying market data increased, CHF 0.2 billion of equity options where volatility could be independently verified, CHF 0.2 billion of US commercial real estate CDS positions as the reliability of independent underlying market data increased and CHF 0.1 billion of structured credit bespoke CDO positions due to an increase in the correlation between the portfolio held and the representative market portfolio used to independently verify market data. Transfers out of level 3 negative replacement values were comprised primarily of CHF 0.4 billion of equity options where volatility could be independently verified, CHF 0.2 billion of US residential CDS positions as the reliability of independent underlying market data increased, CHF 0.2 billion of structured credit bespoke CDO positions due to an increase in the correlation between the portfolio held and the representative market portfolio used to independently verify market data, CHF 0.1 billion of US commercial real estate CDS positions as the reliability of independent underlying market data increased, and CHF 0.1 billion of structured rates positions where volatility could be independently verified.

Issuances of level 3 positive replacement values were CHF 3.3 billion, which included CHF 1.4 billion of structured credit bespoke CDO positions, CHF 0.7 billion of corporate CDS positions and CHF 0.6 billion of structured rates positions. Issuances of level 3 negative replacement values were CHF 1.7 billion, which included CHF 0.8 billion of structured credit bespoke CDO positions, CHF 0.6 billion of corporate CDS positions, and CHF 0.2 billion of structured rates positions.

Settlements of level 3 positive replacement values were CHF 4.4 billion, which included CHF 1.9 billion of structured credit positions, CHF 0.6 billion of structured rates positions, CHF 0.5 billion of CLO CDS positions, CHF 0.5 billion of US commercial real estate CDS positions, and CHF 0.4 billion of corporate CDS positions. Settlements of level 3 negative replacement values were CHF 2.2 billion, which included CHF 0.9 billion of structured credit bespoke CDO positions, CHF 0.4 billion of structured rate trades, CHF 0.2 billion of equity options, CHF 0.2 billion of corpo-

Note 26 Fair value of financial instruments (continued)

rate CDS positions and CHF 0.1 billion of European real estate CDS positions.

Financial assets designated at fair value

Issuances of structured finance level 3 financial assets designated at fair value were approximately CHF 2.2 billion.

Financial liabilities designated at fair value

Transfers of financial liabilities designated at fair value into level 3 of CHF 1.8 billion consisted primarily of CHF 0.7 billion credit-linked notes where the underlying credit curve could no longer be independently verified, CHF 0.6 billion of equity-linked notes and CHF 0.5 billion of interest rate-linked notes as the volatility of the embedded option could not be independently verified.

Transfers of financial liabilities designated at fair value out of level 3 were CHF 3.8 billion, which included CHF 1.5 billion of interest rate-linked notes, CHF 1.5 billion of equity-linked notes where the volatility of the embedded option could be independently verified and CHF 0.5 billion of credit-linked notes as the underlying credit curve could be independently verified.

Issuances of level 3 financial liabilities designated at fair value were CHF 5.2 billion, consisting primarily of CHF 3.6 billion of credit- linked notes and CHF 1.0 billion of equity-linked notes.

Settlements of level 3 financial liabilities designated at fair value were approximately CHF 4.8 billion, which consisted of CHF 2.1 billion of credit-linked notes, CHF 1.4 billion of equity-linked notes and CHF 1.3 billion of interest rate-linked notes.

Sensitivity information

Included in the fair value estimates of financial instruments carried at fair value on the balance sheet are those estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices, rates, or other inputs. In addition, 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 as a consequence of other elements affecting the valuation technique or model.

To show the effect when changing the unobservable inputs to a reasonably possible alternative assumption, UBS performed a sensitivity analysis of its financial instruments classified as level 3, which are valued using model-based techniques, and for which significant model inputs are unobservable in the markets in which the underlying products are transacted. The fair values as of 31 December 2011 of cash instruments were adjusted by 3% to 20% and of derivative instruments by 1% to 40% as deemed adequate for the applicable product in the professional judgment of management.

Cash instruments referred to in the table relate to long and short inventory, if applicable, of the respective product type. For purposes of the presentation, derivative instruments will include positive and negative replacement values, as well as issued notes with embedded equity or interest rate derivative features, which are presented on the UBS balance sheet as financial assets or liabilities designated at fair value. For all instruments, favorable changes are increases in asset values and decreases in 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

As of	31.12.11		31.12.10	
CHF billion	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Cash instruments				
Mortgage securities	0.3	(0.3)	0.3	(0.3)
Debt securities	0.2	(0.2)	0.2	(0.2)
Traded loans	0.1	(0.1)	0.1	(0.1)
Total cash instruments	0.6	(0.6)	0.6	(0.6)
Derivative instruments				
Equity derivatives	0.1	(0.1)	0.4	(0.4)
Interest rate derivatives	0.3	(0.3)	0.7	(0.7)
Credit derivatives	0.5	(0.5)	0.1	(0.1)
Other	0.2	(0.2)	0.4	(0.4)
Total derivative instruments	1.1	(1.1)	1.6	(1.6)

Note 26 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 the bank.

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 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 using 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 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). The bank will consider the availability of NAV from the funds or restrictions imposed upon the redemption of these funds when determining the final fair value.

Convertible bonds are mostly valued using observable pricing sources, which are generally available given 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 generally have observable prices and the bank considers market prices for its fair value assessment. OTC derivatives are measured using either industry standard models or internally developed proprietary models.

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 CDO are estimated by traded prices and independently verified market data when available. In the absence of direct market data, values will be 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 through industry standard valuation models, while those with complex structures are valued through 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 are in the form of credit default swaps, total return swaps and balance guaranteed swaps 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 prices on similar exposures to determine their value. More illiquid and bespoke credit derivatives are valued through proprietary models and inputs to such models are derived via market data and calibration to similar transactions, reference indices and securities.

Credit derivatives

Single-name and -index credit default swaps, and any derivation or combination which can be classified as complex structured credit products, are valued by using market available credit spreads and recovery rates from either consensus pricing services or other market participants. These data are used in industry standard models in order to derive fair value.

Complex structured credit products are valued using proprietary models, which are calibrated to data derived from market data obtained. Inputs to these models include single-name credit spreads, recovery rates, implied correlations, credit volatilities, cash-synthetic basis spreads and quanto basis spreads.

Rates 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 these products are valued by estimating future interest cash flows (both fixed and future index levels) and then discounting these flows using an interest rate that reflects the appropriate funding rate for that portion of the portfolio. Interest rates and

Note 26 Fair value of financial instruments (continued)

future index levels used in the above calculations are generated from observing current market interest rates associated with typical OTC interest rate derivatives (swap rates, basis swap spreads, futures prices, FRA rates) and converting these into rates specific to the portfolio using market standard yield curve models.

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 and inflation volatilities, correlations (between different interest rates or between rates and FX or inflation). The models are calibrated so that they are able 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.

FX options

OTC options on FX rates are valued using market standard option models. These models include inputs that 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 so that they are able to recover market observed prices for standard option instruments trading within the market and the calibrated model is then used to revalue the portfolio.

➔ **Refer to the "Risk, treasury and capital management" section for more information on certain financial instruments with significant valuation uncertainty (CVA monolines, US and non-US reference-linked notes, 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 attributable to financial instruments for which fair value is estimated using valuation models and 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 trading profit or loss as either the underlying parameters become observable or the transaction is closed out or by an appropriate amortization methodology. The table shows the aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance (movement of deferred day-1 profit or loss).

Deferred day-1 profit or loss

	For the year ended	
CHF million	**31.12.11**	31.12.10
Balance at the beginning of the year	**565**	599
Deferred profit / (loss) on new transactions	**221**	282
Recognized (profit) / loss in the income statement	**(354)**	(260)
Foreign currency translation	**1**	(56)
Balance at the end of the year	**433**	565

On 31 December 2011, deferred day-1 profit or loss of approximately CHF 0.1 billion (31 December 2010: approximately CHF 0.3 billion) pertains largely to structured rates positions and of approximately CHF 0.3 billion (31 December 2010: approximately CHF 0.3 billion) to OTC equity options. Both instruments are presented as replacement values on UBS's balance sheet.

Note 26 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 28 Measurement categories of financial assets and financial liabilities" 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

	31.12.11		31.12.10	
CHF billion	Carrying value	Fair value	Carrying value	Fair value
Assets				
Due from banks	23.2	23.2	17.1	17.1
Loans	266.6	268.2	261.3	263.4
Cash collateral on securities borrowed	58.8	58.8	62.5	62.5
Reverse repurchase agreements	213.5	213.3	142.8	142.8
Cash collateral receivables on derivative instruments	41.3	41.3	38.1	38.1
Accrued income, other assets	10.2	10.2	20.6	20.6
Liabilities				
Due to banks	30.2	30.2	41.5	41.5
Due to customers	342.4	342.4	332.3	332.5
Cash collateral on securities lent	8.1	8.1	6.7	6.7
Repurchase agreements	102.4	102.4	74.8	74.7
Cash collateral payables on derivative instruments	67.1	67.1	58.9	58.9
Debt issued	141.6	140.6	131.6	131.4
Accrued expenses, other liabilities	47.2	47.2	49.2	49.2
Guarantees / loan commitments[1]				
Guarantees	0.1	0.1	0.1	0.1
Loan commitments	0.0	0.7	0.0	0.4

1 From 2011 onwards, only reflects loan commitments and guarantees not recognized on the balance sheet, unless a provision is required. Previously, derivative loan commitments and loan commitments accounted for as financial liabilities designated at fair value were also included. The prior period has been adjusted.

Loans include Wealth Management assets, mainly mortgage loans, where fair values exceeded related carrying values by CHF 3.4 billion, and Investment Bank assets where fair values were below related carrying values by CHF 1.5 billion.

The fair values included in the table above were calculated for disclosure purposes only. The valuation techniques and assumptions described below provide a measurement of fair value of UBS's financial instruments accounted for at amortized cost. However, because other institutions may use different methods and assumptions for their fair value estimation, 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: 85% of amounts due from banks; 100% of cash collateral on securities borrowed; 94% of reverse repurchase agreements; 100% of cash collateral receivables on derivatives; 46% of loans; 93% of amounts due to banks; 100% of cash collateral on securities lent; 98% of repurchase agreements; 100% of cash collateral payable on derivatives; 98% of amount due to customers; and 47% of debt issued.
- The fair value of variable interest-bearing financial instruments accounted for at amortized cost is assumed to be

Note 26 Fair value of financial instruments (continued)

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 27 Pledged assets and transferred financial assets which do not qualify for derecognition

Financial assets are mainly pledged in securities borrowing and lending transactions, in repurchase and reverse repurchase transactions, under collateralized credit lines with central banks, against loans from mortgage institutions, in connection with derivative transactions, as security deposits for stock exchanges and clearinghouse memberships, or transferred for security purposes in connection with the issuance of covered bonds.

Assets pledged

	Carrying amount	
CHF million	**31.12.11**	31.12.10
Financial assets held for trading portfolio assets pledged to third parties	**58,463**	79,742
of which: pledged to third-parties with right of rehypothecation	***39,936***	*61,352*
Financial investments available-for-sale pledged to third parties	**26,022**	38,106
Mortgage loans	**27,841**	27,119
Other loans and receivables	**5,971**	10,235
of which: pledged to third parties with right of rehypothecation	***43***	*559*
Total financial assets pledged	**118,296**	155,202

The following table presents details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition. Criteria for derecognition are discussed in "Note 1a) 5) Recognition and derecognition of financial instruments".

Transfer of financial assets which do not qualify for derecognition

	Continued asset recognition in full – Total assets	
CHF billion	**31.12.11**	31.12.10
Nature of transaction		
Securities lending agreements	**22.9**	30.9
Repurchase agreements	**15.6**	28.6
Other financial asset transfers	**80.0**	96.6
Total	**118.5**	156.1

The transactions are mostly conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. The resulting credit risk exposures are controlled by daily monitoring and collateralization of the positions. The financial assets which continue to be recognized are typically transferred in exchange for cash or other financial assets. The associated liabilities can therefore be assumed to be approximately the same as the carrying amount of the transferred financial assets except for certain positions pledged with central banks.

UBS retains substantially all risks and rewards of the transferred assets in each situation of continued recognition. These may include credit risk, settlement risk, country risk and market risk.

Repurchase agreements and securities lending agreements are discussed in Notes 1a) 13) and 1a) 14). Other financial asset transfers include financial assets pledged in financial transactions as described above, other than those pledged in securities lending arrangements and repurchase agreements. It also includes sales of financial assets while concurrently entering into a total return swap with the same counterparty.

Transferred financial assets which are subject to partial continuing involvement were not material in 2011 and 2010.

Note 28 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. Only those assets and liabilities which are deemed to be financial instruments are included in the table below, which causes certain balances to differ from those presented on the balance sheet.

➔ **Refer to "Note 26 Fair value of financial instruments" for more information on how fair value of financial instruments is determined**

CHF million	**31.12.11**	31.12.10
Financial assets[1]		
Held for trading		
Trading portfolio assets	**162,821**	209,873
of which: pledged as collateral	***39,936***	*61,352*
Debt issued[2]	**1,149**	2,665
Positive replacement values	**486,584**	401,146
Total	**650,554**	613,684
Fair value through profit or loss		
Financial assets designated at fair value	**10,336**	8,504
Financial assets at amortized costs		
Cash and balances with central banks	**40,638**	26,939
Due from banks	**23,218**	17,133
Cash collateral on securities borrowed	**58,763**	62,454
Reverse repurchase agreements	**213,501**	142,790
Cash collateral receivables on derivative instruments	**41,322**	38,071
Loans	**266,604**	261,263
Accrued income	**1,464**	1,404
Other assets	**8,757**	19,175
Total	**654,267**	569,229
Available-for-sale		
Financial investments available-for-sale	**53,174**	74,768
Total financial assets	**1,368,331**	1,266,185
Financial liabilities		
Held for trading		
Trading portfolio liabilities	**39,480**	54,975
Debt issued[2]	**194**	1,308
Negative replacement values	**473,400**	393,762
Total	**513,074**	450,045
Fair value through profit or loss, other		
Financial liabilities designated at fair value	**88,982**	100,756
Amounts due under unit-linked contracts	**16,481**	18,125
Total	**105,462**	118,881
Financial liabilities at amortized cost		
Due to banks	**30,201**	41,490
Cash collateral on securities lent	**8,136**	6,651
Repurchase agreements	**102,429**	74,796
Cash collateral payables on derivative instruments	**67,114**	58,924
Due to customers	**342,409**	332,301
Accrued expenses	**6,646**	7,581
Debt issued	**141,572**	131,628
Other liabilities	**40,512**	41,622
Total	**739,019**	694,993
Total financial liabilities	**1,357,555**	1,263,918

1 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 are 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 used. The amounts shown here as positive and negative replacement values are presented within Debt issued on the balance sheet.

Note 28 Measurement categories of financial assets and financial liabilities (continued)

b) Reclassified financial assets

In fourth quarter 2008 and first quarter 2009, financial assets were reclassified out of held-for-trading to loans and receivables (refer to Note 1a) 10) for more information). On their reclassification date these assets had fair values of CHF 26 billion and CHF 0.6 billion, respectively.

The table below provides notional values, fair values and carrying values by product category for remaining reclassified financial assets.

Held-for-trading assets reclassified to loans and receivables

	31.12.11			
CHF billion	Notional value	Fair value	Carrying value	Ratio of carrying to notional value
US student loan and municipal auction rate securities	3.3	2.7	3.0	92%
Monoline-protected assets	1.0	0.7	0.8	84%
Leveraged finance	0.5	0.4	0.4	78%
US reference-linked notes	0.3	0.2	0.2	69%
Other assets	0.9	0.8	0.8	85%
Total (excluding CMBS interest-only strips)	5.9	4.8	5.2	88%
CMBS interest-only strips		0.1	0.1	
Total reclassified assets	5.9	4.9	5.3	

Held-for-trading assets reclassified to loans and receivables

CHF billion	31.12.11	31.12.10
Carrying value	5.3	11.9
Fair value	4.9	12.1
Pro-forma fair value gain / (loss)	(0.4)	0.2

In 2011, carrying values of reclassified financial assets decreased by CHF 6.6 billion, mainly due to sales of assets with a carrying value of CHF 6.9 billion at the time of the sale. Redemptions of CHF 0.2 billion and the appreciation of the Swiss franc against the US dollar of CHF 0.2 billion resulted in further decreases. The impact on operating profit before tax from these financial assets was a profit of CHF 0.7 billion (see table below). If the financial assets had not been reclassified, the impact on 2011 operating profit before tax would have been a profit of approximately CHF 0.2 billion.

Contribution of the reclassified assets to the income statement

	For the year ended	
CHF million	31.12.11	31.12.10
Net interest income	381	453
Credit loss (expense) / recovery	36	(63)
Other income[1]	306	134
Impact on operating profit before tax	723	525

1 Includes net gains on the disposal of reclassified financial assets.

Note 28 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 available, collateral is presented at fair value; for other collateral such as real estate, a best estimate of fair 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

	31.12.11							
		Collateral				Credit enhancements		
CHF billion	Maximum exposure to credit risk	Cash collateral received	Collateral-ized 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	23.2	0.0	2.7		0.5			0.6
Loans[2, 3]	266.6	11.4	53.9	148.2	16.4		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[4]	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**	**16.9**	**28.0**	**0.6**	**3.2**
Financial assets measured at fair value on the balance sheet								
Positive replacement values[5]	486.6					428.9		
Trading portfolio assets – debt instruments[6, 7]	99.2							
Financial assets designated at fair value – debt instruments	9.6		6.7		0.2		1.4	
Financial investments available-for-sale – debt instruments	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**	**17.1**	**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**	**27.5**	**456.9**	**21.8**	**8.2**

1 Includes but not limited to life insurance contracts, inventory, accounts receivable, patents, and copyrights. 2 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. 3 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". 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. 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.

Note 28 Measurement categories of financial assets and financial liabilities (continued)

Maximum exposure to credit risk (continued)

	31.12.10							
		Collateral				Credit enhancements		
CHF billion	Maximum exposure to credit risk	Cash collateral received	Collateral-ized 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	24.5							
Due from banks	17.1		0.2		0.0			0.3
Loans[2, 3]	261.3	8.4	46.3	144.3	17.2		1.1	2.3
Cash collateral on securities borrowed	62.5		62.5					
Reverse repurchase agreements	142.8		142.8					
Cash collateral receivables on derivative instruments[4]	38.1					23.9		
Accrued income, other assets	20.6		16.9					
Total financial assets measured at amortized cost	566.7	8.4	268.7	144.3	17.3	23.9	1.1	2.5
Financial assets measured at fair value on the balance sheet								
Positive replacement values[5]	401.1					338.0		
Trading portfolio assets – debt instruments[6, 7]	134.3							
Financial assets designated at fair value – debt instruments	7.6		3.7		0.2		1.7	
Financial investments available-for-sale – debt instruments	73.4							
Total financial assets measured at fair value	616.5	0.0	3.7	0.0	0.2	338.0	1.7	0.0
Total maximum exposure to credit risk reflected on the balance sheet	1,183.3	8.4	272.4	144.3	17.5	361.9	2.8	2.5
Guarantees	16.4	1.5	1.8	0.3	2.3		1.6	1.4
Loan commitments	56.9	0.2	0.2	0.9	8.1		22.5	2.4
Irrevocable commitments to acquire ARS	0.1							
Forward starting transactions, reverse repurchase and securities borrowing agreements	39.5		39.5					
Total maximum exposure to credit risk not reflected on the balance sheet	112.9	1.7	41.4	1.2	10.4		24.1	3.8
Total at the year-end	1,296.1	10.1	313.8	145.5	27.9	361.9	26.9	6.4

1 Includes but not limited to life insurance contracts, inventory, accounts receivable, patents, and copyrights. 2 Loans include a balance outstanding of USD 5.7 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. 3 Loans include mono-line-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 5.3 billion as of 31 December 2010. The fair value of credit default swap protection after credit valuation adjustments related to these assets was CHF 0.5 billion, which is not included in the column "Credit derivative contracts". 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. 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.

Note 28 Measurement categories of financial assets and financial liabilities (continued)

Financial assets subject to credit risk by rating category

CHF billion	31.12.11							
Rating category[1]	0–1	2–3	4–5	6–8	9–13	defaulted	not rated	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[3]								
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	0.0					0.5
Total	**146.2**	**867.6**	**228.5**	**125.7**	**34.0**	**2.4**	**0.0**	**1,404.5**

CHF billion	31.12.10							
Rating category[1]	0–1	2–3	4–5	6–8	9–13	defaulted	not rated[4]	Total
Balances with central banks	14.6	9.8	0.0					24.5
Due from banks	0.3	11.7	2.6	2.3	0.2	0.0		17.1
Loans	11.8	75.6	76.2	79.8	16.2	1.6		261.3
Cash collateral on securities borrowed and reverse repurchase agreements	59.4	112.9	23.1	8.2	1.7	0.0		205.2
Positive replacement values	15.2	331.7	38.4	12.6	2.2	1.1		401.1
Cash collateral receivables on derivative instruments	6.2	22.6	4.5	4.5	0.3	0.0		38.1
Trading portfolio assets – debt instruments[2]	52.5	59.4	10.2	5.5	6.4	0.3		134.3
Financial investments available-for-sale – debt instruments	66.8	6.6		0.0	0.0			73.4
Other financial instruments	0.1	6.1	3.7	16.3	1.6	0.3		28.2
Financial instruments not recognized on the balance sheet[3]								
Guarantees	0.1	7.2	4.5	3.1	1.4	0.0		16.4
Loan commitments	0.7	32.8	10.3	4.8	8.1	0.1		56.9
Forward starting reverse repurchase agreements							39.0	39.0
Forward starting securities borrowing agreements							0.5	0.5
Total	**227.9**	**676.4**	**173.4**	**137.3**	**38.1**	**3.4**	**39.5**	**1,296.0**

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. 3 Commitments to acquire ARS of CHF 0.0 billion as of 31 December 2011 (31 December 2010: CHF 0.1 billion) are excluded. 4 These ratings were not available for 2010.

Note 29 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.*

CHF million	**31.12.11**	31.12.10	31.12.09
Net periodic pension cost for defined benefit plans	**534**	477	742
of which: related to major pension plans[1]	***461***	*430*	*694*
of which: related to post-retirement medical and life insurance plans[2]	***13***	*22*	*9*
of which: related to remaining plans	***36***	*25*	*39*
of which: related to accrued pension costs not yet paid[3]	***24***	*0*	*0*
Pension cost for defined contribution plans[4]	**254**	246	246
Total pension and other post-employment benefit plans	**788**	724	988

1 Refer to "Note 29a Defined benefit pension plans" for more information. 2 Refer to "Note 29b Post-retirement medical and life insurance plans" for more information. 3 Accrued pension costs not yet paid in relation to the restructuring program communicated in 2011, included in provision for restructuring. Refer to "Note 37 Reorganizations and disposals" and "Note 21 Provisions and contingent liabilities" for more information. 4 Refer to "Note 29c Defined contribution plans" for more information.

The following table provides information relating to deferred pension expenses and accrued pension and post-employment benefit liability. These are recognized on the balance sheet within *Other assets* and *Other liabilities,* respectively.

Deferred pension expenses

CHF million	**31.12.11**	31.12.10	31.12.09
Major pension plans[1]	**3,300**	3,174	3,053
Total deferred pension expenses	**3,300**	3,174	3,053

Accrued pension and post-employment benefit liability

CHF million	**31.12.11**	31.12.10	31.12.09
Major pension plans[1]	**(224)**	(220)	(251)
Post-retirement medical and life insurance plans[2]	**(166)**	(158)	(163)
Remaining plans	**(16)**	(17)	(25)
Total accrued pension and post-employment benefit liability	**(406)**	(395)	(439)

1 Refer to "Note 29a Defined benefit pension plans" for more information. 2 Refer to "Note 29b Post-retirement medical and life insurance plans" for more information.

a) Defined benefit pension plans

UBS has established various pension plans inside and outside of Switzerland. 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 are guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. Depending on the country, the pension fund trustees and/or UBS are responsible for the determination of the mix of asset types and target allocations. Actual asset allocation is determined by a variety of current and expected economic and market conditions and in consideration of specific asset class risk, the risk profile and the maturity pattern of the plan.

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset class allocations. These estimates take into consideration historical asset class returns and are determined together with the plans' investment and actuarial advisors.

Swiss pension plan

The Swiss pension plan covers all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. The Swiss plan allows employees a choice in the level of annual contributions paid by the employee. The pension plan provides benefits which are based on annual contributions as a percentage of salary and accrue at an interest rate that 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 19 *Employee benefits*.

Contributions to the pension plan are paid by employees and the employer. The employee contributions are calculated as a percentage of covered salary and are deducted monthly. The percentages deducted from salary depend on age and vary between 1% and 13.5% of covered base salary and 0% and 9% of covered variable compensation. The employer pays a contribution that ranges between 1% and 27.5% of covered salary. The benefits covered include retirement benefits; disability, death and survivor pensions; and employment termination benefits.

Note 29 Pension and other post-employment benefit plans (continued)

A key assumption in determining the defined benefit obligation is life expectancy. In 2011 the Swiss pension plan adopted the new BVG 2010 generational mortality table, replacing the BVG 2005 periodic table. This contributed significantly to the overall increase to the defined benefit obligation relating to the Swiss pension plan. The BVG 2010 generational table takes into account longer life expectancies.

The employer contributions expected to be made to the Swiss pension plan in 2012 are CHF 530 million.

International pension plans

The international locations of UBS operate various pension plans in accordance with local regulations and practices. The locations with defined benefit plans of a significant nature are the UK, the US and Germany. The UK and the US defined benefit plans are closed to new entrants, who are covered by defined contribution plans. The amounts shown for international plans reflect the net funded positions of the significant international plans.

The pension plans provide benefits in the event of retirement, death or disability. The level of benefits provided depends on the defined rate of benefit accrual and level of compensation. The plans are funded entirely by UBS. The employer contributions expected to be made to these pension plans in 2012 are CHF 108 million. The funding policy for these plans is consistent with local government and tax requirements.

The assumptions used in international plans are based on local economic conditions.

➔ **Refer also to Note 1a) 24).**

Defined benefit pension plans

CHF million	Swiss			International		
For the year ended	**31.12.11**	31.12.10	31.12.09	**31.12.11**	31.12.10	31.12.09
Defined benefit obligation at the beginning of the year	**(21,299)**	(21,119)	(21,311)	**(4,053)**	(4,353)	(3,642)
Service cost	**(410)**	(384)	(432)	**(33)**	(41)	(41)
Interest cost	**(569)**	(657)	(672)	**(210)**	(237)	(230)
Plan participant contributions	**(211)**	(197)	(195)	**0**	0	0
Actuarial gain / (loss)	**(1,452)**	(149)	231	**(259)**	(119)	(471)
Benefits paid	**985**	1,252	1,314	**145**	148	153
Termination benefits	**(11)**	(45)	(54)	**0**	0	0
Foreign currency translation	**0**	0	0	**(4)**	549	(122)
Defined benefit obligation at the end of the year	**(22,967)**	(21,299)	(21,119)	**(4,414)**	(4,053)	(4,353)
Fair value of plan assets at the beginning of the year	**20,690**	20,286	19,029	**3,406**	3,517	2,866
Expected return on plan assets	**715**	850	846	**217**	237	202
Actuarial gain / (loss)	**(523)**	54	963	**(94)**	163	266
Employer contributions	**495**	510	513	**71**	86	232
Employer contributions – termination benefits	**11**	45	54	**0**	0	0
Plan participant contributions	**211**	197	195	**0**	0	0
Benefits paid	**(985)**	(1,252)	(1,314)	**(145)**	(148)	(153)
Foreign currency translation	**0**	0	0	**3**	(449)	104
Fair value of plan assets at the end of the year	**20,614**	20,690	20,286	**3,458**	3,406	3,517
Surplus / (deficit)	**(2,353)**	(609)	(833)	**(956)**	(647)	(836)
Unrecognized net actuarial (gains) / losses	**4,916**	3,028	2,996	**1,470**	1,183	1,475
Deferred pension expenses / (Accrued pension liability)	**2,562**	2,418	2,163	**514**	536	639
Movement in the net (liability) or asset						
Deferred pension expenses / (Accrued pension liability) at the beginning of the year	**2,418**	2,163	2,123	**536**	639	548
Net periodic pension cost	**(362)**	(300)	(527)	**(99)**	(130)	(167)
Employer contributions	**495**	510	513	**71**	86	232
Employer contributions – termination benefits	**11**	45	54	**0**	0	0
Foreign currency translation	**0**	0	0	**6**	(59)	26
Deferred pension expenses / (Accrued pension liability)	**2,562**	2,418	2,163	**514**	536	639

Note 29 Pension and other post-employment benefit plans (continued)

Defined benefit pension plans (continued)

Amounts recognized in the balance sheet

CHF million	Swiss			International		
For the year ended	**31.12.11**	31.12.10	31.12.09	**31.12.11**	31.12.10	31.12.09
Deferred pension expenses	**2,562**	2,418	2,163	**738**	756	890
Accrued pension liability	**0**	0	0	**(224)**	(220)	(251)
Deferred pension expenses / (Accrued pension liability)	**2,562**	2,418	2,163	**514**	536	639

Components of net periodic pension cost

Service cost	**410**	384	432	**33**	41	41
Interest cost	**569**	657	672	**210**	237	230
Expected return on plan assets	**(715)**	(850)	(846)	**(217)**	(237)	(202)
Amortization of unrecognized net (gains) / losses	**87**	64	215	**73**	89	98
Immediate recognition of net actuarial (gains) / losses in current period	**0**	0	0	**0**	0	0
Termination benefits	**11**	45	54	**0**	0	0
Limit of defined benefit asset	**0**	0	0	**0**	0	0
Net periodic pension cost	**362**	300	527	**99**	130	167

Swiss funded plan

CHF million	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Defined benefit obligation	**(22,967)**	(21,299)	(21,119)	(21,311)	(20,877)
Plan assets	**20,614**	20,690	20,286	19,029	22,181
Surplus / (deficit)	**(2,353)**	(609)	(833)	(2,282)	1,304
Experience gains / (losses) on plan liabilities	**0**	253	214	0	0
Experience gains / (losses) on plan assets	**(523)**	54	963	(3,820)	(250)

International funded and unfunded plans

CHF million	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Defined benefit obligation from funded plans	**(4,174)**	(3,813)	(4,078)	(3,402)	(4,654)
Defined benefit obligation from unfunded plans	**(240)**	(240)	(275)	(240)	(274)
Plan assets from funded plans	**3,458**	3,406	3,517	2,866	4,579
Surplus / (deficit)	**(956)**	(647)	(836)	(776)	(349)
Experience gains / (losses) on plan liabilities	**(46)**	(17)	(12)	62	(32)
Experience gains / (losses) on plan assets	**(94)**	163	266	(1,027)	(97)

	Swiss			International		
	31.12.11	31.12.10	31.12.09	**31.12.11**	31.12.10	31.12.09
Principal weighted average actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**2.3**	2.8	3.3	**4.8**	5.4	5.7
Expected rate of salary increase	**2.5**	2.5	2.5	**4.1**	4.9	5.0
Rate of pension increase	**0.0**	0.3	0.5	**2.1**	2.3	2.5
Assumptions used to determine net periodic pension cost recognized during the year						
Discount rate	**2.8**	3.3	3.3	**5.4**	5.7	6.0
Expected rate of return on plan assets	**3.5**	4.3	4.5	**6.5**	6.9	6.6
Expected rate of salary increase	**2.5**	2.5	2.5	**4.9**	5.0	4.5
Rate of pension increase	**0.3**	0.5	0.5	**2.3**	2.5	1.9

Note 29 Pension and other post-employment benefit plans (continued)

Defined benefit pension plans (continued)

Plan assets (weighted average)

Actual plan asset allocation (%)

	Swiss			International		
	31.12.11	31.12.10	31.12.09	**31.12.11**	31.12.10	31.12.09
Equity instruments	**31**	32	35	**39**	45	46
Debt instruments	**53**	54	51	**46**	38	35
Real estate	**14**	13	13	**3**	3	3
Other	**2**	1	1	**12**	14	16
Total	**100**	100	100	**100**	100	100
Long-term target plan asset allocation (%)						
Equity instruments	**18–44**	15–39	18–44	**39–42**	40–42	42–45
Debt instruments	**46–70**	44–68	41–65	**43–45**	38–44	37–44
Real estate	**10–18**	10–18	9–17	**3–5**	3–6	3–7
Other	**0–5**	0–5	0–5	**10–13**	11–15	11–12
Actual return on plan assets (%)	**1.0**	4.6	9.7	**3.8**	11.7	15.5
Additional details on fair value of plan assets						
UBS financial instruments and UBS bank accounts	**516**	258	205			
UBS AG shares[1]	**23**	25	66			
Derivative financial instruments, counterparty UBS	**20**	298	25			
Other assets used by UBS	**157**	188	193			

1 The number of UBS AG shares was 2,014,000, 1,638,000 and 4,095,850 as of 31 December 2011, 31 December 2010 and 31 December 2009, respectively.

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**	**31.12.11**	31.12.10	31.12.09	**31.12.11**	31.12.10	31.12.09
Switzerland	BVG 2010 G[1]	**21.1**	17.9	17.9	**22.8**	17.9	17.9
UK	S1NA_L CMI 2010 G, with projections[2]	**24.3**	23.0	22.8	**27.3**	25.9	25.7
Germany	Dr. K. Heubeck 2005 G	**19.4**	19.3	19.1	**22.1**	22.0	21.9
US	PPA mandated mortality table per IRC 1.430(h)(3)[3]	**19.1**	19.0	18.4	**19.1**	19.0	18.4

		Life expectancy at age 65 for a female member currently					
		aged 65			aged 45		
Country	**Mortality table**	**31.12.11**	31.12.10	31.12.09	**31.12.11**	31.12.10	31.12.09
Switzerland	BVG 2010 G[1]	**23.6**	21.0	21.0	**25.3**	21.0	21.0
UK	S1NA_L CMI 2010 G, with projections[2]	**25.5**	24.7	24.6	**27.8**	26.6	26.5
Germany	Dr. K. Heubeck 2005 G	**23.5**	23.4	23.3	**26.1**	26.0	25.8
US	PPA mandated mortality table per IRC 1.430(h)(3)[3]	**21.0**	20.9	20.6	**21.0**	20.9	20.6

1 In 2010 and 2009 the mortality table BVG 2005 was used; the mortality tables are updated every five years. 2 In 2010 and 2009 the mortality table PA 2000 G, medium cohort with adjustment was used. 3 In 2009 the mortality table RP 2000 with projections was used.

Note 29 Pension and other post-employment benefit plans (continued)

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 beneficiaries after retirement. The UK plan is closed to new entrants. In addition to retiree medical benefits, UBS in the US also provides retiree life insurance benefits to certain employees. The benefit obligation for these plans amounts to CHF 219 million as of 31 December 2011 (31 December 2010: CHF 209 million; 31 December 2009: CHF 186 million). There are no retained plan assets for these plans. The total accrued post-retirement cost amounts to CHF 166 million as of 31 December 2011 (31 December 2010: CHF 158 million; 31 December 2009: CHF 163 million). The periodic post-retirement costs for the years ended 31 December 2011, 31 December 2010 and 31 December 2009 were CHF 13 million (net of a curtailment gain of CHF 9 million), CHF 22 million and CHF 9 million (net of a curtailment gain of CHF 8 million), respectively.

The employer contributions expected to be made to the post-retirement medical and life insurance plans in 2012 are CHF 7 million.

Post-retirement medical and life insurance plans

CHF million	**31.12.11**	31.12.10	31.12.09
Post-retirement benefit obligation at the beginning of the year	**(209)**	(186)	(159)
Service cost	**0**[1]	(9)	(7)
Interest cost	**(11)**	(11)	(10)
Plan participant contributions	**(2)**	(2)	(2)
Actuarial gain / (loss)	**(17)**	(35)	(31)
Benefits paid	**9**	10	10
Curtailments	**13**	0	9
Foreign currency translation	**(2)**	24	4
Post-retirement benefit obligation at the end of the year	**(219)**	(209)	(186)
Fair value of plan assets at the beginning of the year	**0**	0	0
Employer contributions	**7**	8	8
Plan participant contributions	**2**	2	2
Benefits paid	**(9)**	(10)	(10)
Fair value of plan assets at the end of the year	**0**	0	0

CHF million	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Defined benefit obligation	**(219)**	(209)	(186)	(159)	(190)
Plan assets	**0**	0	0	0	0
Surplus / (deficit)	**(219)**	(209)	(186)	(159)	(190)
Experience gains / (losses) on plan liabilities	**0**	6	8	3	8

1 Current service cost of CHF 9 million in 2011 was offset by a plan amendment which resulted in a negative past service cost of CHF 9 million.

The post-retirement benefit expense is determined by using the assumed average health care cost trend rate. The rate for 2012 is assumed to be 8% and is assumed to decrease gradually to 5% by 2023. 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 plans as for the defined benefit obligations arising from pension plans.

Assumed average health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in the assumed health care cost trend rates would change the US post-retirement benefit obligation and the total service and interest cost components of the periodic post-retirement benefit costs as follows:

CHF million	**1% increase**	**1% decrease**
Effect on total service and interest cost	**4**	**(3)**
Effect on the post-retirement benefit obligation	**38**	**(30)**

Note 29 Pension and other post-employment benefit plans (continued)

c) Defined contribution plans

UBS also sponsors a number of defined contribution plans in its international locations. The locations with defined contribution plans of a significant nature 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 recognized as an expense for the years ended 31 December 2011, 31 December 2010 and 31 December 2009 were CHF 254 million, CHF 246 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 on arm's length conditions.

The international UBS pension funds do not have a similar banking relationship with UBS, but they may hold and trade UBS AG shares and/or securities.

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 2011, the minimum commitment towards the Swiss pension fund under the related leases is approximately CHF 16 million (31 December 2010: CHF 21 million).

The following amounts have been received or paid by UBS from and to the pension funds in respect of these activities and arrangements:

Related party disclosure

	For the year ended		
CHF million	**31.12.11**	31.12.10	31.12.09
Received by UBS			
Fees	**24**	21	34
Paid by UBS			
Rent	**10**	11	12
Interest	**3**	3	2

The transaction volumes in UBS AG shares and other UBS securities are as follows:

Transaction volumes – related parties

	For the year ended		
	31.12.11	31.12.10	31.12.09
Financial instruments bought by pension funds			
UBS AG shares (in thousands of shares)	**2,713**	2,684	3,869
UBS financial instruments (nominal values in CHF million)	**7**	40	35
Financial instruments sold by pension funds or matured			
UBS AG shares (in thousands of shares)	**2,374**	4,735	4,116
UBS financial instruments (nominal values in CHF million)	**18**	10	14

Details of the fair value of the plan assets of the defined pension plans are disclosed in "Note 29a Defined benefit pension plans". Furthermore, UBS defined contribution pension funds hold 17,628,845 UBS AG shares with a market value of CHF 196 million as of 31 December 2011 (31 December 2010: 17,665,621 UBS AG shares with a market value of CHF 272 million; 31 December 2009: 17,259,203 UBS AG shares with a market value of CHF 278 million).

Note 30 Equity participation and other compensation plans

a) Plans offered

UBS operates several equity participation and other compensation plans to further align the interests of executives, managers and staff with the interests of shareholders. Some plans (e.g. Equity Plus and EOP) are offered 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. Some plans are used in specific countries (e.g. awards granted to Wealth Management Americas financial advisors) or only offered to members of the Group Executive Board (GEB) (e.g. PEP). UBS's compensation plans are mandatory, discretionary or voluntary. The explanations below provide a general description of the terms of the most significant plans operated for 2011 and those from prior years that are partly expensed in 2011. 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 UBS shares or UBS performance shares (i.e. notional shares which are subject to performance conditions). Since 2011 (for 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. These performance shares will only vest in full 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 scheduled vesting. 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. To align their compensation with the performance of the funds that they manage, the majority of Global Asset Management employees receive their EOP awards in the form of cash but the amount depends on the value of the relevant underlying Global Asset Management funds at the time of vesting (Alternative Investment Vehicles, or AIVs). 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 UBS shares and performance shares are settled by delivering UBS shares at vesting, except in countries where this is not permitted for legal reasons. Awards granted in the form of AIVs are settled in cash. The majority of EOP awards continue to be granted in UBS shares, notional UBS shares, or performance shares. EOP awards generally vest in increments over a three-year vesting period. 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 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. 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. During 2010 UBS only granted SEEOP awards to certain senior executives to whom it had a contractual commitment. 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.

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 forward looking one-time plan granted in 2010 only.

Performance Equity Plan (PEP): In 2011 and 2010 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.

Mandatory deferred cash compensation plans

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 employ-

Note 30 Equity participation and other compensation plans (continued)

ment. Compensation expense is recognized over the individual performance periods. Compensation expense is 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.

Cash Balance Plan (CBP): In 2011 and 2010 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 performance conditions. Awards granted since 2011 (for performance year 2010) 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 and 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.

Deferred Cash Plan (DCP): In 2011, DCP awards were granted to Investment Bank employees whose total compensation exceeded a certain threshold (CHF 1 million). DCP awards vest in one-third increments over a three-year vesting period following the grant date. 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.

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 enters into compensation arrangements with financial advisors primarily as a recruitment incentive and to incentivize financial advisors to achieve certain 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 makes loans to financial advisors in connection with these compensation arrangements.

GrowthPlus is a program for financial advisors who were hired before 1 January 2005 and whose production exceeds defined thresholds from 2009 through 2012. Compensation arrangements were granted in 2010 and 2011 with potential arrangements to be granted in 2015 and 2018. Expense is recognized over seven years with the exception of the 2018 commitment which will be expensed over five years commencing upon grant. In certain cases, UBS makes loans to financial advisors in connection with this program.

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 contributions. Awards and voluntary contributions earn an above-market rate of interest during the initial four-year period and a market rate of interest thereafter. The awards 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 is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized ratably commencing in the performance year to the earlier of the vesting date or the retirement eligibility date of the employee.

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 KESAP or KESOP awards were granted in 2011 and 2010.

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 bonus compensation and/or quarterly through regular deduc-

Note 30 Equity participation and other compensation plans (continued)

tions 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.

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 2011, UBS was holding approximately 77 million shares in treasury and approximately 149 million unissued shares in conditional share capital, which are available and can be used 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, SARs and notional shares.

b) Effect on income statement

Effect on income statement for the financial year and future periods

The following table summarizes the compensation expenses recognized for the year ended 31 December 2011 and the compensation expenses, that will be recognized as an expense in the income statements for 2012 and later. The deferred compensation expenses in the table also include non-vested awards granted in February and March 2012, which relate to the compensation core cycle 2011.

Personnel expenses – recognized and deferred[1]

	Personnel expenses for the year 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
Variable bonus awards						
Cash discretionary bonus	1,514	(88)	1,426	0	0	0
Conditional Variable Compensation Plan (CVCP)	0	204	204	0	42	42
Cash Balance Plan (CBP) and other cash plans	34	105	139	3	137	140
Total deferred cash plans	34	309	343	3	179	182
Equity Ownership Plan (EOP / SEEOP / Performance) – UBS shares	231	1,069	1,300	625	641	1,266
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	1,171	1,405	635	779	1,414
UBS share option plans (KESAP / KESOP)	0	100	100	0	15	15
Equity Ownership Plan (EOP) – AIVs	25	93	118	69	48	117
Total discretionary bonus	**1,807**	**1,585**	**3,392**	**707**	**1,021**	**1,728**
Variable compensation						
Variable compensation – other[2]	335	(19)	316	247	190	437
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[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 of CHF 1,789 million comprise UBS share plans of CHF 1,405 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 Variable compensation – other of CHF 127 million. 2 Includes replacement payments of CHF 121 million, forfeiture credits of negative CHF 215 million, guarantees for new hires of CHF 173 million, severance payments of CHF 216 million and retention plan payments of CHF 21 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 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.

Note 30 Equity participation and other compensation plans (continued)

Personnel expenses – recognized and deferred[1]

	Personnel expenses for the year 2010			Personnel expenses deferred to 2011 and later		
CHF million	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
Variable bonus awards						
Cash discretionary bonus	2,079	5	2,084	0	0	0
Conditional Variable Compensation Plan (CVCP)	0	179	179	0	292	292
Cash Balance Plan (CBP) and other cash plans	64	71	135	236	19	255
Total deferred 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 discretionary bonus	**2,611**	**1,471**	**4,082**	**1,574**	**1,220**	**2,794**
Variable compensation						
Variable compensation – other[2]	399	(169)	230	337	0	337
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[3]	1,980	687	2,667	698	2,754	3,452
Total	**4,990**	**1,989**	**6,979**	**2,609**	**3,974**	**6,583**

1 1 Total share-based personnel expenses recognized for the year ended 31 December 2010 of CHF 1,843 million comprise 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 Variable compensation – other of CHF 69 million. In 2011, we reclassified the costs related to our voluntary employee share ownership plan (Equity Plus) from Variable compensation – other to Other personnel expenses. Prior periods were adjusted for this change. Refer to "Note 1b) Changes in accounting policies, comparability and other adjustments for more information. 2 Includes replacement payments of CHF 107 million, forfeiture credits of negative CHF 167 million, guarantees for new hires of CHF 135 million, severance payments of CHF 69 million and retention plan payments of CHF 85 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 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.

Note 30 Equity participation and other compensation plans (continued)

Personnel expenses – recognized and deferred[1]

	Personnel expenses for the year 2009			Personnel expenses deferred to 2010 and later		
CHF million	Expenses relating to awards for 2009	Expenses relating to awards for prior years	Total	Relating to awards for 2009	Relating to awards for prior years	Total
Variable bonus awards						
Cash discretionary bonus	2,245	(169)	2,076	0	0	0
Conditional Variable Compensation Plan (CVCP)	0	19	19	0	558	558
Cash Balance Plan (CBP) and other cash plans	44	0	44	45	12	57
Total deferred cash plans	44	19	63	45	570	615
Equity Ownership Plan (EOP / SEEOP / Performance) – UBS shares	276	283	559	1,352	97	1,449
Performance Equity Plan (PEP)	0	0	0	8	0	8
Incentive Performance Plan (IPP)	0	0	0	467	0	467
Total UBS share plans	276	283	559	1,827	97	1,924
UBS share option plans (KESAP / KESOP)	33	23	56	34	286	320
Equity Ownership Plan (EOP) – AIVs	34	21	55	134	13	147
Total discretionary bonus	**2,632**	**177**	**2,809**	**2,040**	**966**	**3,006**
Variable compensation						
Variable compensation – other[2]	816	(117)	699	0	0	0
Financial advisor compensation – cash payments	1,712	0	1,712	0	0	0
Compensation commitments and advances related to recruited financial advisors	127	471	598	1,198	1,744	2,942
GrowthPlus and other deferral plans	28	(7)	21	124	241	365
UBS share plans	0	95	95	110	236	346
Wealth Management Americas: Financial advisor compensation[3]	1,867	559	2,426	1,432	2,221	3,653
Total	**5,315**	**619**	**5,934**	**3,472**	**3,187**	**6,659**

1 Total share-based personnel expenses recognized for the year ended 31 December 2009 of CHF 913 million comprise UBS share plans of CHF 559 million, UBS share option plans of CHF 56 million, Equity Ownership Plan – AIVs of CHF 55 million, related social security costs of CHF 16 million and Variable compensation – other of CHF 227 million. In 2011, we reclassified the costs related to our voluntary employee share ownership plan (Equity Plus) from Variable compensation – other to Other personnel expenses. Prior periods were adjusted for this change. Refer to "Note 1b) Changes in accounting policies, comparability and other adjustments for more information. 2 Includes replacement payments of CHF 41 million, forfeiture credits of CHF negative 81 million, guarantees for new hires of CHF 56 million, severance payments of CHF 433 million and retention plan payments of CHF 250 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 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.

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 2011, 2010 and 2009 were CHF 1,789 million, CHF 1,843 million, and CHF 913 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 2011 relating to prior years to be recognized in future periods is CHF 1,319 million and will be recognized in *Personnel expenses* over a weighted average period of 2.1 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 2011 table differ from this amount as the deferred compensation amounts also include non-vested awards granted in February and March 2012 related to the compensation core cycle 2011.

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 2011, 2010 and 2009 were CHF 93 million, CHF 79 million and CHF 83 million, respectively. The total carrying amount of the liability related to these plans was CHF 262 million at 31 December 2011.

Note 30 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 2011	Weighted average grant date fair value CHF	Number of shares 2010	Weighted average grant date fair value CHF	Number of shares 2009	Weighted average grant date fair value CHF
Outstanding, at the beginning of the year	171,085,140	18	86,888,626	31	84,736,935	53
Shares awarded during the year	111,254,968	18	125,133,310	15	39,067,130	12
Distributions during the year	(54,443,660)	21	(29,669,688)	42	(31,293,824)	66
Forfeited during the year	(13,197,909)	18	(11,267,108)	21	(5,621,615)	38
Outstanding, at the end of the year	214,698,539	17	171,085,140	18	86,888,626	31
of which: shares vested for accounting purposes	*59,154,235*		*47,366,286*		*40,148,461*	

The market value of shares that became legally vested and were distributed (i.e. all restrictions were fulfilled) during the years ended 31 December 2011, 2010 and 2009 was CHF 980 million, CHF 421 million and CHF 346 million, respectively.

Movements in performance shares granted under the IPP are as follows:

Incentive Performance Plan

	Number of performance shares 2011	Weighted average fair value of IPP performance shares at grant date CHF[1]	Representative of UBS shares 2011[2]	Number of performance shares 2010	Weighted average fair value of IPP performance shares at grant date CHF[1]	Representative of UBS shares 2010[2]
Forfeitable, at the beginning of the year	18,157,242	22	18,157,242	0	0	0
Awarded during the year	31,848	21	31,848	19,629,916	22	19,629,916
Distributions during the year	0	0	0	0	0	0
Forfeited during the year	(2,051,624)	22	(2,051,624)	(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	0	N/A	N/A	0
Forfeitable, at the end of the year	16,137,466	22	16,137,466	18,157,242	22	18,157,242
of which: performance shares vested for accounting purposes	*6,727,398*		*6,727,398*	*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 30 Equity participation and other compensation plans (continued)

Movements in performance shares granted under the PEP are as follows:

Performance Equity Plan

	Number of performance shares 2011	Weighted average fair value of PEP performance shares at grant date CHF[1]	Representative of UBS shares 2011[2]	Number of performance shares 2010	Weighted average fair value of PEP performance shares at grant date CHF[1]	Representative of UBS shares 2010[2]
Forfeitable, at the beginning of the year	**518,837**	**16**	**518,837**	0	0	0
Awarded during the year	**754,530**	**19**	**754,530**	545,642	16	545,642
Distributions during the year	**0**	**0**	**0**	0	0	0
Forfeited during the year	**(62,769)**	**19**	**(62,769)**	(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**	**(732,364)**	N/A	N/A	(251,636)
Forfeitable, at the end of the year	**1,210,598**	**18**	**478,234**	518,837	16	267,201
of which: performance shares vested for accounting purposes	***594,235***		***244,332***	*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 2011	Weighted average exercise price CHF[1]	Number of options 2010	Weighted average exercise price CHF[1]	Number of options 2009	Weighted average exercise price CHF[1]
Outstanding, at the beginning of the year	**205,545,575**	**42**	228,623,886	43	236,055,545	47
Granted during the year	**0**	**0**	0	0	22,525,624	13
Exercised during the year	**(1,306,764)**	**12**	(40,894)	14	(48,241)	16
Forfeited during the year	**(810,094)**	**24**	(5,814,986)	33	(7,245,512)	37
Expired unexercised	**(23,436,356)**	**42**	(17,222,431)	54	(22,663,530)	48
Outstanding, at the end of the year	**179,992,361**	**43**	205,545,575	42	228,623,886	43
Exercisable, at the end of the year	**178,008,644**	**43**	155,302,104	48	137,797,186	51

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	**31.12.11**	31.12.10	31.12.09
Weighted average share price of options exercised (CHF)	**17**	16	18
Intrinsic value of options exercised during the year (CHF million)	**7.5**	0.1	0.2
Weighted average grant date fair value of options granted (CHF)	**N/A**	N/A	6.0

Note 30 Equity participation and other compensation plans (continued)

The following table provides additional information about options outstanding and options exercisable as of 31 December 2011:

	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	15,990,737	11.33	9.8	7.1	13,757,437	11.33	9.8	7.1
15.01–25.00	10,393,029	18.76	0.0	7.3	10,348,029	18.76	0.0	7.3
25.01–35.00	36,676,438	31.00	0.0	5.4	36,649,903	30.98	0.0	5.4
35.01–45.00	15,668,285	39.90	0.0	2.1	15,720,190	39.89	0.0	2.1
45.01–55.00	17,649,676	49.32	0.0	3.5	17,612,701	49.32	0.0	3.5
55.01–65.00	4,720,736	60.15	0.0	5.0	4,720,736	60.15	0.0	5.0
65.01–75.00	52,941,724	67.65	0.0	4.7	53,280,727	67.69	0.0	4.7
10.21–75.00	**154,040,625**		**9.8**		**152,089,723**		**9.8**	
USD awards								
15.58–25.00	9,300,906	20.30	0.0	0.8	9,280,906	20.30	0.0	0.8
25.01–35.00	6,442,441	31.87	0.0	2.3	6,436,795	31.87	0.0	2.3
35.01–40.00	7,720,186	37.73	0.0	3.0	7,713,017	37.73	0.0	3.0
40.01–47.12	2,488,203	42.14	0.0	3.4	2,488,203	42.14	0.0	3.4
15.58–47.12	**25,951,736**		**0.0**		**25,918,921**		**0.0**	

UBS SAR awards

Movements in SAR awards were as follows:

UBS SAR awards

	Number of SARs 2011	**Weighted average exercise price CHF**	Number of SARs 2010	Weighted average exercise price CHF	Number of SARs 2009	Weighted average exercise price CHF
Outstanding, at the beginning of the year	**58,015,041**	**12**	60,907,175	12	0	0
Granted during the year	**0**	**0**	0	0	66,126,830	12
Exercised during the year	**(44,333)**	**15**	(160,334)	12	0	0
Forfeited during the year	**(2,946,350)**	**11**	(2,721,700)	11	(5,219,655)	11
Expired unexercised	**(3,120)**	**16**	(10,100)	11	0	0
Outstanding, at the end of the year	**55,021,238**	**12**	58,015,041	12	60,907,175	12
Exercisable, at the end of the year	**4,018,634**	**10**	4,005,317	10	4,000,000	10

The following table provides additional information about SARs exercises, grants and intrinsic values:

For the year ended	**31.12.11**	31.12.10	31.12.09
Weighted average share price of SARs exercised (CHF)	**18**	16	N/A
Intrinsic value of SARs exercised during the year (CHF million)	**0.1**	0.6	N/A
Weighted average grant date fair value of SARs granted (CHF)	**N/A**	N/A	5.0

Note 30 Equity participation and other compensation plans (continued)

The following table provides additional information about SARs outstanding as of 31 December 2011:

	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	53,508,855	11.25	4.4	6.8	4,007,400	10.10	4.3	2.2
12.51–15.00	47,000	14.53	0.0	7.5	0	0.00	0.0	0.0
15.01–17.50	181,783	16.63	0.0	7.4	10,634	16.80	0.0	7.4
17.51–20.00	378,600	19.25	0.0	7.7	600	19.27	0.0	7.7
20.01–40.00	905,000	40.00	0.0	7.2	0	0.00	0.0	0.0
9.35–40.00	**55,021,238**				**4,018,634**			

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 2011 is approximately 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 were granted in 2010 and 2011.

In 2009 the fair value of options and SARs was determined by means of a Monte Carlo simulation. The simulation technique used a mix of implied and historical volatility and specific employee exercise behavior patterns based on statistical data, taking into account the specific terms and conditions under which the instrument was granted, such as the vesting period, forced exercises during the lifetime, and gain- and time-dependent exercise behavior. The expected term of each instrument was calculated as the probability-weighted average period of the time between grant and exercise. The term structure of volatility was derived from the implied volatilities of traded UBS options in combination with the observed long-term historical share price volatility. Expected future dividends were derived from traded UBS options or from the historical dividend pattern. The fair values of options and SARs granted during 2009 were determined using the following assumptions:

	31.12.09		
	CHF awards	Range low	Range high
Expected volatility (%)	48.22	40.91	53.47
Risk-free interest rate (%)	2.16	1.50	2.57
Expected dividend (CHF)	0.27	0.00	0.29
Strike price (CHF)	11.88	9.35	40.00
Share price (CHF)	11.64	9.35	19.27

Note 30 Equity participation and other compensation plans (continued)

Incentive Performance Plan (IPP) and Performance Equity Plan (PEP)
For performance share awards granted in 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 2011 and 2010 was determined using the following assumptions:

	31.12.11
	PEP CHF awards
Expected TSR volatility (%)	62.00
Expected EP volatility (%)	52.00
Risk-free interest rate (%)	0.62
Expected dividend (CHF)	0.03
Share price (CHF)	18.43

	31.12.10	
	IPP CHF awards	PEP CHF awards
Expected TSR volatility (%)	38.07	63.00
Expected EP volatility (%)	N/A	57.00
Risk-free interest rate (%)	1.06	0.60
Expected dividend (CHF)	0.12	0.10
Share price (CHF)	14.80	14.80

Note 31 Related parties

The Group 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). This definition is based on the revised requirements of IAS 24 *Related Party Disclosures* issued in November 2009.

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 2011[1], is as follows:

Remuneration of key management personnel

CHF million	**31.12.11**	31.12.10	31.12.09
Base salaries and other cash payments	**21**	16	16
Incentive awards – cash	**22**[3]	30[3]	64
Employer's contributions to retirement benefit plans	**1**	1	2
Benefits in kind, fringe benefits (at market value)	**1**	1	1
Equity compensation benefits[2]	**33**[4]	48[4]	29
Total	**79**	96	112

1 During 2011, John Cryan, Oswald J. Grübel and Maureen Miskovic stepped down from the GEB. 2 Expense for shares and options granted is measured at grant date and allocated over the vesting period, generally 3 years for options and 5 years for shares. 3 In 2011 and 2010, incentive awards include immediate and deferred cash. 4 In 2011 and 2010, equity compensation benefits include PEP, SEEOP and 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 7.0 million in 2011, CHF 6.7 million in 2010 and CHF 6.4 million in 2009.

b) Equity holdings

	31.12.11	31.12.10	31.12.09
Number of stock options from equity participation plans held by non-independent members of the BoD and the GEB members[1]	**4,800,170**	9,085,194	9,410,280
Number of shares held by members of the BoD, GEB and parties closely linked to them[2]	**3,562,771**	4,850,196	4,180,154

1 Refer to "Note 30 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, as of 31 December 2011, 31 December 2010 and 31 December 2009, 5,597 shares, 5,597 shares and 0 shares respectively were held by close family members of key management personnel. No shares were held by entities which are directly or indirectly controlled or jointly controlled by key management personnel or their close family members on 31 December 2011, 31 December 2010 and 31 December 2009. Refer to "Note 30 Equity participation and other compensation plans" in this section for more information. No member of the BoD or GEB is the beneficial owner of more than 1% of UBS AG's shares at 31 December 2011.

Note 31 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 adjusted for reduced credit risk. Independent BoD members are granted loans and mortgages at 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	2011	2010
Balance at the beginning of the year	22	18
Additions	0	8
Reductions	(3)	(4)
Balance at the end of the year	19[2]	22

1 All loans are secured loans, except for CHF 45,435 in 2011. 2 Includes a loan of CHF 3.3 million that will be forgiven in three equal installments over the next three years, subject to the GEB member's continued full-time employment with UBS and his performance being satisfactory and commensurate with his responsibilities.

d) Associated companies

All loans to associated companies are transacted at arm's length:

Loans to associated companies

CHF million	2011	2010	2009
Balance at the beginning of the year	259	373	301
Additions	3	2	295
Reductions	(33)	(118)	(222)
Credit loss (expense) / recovery	0	0	(1)
Foreign currency translation	1	2	0
Balance at the end of the year	231	259	373
of which: unsecured loans	*28*	*39*	*42*
of which: allowances for credit losses	*1*	*1*	*1*

Other transactions with associated companies are transacted at arm's length:

	As of or for the year ended		
CHF million	31.12.11	31.12.10	31.12.09
Payments to associates for goods and services received	131	139	130
Fees received for services provided to associates	1	1	2
Commitments and contingent liabilities to associates	9	68	156

Refer to "Note 33 Significant subsidiaries and associates" for an overview of significant associates.

Note 31 Related parties (continued)

e) Other related party transactions

During 2011 and 2010, 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 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). In 2009, UBS did not enter into any such transactions.

Other related party transactions

CHF million	2011	2010	2009
Balance at the beginning of the year	0	0	6
Additions	15	0	0
Reductions	(4)	0	(6)
Balance at the end of the year[1]	11	0	0

1 In 2011 includes loans and guarantees of CHF 11 million and unused committed facilities of CHF 0 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 0 million.

Other transactions with these related parties include:

CHF million	2011	2010	2009
Goods sold and services provided to UBS	0	0	0
Fees received for services provided by UBS	3	1	0

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 on arms length terms.

Note 32 Events after the reporting period

After the issuance of the unaudited fourth quarter 2011 financial report on 7 February 2012, management adjusted the 2011 results to account for subsequent events. The net impact of these adjustments on net profit attributable to UBS shareholders was a loss of CHF 74 million, which decreased basic and diluted earnings per share by CHF 0.02.

The principal change arises due to an agreement in principle that we entered into with a monoline insurer in March 2012 following discussions that commenced in December 2011. Under the agreement, if consummated, certain credit default swap contracts would be commuted in exchange for a net payment of cash. Based on these discussions, UBS has increased its credit valuation adjustments in respect of these derivative contracts, resulting in a reduction of *Net trading income* in 2011 of CHF 167 million and a related tax benefit of CHF 28 million.

Other adjustments made to the income statement in 2011 increased net profit by CHF 65 million and included mutual fund fee income (credit of CHF 45 million in Wealth Management Americas), the amortization of debt issuance fees (credit of CHF 17 million in Corporate Center); a credit to personnel expenses of CHF 2 million (credit of CHF 17 million in the Investment Bank and CHF 15 million charge in Wealth Management Americas) and a net tax benefit of CHF 1 million in relation to these other adjustments.

On 22 February 2012, UBS issued USD 2 billion loss-absorbing subordinated tier 2 notes (the "Notes") due in 2022. The Notes carry a fixed annual coupon of 7.25% for the first five years, which will be reset at the initial credit spread of 606.1 bps plus the 5-year mid-market USD swap rate for the remaining 5 years. UBS has the option to redeem the Notes at the fifth anniversary, conditional on approval from the Swiss regulator, FINMA.

Under Basel III capital rules, the Notes increase our tier 2 capital and count towards the progressive capital component for systemically relevant institutions in Switzerland. Upon the occurrence of a defined trigger event, the Notes will be written down to zero and cancelled. The Notes will be classified as debt instruments issued and will be accounted for at amortized cost.

On 7 February 2012, UBS announced certain changes to its Swiss pension plan. The main changes, being the reduction in conver-

Note 32 Events after the reporting period (continued)

sion 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 as at 31 December 2011. However, unlike the increase to the defined benefit obligation, which is largely deferred as unrecognized actuarial losses, the changes to the pension plan will result in a reduction to personnel expenses in first quarter 2012 of CHF 485 million and a reduction to unrecognized actuarial losses of CHF 245 million. If UBS were to early adopt IAS 19R, the full impact of CHF 730 million would be recognized as a reduction to personnel expenses for the year ended 31 December 2012.

Note 33 Significant subsidiaries and associates

Significant subsidiaries as of 31 December 2011

Company	Registered office	Business division[1]		Share capital in million	Equity interest accumulated in %
APPIA General Partner S.à.r.l.	Luxembourg, Luxembourg	Global AM	EUR	0.0	60.0
CCR Asset Management S.A.	Paris, France	Global AM	EUR	5.3	100.0
Fondcenter AG	Zurich, Switzerland	Global AM	CHF	0.1	100.0
ING Investment Management Limited	Sydney, Australia	Global AM	AUD	7.7	100.0
Luxembourg Financial Group A.G.	Luxembourg, Luxembourg	IB	EUR	2.1	100.0
Luxembourg Financial Group Asset Management S.A.	Luxembourg, Luxembourg	IB	EUR	0.2	100.0
OOO UBS Bank	Moscow, Russia	IB	RUB	3 450.0	100.0
PT UBS Securities Indonesia	Jakarta, Indonesia	IB	IDR	118 000.0	98.6
Topcard Service AG	Glattbrugg, Switzerland	WM&SB	CHF	0.2	100.0
Trumbull Property Growth & Income Fund GP LLC	Wilmington, Delaware, USA	Global AM	USD	0.3	100.0
UBS (Bahamas) Ltd.	Nassau, Bahamas	WM&SB	USD	4.0	100.0
UBS (France) S.A.	Paris, France	WM&SB	EUR	125.7	100.0
UBS (Grand Cayman) Limited	George Town, Cayman Islands	IB	USD	0.0	100.0
UBS (Italia) S.p.A.	Milan, Italy	WM&SB	EUR	60.0	100.0
UBS (Luxembourg) S.A.	Luxembourg, Luxembourg	WM&SB	CHF	150.0	100.0
UBS (Luxembourg) SA Austria Branch	Vienna, Austria	WM&SB	CHF	0.0	100.0
UBS (Monaco) S.A.	Monte Carlo, Monaco	WM&SB	EUR	9.2	100.0
UBS AFS Controlled Subsidiary 1 Ltd.	George Town, Cayman Islands	Global AM	USD	0.0	100.0
UBS AFS Controlled Subsidiary 2 Ltd	George Town, Cayman Islands	Global AM	USD	0.0	100.0
UBS Alternative and Quantitative Investments Limited	London, Great Britain	Global AM	GBP	0.3	100.0
UBS Alternative and Quantitative Investments LLC	Wilmington, Delaware, USA	Global AM	USD	0.1	100.0
UBS Americas Inc	Wilmington, Delaware, USA	IB	USD	0.0	100.0
UBS Asesores Mexico, S.A. de C.V.	México City, México	WM&SB	MXN	233.6	100.0
UBS Asesores SA	Panama, Panama	WM&SB	USD	0.0	100.0
UBS Bank (Canada)	Toronto, Canada	WMA	CAD	8.5	100.0
UBS Bank (Netherlands) B.V.	Amsterdam, the Netherlands	WM&SB	EUR	0.2	100.0
UBS Bank Mexico, S.A. Institucion de Banca Multiple, UBS Grupo Financiero	México City, México	IB	MXN	706.4	100.0
UBS Bank USA	Salt Lake City, Utah, USA	WMA	USD	1 880.0[2]	100.0
UBS Bank, S.A.	Madrid, Spain	WM&SB	EUR	82.2	100.0
UBS Belgium SA / NV	Brussels, Belgium	WM&SB	EUR	28.0	100.0
UBS Brasil Administradora de Valores Mobiliarios Ltda	São Paulo, Brazil	WM&SB	BRL	46.5	100.0
UBS Capital Securities (Jersey) Limited	St. Helier, Jersey	CC	EUR	0.0	100.0
UBS Card Center AG	Glattbrugg, Switzerland	WM&SB	CHF	0.1	100.0
UBS Casa de Bolsa, S.A. de C.V.	México City, México	IB	MXN	114.9	100.0
UBS Commercial Mortgage Securitization Corp.	Wilmington, Delaware, USA	IB	USD	0.0	100.0
UBS Custody Services Singapore Pte. Ltd.	Singapore, Singapore	WM&SB	SGD	5.5	100.0
UBS Derivatives Hong Kong Limited	Hong Kong, China	IB	HKD	880.0	100.0
UBS Deutschland AG	Frankfurt am Main, Germany	WM&SB	EUR	176.0	100.0

1 WMA: Wealth Management Americas, WM&SB: Wealth Management & Swiss Bank, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

Note 33 Significant subsidiaries and associates (continued)

Significant subsidiaries as of 31 December 2011 (continued)

Company	Registered office	Business division[1]		Share capital in million	Equity interest accumulated in %
UBS Fiduciaria S.p.A.	Milan, Italy	WM&SB	EUR	0.2	100.0
UBS Finance (Curação) N.V.	Willemstad, Netherlands Antilles	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Wilmington, Delaware, USA	IB	USD	37.3[2]	100.0
UBS Financial Services (Uruguay) Sociedad de Responsabilidad Limitada	Montevideo, Uruguay	WMA	UYU	0.1	100.0
UBS Financial Services Inc.	Wilmington, Delaware, USA	WMA	USD	4,172.5[2]	100.0
UBS Financial Services Incorporated of Puerto Rico	Hato Rey, Puerto Rico	WMA	USD	31.0[2]	100.0
UBS Fund Advisor, L.L.C.	Wilmington, Delaware, USA	WMA	USD	0.0[2]	100.0
UBS Fund Management (Luxembourg) SA	Luxembourg, Luxembourg	Global AM	EUR	10.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	Global AM	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	Global AM	USD	5.6	100.0
UBS Fund Services (Ireland) Limited	Dublin, Ireland	Global AM	EUR	1.3	100.0
UBS Fund Services (Luxembourg) S.A.	Luxembourg, Luxembourg	Global AM	CHF	2.5	100.0
UBS Funds Australia Limited	Sydney, Australia	IB	AUD	5.0	100.0
UBS Futures Singapore Ltd.	Singapore, Singapore	IB	USD	39.8[2]	100.0
UBS Global Asset Management (Americas) Inc	Wilmington, Delaware, USA	Global AM	USD	0.0	100.0
UBS Global Asset Management (Australia) Ltd	Sydney, Australia	Global AM	AUD	40.0	100.0
UBS Global Asset Management (Canada) Inc	Toronto, Canada	Global AM	CAD	117.0	100.0
UBS Global Asset Management (China) Limited	Beijing, China	Global AM	CNY	20.5	100.0
UBS Global Asset Management (Deutschland) GmbH	Frankfurt am Main, Germany	Global AM	EUR	7.7	100.0
UBS Global Asset Management (Hong Kong) Limited	Hong Kong, China	Global AM	HKD	25.0	100.0
UBS Global Asset Management (Italia) SGR SpA	Milan, Italy	Global AM	EUR	5.1	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	Global AM	JPY	2,200.0	100.0
UBS Global Asset Management (Singapore) Ltd	Singapore, Singapore	Global AM	SGD	4.0	100.0
UBS Global Asset Management (Taiwan) Ltd	Taipei, Taiwan	Global AM	TWD	340.0	100.0
UBS Global Asset Management (UK) Ltd	London, Great Britain	Global AM	GBP	125.0	100.0
UBS Global Asset Management (US) Inc	Wilmington, Delaware, USA	Global AM	USD	17.2[2]	100.0
UBS Global Asset Management Funds Ltd	London, Great Britain	Global AM	GBP	26.0	100.0
UBS Global Asset Management Holding Ltd	London, Great Britain	Global AM	GBP	151.4	100.0
UBS Global Asset Management Life Ltd	London, Great Britain	Global AM	GBP	15.0	100.0
UBS Global Life AG	Vaduz, Liechtenstein	WM&SB	CHF	5.0	100.0
UBS Global Trust Corporation	St. John, Canada	WM&SB	CAD	0.1	100.0
UBS Hana Asset Management Company Ltd	Seoul, South Korea	Global AM	KRW	45,000.0	51.0
UBS Hypotheken AG	Zurich, Switzerland	WM&SB	CHF	0.1	98.0
UBS International Holdings B.V.	Amsterdam, the Netherlands	CC	EUR	6.8	100.0
UBS International Hong Kong Limited	Hong Kong, China	WMA	USD	1.7	100.0
UBS International Life Limited	Dublin, Ireland	WM&SB	EUR	1.0	100.0
UBS Investment Management Canada Inc.	Toronto, Canada	WMA	CAD	0.0	100.0
UBS Italia SIM SpA	Milan, Italy	IB	EUR	15.1	100.0
UBS Leasing AG	Zurich, Switzerland	WM&SB	CHF	10.0	100.0
UBS Life AG	Zurich, Switzerland	WM&SB	CHF	25.0	100.0
UBS Life Insurance Company USA	Sacramento, California, USA	WMA	USD	39.3[2]	100.0
UBS Limited	London, Great Britain	IB	GBP	153.7	100.0
UBS Loan Finance LLC	Wilmington, Delaware, USA	IB	USD	16.7[2]	100.0
UBS Menkul Degerler AS	Istanbul, Turkey	IB	TRY	30.0	100.0
UBS New Zealand Limited	Auckland, New Zealand	IB	NZD	7.5	100.0
UBS O'Connor Limited	London, Great Britain	Global AM	GBP	8.8	100.0
UBS O'Connor LLC	Dover, Delaware, USA	Global AM	USD	1.0	100.0
UBS Preferred Funding (Jersey) Limited	St. Helier, Jersey	CC	EUR	0.0	100.0
UBS Preferred Funding Company LLC IV	Wilmington, Delaware, USA	CC	USD	0.0	100.0

1 WMA: Wealth Management Americas, WM&SB: Wealth Management & Swiss Bank, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

Note 33 Significant subsidiaries and associates (continued)

Significant subsidiaries as of 31 December 2011 (continued)

Company	Registered office	Business division[1]		Share capital in million	Equity interest accumulated in %
UBS Preferred Funding Company LLC V	Wilmington, Delaware, USA	CC	USD	0.0	100.0
UBS Private Equity Komplementär GmbH	Bad Homburg, Germany	WM&SB	EUR	0.0	100.0
UBS Real Estate Kapitalanlagegesellschaft mbH	Munich, Germany	Global AM	EUR	7.5	94.9
UBS Real Estate Securities Inc	Wilmington, Delaware, USA	IB	USD	1 300.4[2]	100.0
UBS Realty Investors LLC	Boston, Massachusetts, USA	Global AM	USD	9.3	100.0
UBS Saudi Arabia	Riyadh, Saudi Arabia	IB	SAR	110.0	73.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	IB	THB	500.0	100.0
UBS Securities Asia Limited	Hong Kong, China	IB	HKD	20.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	IB	AUD	209.8[2]	100.0
UBS Securities Canada Inc	Toronto, Canada	IB	CAD	10.0	100.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	IB	EUR	15.0	100.0
UBS Securities France S.A.	Paris, France	IB	EUR	22.9	100.0
UBS Securities Hong Kong Limited	Hong Kong, China	IB	HKD	430.0	100.0
UBS Securities India Private Limited	Mumbai, India	IB	INR	140.0	100.0
UBS Securities International Limited	London, Great Britain	IB	GBP	18.0	100.0
UBS Securities Israel Limited	Herzliya Pituach, Israel	IB	ILS	0.0	100.0
UBS Securities Japan Ltd	George Town, Cayman Islands	IB	JPY	60 000.0	100.0
UBS Securities Japan Preparation Co., Ltd.	Tokyo, Japan	IB	JPY	8 505.0	100.0
UBS Securities LLC	Wilmington, Delaware, USA	IB	USD	22 205.6[2]	100.0
UBS Securities Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	IB	MYR	80.0	100.0
UBS Securities Philippines Inc	Makati City, Philippines	IB	PHP	190.0	100.0
UBS Securities Pte. Ltd.	Singapore, Singapore	IB	SGD	311.5	100.0
UBS Securities Pte. Ltd. Seoul Branch	Seoul, South Korea	IB	KRW	150 000.0	100.0
UBS Service Centre (Poland) Sp. z o.o.	Krakow, Poland	CC	PLN	1.4	100.0
UBS South Africa (Proprietary) Limited	Sandton, South Africa	IB	ZAR	0.0	100.0
UBS Swiss Financial Advisers AG	Zurich, Switzerland	WM&SB	CHF	1.5	100.0
UBS Trust Company National Association	Wilmington, Delaware, USA	WMA	USD	55.0[2]	100.0
UBS Trustees (Bahamas) Ltd	Nassau, Bahamas	WM&SB	USD	2.0	100.0
UBS Trustees (Cayman) Ltd	George Town, Cayman Islands	WM&SB	USD	2.0	100.0
UBS Trustees (Jersey) Ltd.	St. Helier, Jersey	WM&SB	GBP	0.0	100.0
UBS Trustees (Singapore) Ltd	Singapore, Singapore	WM&SB	SGD	3.3	100.0
UBS UK Properties Limited	London, Great Britain	IB	GBP	132.0	100.0
UBS Wealth Management Australia Ltd	Sydney, Australia	WM&SB	AUD	53.9	100.0
UBS Wealth Management Israel Ltd	Herzliya Pituach, Israel	WM&SB	ILS	3.5	100.0

1 WMA: Wealth Management Americas, WM&SB: Wealth Management & Swiss Bank, Global AM: Global Asset Management, IB: Investment Bank, CC: Corporate Center. 2 Share capital and share premium.

Note 33 Significant subsidiaries and associates (continued)

Changes in the consolidation scope 2011

New significant, fully consolidated companies	Registered office	Business division[1]		Share capital in million	Equity interest accumulated in %
APPIA General Partner S.à.r.l.	Luxembourg, Luxembourg	Global AM	EUR	0.0	60.0
ING Investment Management Limited	Sydney, Australia	Global AM	AUD	7.7	100.0
Luxembourg Financial Group A.G.	Luxembourg, Luxembourg	IB	EUR	2.1	100.0
Luxembourg Financial Group Asset Management S.A.	Luxembourg, Luxembourg	IB	EUR	0.2	100.0
Trumbull Property Growth & Income Fund GP LLC	Wilmington, Delaware, USA	Global AM	USD	0.3	100.0
UBS AFS Controlled Subsidiary 1 Ltd.	George Town, Cayman Islands	Global AM	USD	0.0	100.0
UBS AFS Controlled Subsidiary 2 Ltd.	George Town, Cayman Islands	Global AM	USD	0.0	100.0
UBS Commercial Mortgage Securitization Corp.	Wilmington, Delaware, USA	IB	USD	0.0	100.0
UBS Financial Services (Uruguay) Sociedad de Responsabilidad Limitada	Montevideo, Uruguay	WMA	UYU	0.1	100.0
UBS Funds Australia Limited – Sydney, Australia	Sydney, Australia	IB	AUD	5.0	100.0
UBS Global Asset Management (China) Limited	Beijing, China	Global AM	CNY	0.0	100.0
UBS Securities Japan Preparation Co., Ltd.	Tokyo, Japan	IB	JPY	8 505.0	100.0

1 WMA: Wealth Management Americas, Global AM: Global Asset Management, IB: Investment Bank.

Significant deconsolidated companies	Registered office	Reason for deconsolidation
UBS Fund Services (Luxembourg) S.A. Poland Branch	Zabierzow, Polen	Liquidated
UBS Preferred Funding Company LLC II	Wilmington, Delaware, USA	Liquidated

Significant associates as of 31 December 2011

Company	Registered office	Industry	Equity interest in %
SIX Group AG[1]	Zurich, Switzerland	Financial	17.3
UBS Securities Co. Limited	Beijing, China	Financial	20.0

1 UBS is represented in the Board of Directors.

Note 34 Invested assets and net new money

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 which 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 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, by which inflows and outflows to/from invested assets are determined at the client level based on transactions. Interest and dividend income from invested assets is not counted as net new money inflow. 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 treated as net new money flows.

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 for 2010 included inflows of CHF 3.7 billion resulting from transfers of Investment Bank clients to Wealth Management, as part of the Global Family Office initiative, compared with zero in 2011.

Note 34 Invested assets and net new money (continued)

	As of or for the year ended	
CHF billion	**31.12.11**	31.12.10
Fund assets managed by UBS	**270**	282
Discretionary assets	**619**	596
Other invested assets	**1,278**	1,274
Total invested assets (double counts included)	**2,167**	2,152
of which: double count	***216***	*225*
of which: acquisitions (divestments)	***24.6***	*0.0*
Net new money (double counts included)	**42.4**	(14.3)

Note 35 Business combinations

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.

Business combinations completed in 2009

Acquisition of the commodity index business of AIG Financial Products Corp.

In May 2009, UBS completed the acquisition of the commodity index business of AIG Financial Products Corp., including AIG's rights to the DJ-AIG Commodity index. This commodity index business comprises a product platform of commodity index swaps and funded notes based on the benchmark Dow Jones-AIG Commodity Index (DJ-AIGCI). The cost of the business combination, including directly attributable transaction costs, amounted to CHF 74 million (USD 65 million) of which CHF 17 million (USD 15 million) was paid in cash upon closing. The remaining payments, based upon future earnings of the purchased business, were made in 2010. The cost of the business combination was allocated to Intangible assets of CHF 40 million (USD 35 million) and Goodwill of CHF 34 million (USD 30 million). The business of AIG was integrated into UBS's Investment Bank.

Note 36 Discontinued operations

2011

In 2011, there were no discontinued operations.

2010

In 2010, private equity investments sold in prior years contributed a subsequent gain of CHF 2 million to UBS's net profit from discontinued operations.

2009

In 2009, private equity investments sold in prior years contributed a subsequent loss of CHF 7 million to UBS's net profit from discontinued operations.

Note 37 Reorganizations and disposals

Restructuring 2011

In 2011, we recognized restructuring charges of CHF 403 million associated with our cost reduction program. These charges reflect costs related to both personnel and real estate. Further, 2011 includes restructuring charges of CHF 7 million in Global Asset Management related to the ING Investment Management business acquisition and the reversal of prior restructuring-related provisions of CHF 30 million (whereof CHF 10 million in the Investment Bank, CHF 9 million in Wealth Management Americas, CHF 8 million in the Corporate Center, CHF 2 million in Wealth Management and CHF 1 million in Global Asset Management). The table below shows the detailed breakdown of restructuring charges booked in 2011.

	Wealth Management & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Corporate Center	UBS
CHF million	Wealth Management	Retail & Corporate					
For the year ended 31 December 2011							
Personnel expenses	64	29	5	19	143	2	261
General and administrative expenses[1]	16	3	2	6	55	12	93
Depreciation of property and equipment[2]	2	0	2	1	18	1	26
Total	**82**	**32**	**10**	**26**	**216**	**15**	**380**

1 Mainly reflecting real estate related provisions for onerous leases. 2 Reflecting the impairment of real estate assets.

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		
	31.12.11	31.12.10	**31.12.11**	31.12.10	31.12.09
1 USD	**0.94**	0.93	**0.88**	1.04	1.08
1 EUR	**1.21**	1.25	**1.23**	1.37	1.51
1 GBP	**1.46**	1.46	**1.45**	1.62	1.70
100 JPY	**1.22**	1.15	**1.11**	1.18	1.16

1 Monthly income statement items of foreign operations with a functional currency other than Swiss franc are translated with month-end rates into Swiss franc. 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 with the same functional currency for each month.

Note 39 Swiss banking law requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards (IFRS). The Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) require banks which present their financial statements under IFRS to provide a narrative explanation of the main differences between IFRS and Swiss GAAP (FINMA circular 08/2) 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.

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 uses derivative instruments to hedge the exposure from varying cash flows. 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 realized and released 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, investment property is carried at amortized cost less any accumulated depreciation less impairment losses unless the investment property is classified as held for sale. Investment property classified as held for sale is carried at the lower of cost or market.

5. Fair value option

Under IFRS, the Group applies the fair value option to certain financial assets and financial liabilities, mainly to hybrid debt instruments. 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.* Furthermore, UBS designated certain loans, loan commitments and fund investments as financial assets designated at fair value through profit and loss.

Under Swiss accounting rules, the fair value option is not available except for issued structured products that consist of a debt host contract and a bifurcatable embedded derivative(s). However, 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. 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.

Note 39 Swiss banking law requirements (continued)

Under Swiss law, the concept of discontinued operations does not exist, therefore no such reclassification takes place.

8. Extraordinary income and expense

Certain items of income and expense are classified as extraordinary items under Swiss law, whereas in the Group Income Statement the amounts are classified as operating income or expense or are included in net profit from discontinued operations, if required.

9. 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.

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 and subordinated notes and 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 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 2011	UBS AG Parent Bank[1]	UBS Americas Inc.	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	659	0	0	(659)	0
Other income	1,427	728	(689)	0	1,467
Total operating income	**16,954**	**8,230**	**3,263**	**(659)**	**27,788**
Operating expenses					
Personnel expenses	8,712	5,216	1,664	0	15,591
General and administrative expenses	2,577	2,283	1,099	0	5,959
Depreciation of property and equipment	564	117	81	0	761
Impairment of goodwill	0	0	0	0	0
Amortization of intangible assets	26	80	21	0	127
Total operating expenses	**11,879**	**7,696**	**2,864**	**0**	**22,439**
Operating profit from continuing operations before tax	**5,075**	**534**	**399**	**(659)**	**5,350**
Tax expense / (benefit)	917	61	(55)	0	923
Net profit from continuing operations	**4,159**	**473**	**454**	**(659)**	**4,426**
Net profit from discontinued operations	0	0	0	0	0
Net profit	4,159	473	454	(659)	4,427
Net profit attributable to non-controlling interests	0	2	266	0	268
Net profit attributable to UBS shareholders	**4,159**	**471**	**188**	**(659)**	**4,159**

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 As of 31 December 2011	UBS AG Parent Bank[1]	UBS Americas Inc.	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: pledged as collateral	*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	5,177	2,839	511	0	8,526
Other assets	12,405	2,459	1,689	(4,089)	12,465
Total assets	1,319,740	302,699	405,971	(609,248)	1,419,162
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
Other liabilities	24,226	19,345	22,209	(4,089)	61,692
Total liabilities	1,232,444	297,655	381,440	(550,230)	1,361,309
Equity attributable to UBS shareholders	87,297	5,043	20,126	(59,017)	53,447
Equity attributable to non-controlling interests	0	0	4,406	0	4,406
Total equity	87,297	5,043	24,532	(59,017)	57,852
Total liabilities and equity	1,319,740	302,699	405,971	(609,248)	1,419,162

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 2011	UBS AG Parent Bank[1]	UBS Americas Inc.	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	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:[2]				
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[2]	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 In 2011, we have refined the definition of cash and cash equivalents. Prior periods have been adjusted accordingly. Refer to "Note 1 Summary of significant accounting policies" for more information. 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.	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	1,384	0	0	(1,384)	0
Other income	1,515	1,296	(1,597)	0	1,214
Total operating income	20,749	9,608	3,022	(1,384)	31,994
Operating expenses					
Personnel expenses	9,220	5,850	1,850	0	16,920
General and administrative expenses	2,729	2,691	1,164	0	6,585
Depreciation of property and equipment	628	172	117	0	918
Impairment of goodwill	0	0	0	0	0
Amortization of intangible assets	3	90	24	0	117
Total operating expenses	12,581	8,804	3,154	0	24,539
Operating profit from continuing operations before tax	8,168	804	(132)	(1,384)	7,455
Tax expense / (benefit)	633	(1,150)	136	0	(381)
Net profit from continuing operations	7,534	1,954	(268)	(1,384)	7,836
Net profit from discontinued operations	0	0	2	0	2
Net profit	7,534	1,954	(266)	(1,384)	7,838
Net profit attributable to non-controlling interests	0	0	304	0	304
Net profit attributable to UBS shareholders	7,534	1,954	(570)	(1,384)	7,534

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 As of 31 December 2010	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	26,372	69	498	0	26,939
Due from banks	30,941	5,038	68,198	(87,044)	17,133
Cash collateral on securities borrowed	39,315	61,314	9,572	(47,746)	62,454
Reverse repurchase agreements	130,977	53,203	85,331	(126,721)	142,790
Trading portfolio assets	170,106	32,265	39,814	(13,368)	228,815
of which: pledged as collateral	*61,428*	*9,412*	*2,162*	*(11,649)*	*61,352*
Positive replacement values	393,565	8,624	115,618	(116,661)	401,146
Cash collateral receivables on derivative instruments	42,940	5,010	23,861	(33,740)	38,071
Financial assets designated at fair value	4,778	4,788	8,850	(9,911)	8,504
Loans	258,378	37,828	12,778	(46,107)	262,877
Financial investments available-for-sale	59,269	11,647	3,853	0	74,768
Accrued income and prepaid expenses	1,450	3,612	942	(538)	5,466
Investments in subsidiaries and associates	62,095	6	0	(61,311)	790
Property and equipment	4,493	614	360	0	5,467
Goodwill and intangible assets	448	8,150	1,224	0	9,822
Deferred tax assets	6,054	2,897	571	0	9,522
Other assets	18,504	5,938	1,914	(3,675)	22,681
Total assets	1,249,683	241,001	373,384	(546,822)	1,317,247
Liabilities					
Due to banks	79,842	47,430	1,261	(87,044)	41,490
Cash collateral on securities lent	20,374	23,613	10,410	(47,746)	6,651
Repurchase agreements	40,713	79,920	80,883	(126,721)	74,796
Trading portfolio liabilities	45,191	13,433	1,215	(4,865)	54,975
Negative replacement values	383,892	8,667	117,863	(116,661)	393,762
Cash collateral payables on derivative instruments	45,024	10,543	37,097	(33,740)	58,924
Financial liabilities designated at fair value	94,864	295	18,457	(12,859)	100,756
Due to customers	301,976	29,266	47,166	(46,107)	332,301
Accrued expenses and deferred income	5,071	2,433	773	(538)	7,738
Debt issued	125,113	398	10,315	(5,555)	130,271
Other liabilities	23,286	20,580	23,529	(3,675)	63,719
Total liabilities	1,165,349	236,578	348,968	(485,511)	1,265,384
Equity attributable to UBS shareholders	84,334	4,408	19,388	(61,311)	46,820
Equity attributable to non-controlling interests	0	15	5,028	0	5,043
Total equity	84,334	4,423	24,416	(61,311)	51,863
Total liabilities and equity	1,249,683	241,001	373,384	(546,822)	1,317,247

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.	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	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:[2]				
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, 5]	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 In 2011, we have refined the definition of cash and cash equivalents. Prior periods have been adjusted accordingly. Refer to "Note 1 Summary of significant accounting policies" for more information. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. CHF 9,941 million was pledged as of 31 December 2010. 4 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments. 5 In 2011, we corrected the amounts presented for Due from banks with related changes impacting cash flows from operating activities. Due from banks was increased by CHF 775 million and CHF 4,669 million for UBS AG Parent Bank and Subsidiaries, respectively, with a corresponding decrease in UBS Americas Inc. of CHF 5,444 million. There was no change to amounts presented for UBS Group related to this correction.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2009	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	18,798	4,432	6,715	(6,484)	23,461
Interest expense	(16,860)	(1,982)	(4,657)	6,484	(17,016)
Net interest income	1,939	2,450	2,058	0	6,446
Credit loss (expense) / recovery	(937)	(897)	2	0	(1,832)
Net interest income after credit loss expense	1,002	1,553	2,060	0	4,614
Net fee and commission income	7,912	6,025	3,774	0	17,712
Net trading income	(1,487)	(423)	1,586	0	(324)
Income from subsidiaries	1,114	0	0	(1,114)	0
Other income	550	(872)	921	0	599
Total operating income	9,092	6,282	8,341	(1,114)	22,601
Operating expenses					
Personnel expenses	8,577	5,566	2,400	0	16,543
General and administrative expenses	2,351	2,512	1,385	0	6,248
Depreciation of property and equipment	686	171	191	0	1,048
Impairment of goodwill	0	0	1,123	0	1,123
Amortization of intangible assets	3	96	101	0	200
Total operating expenses	11,617	8,345	5,200	0	25,162
Operating profit from continuing operations before tax	(2,526)	(2,063)	3,141	(1,114)	(2,561)
Tax expense / (benefit)	210	(549)	(104)	0	(443)
Net profit from continuing operations	(2,736)	(1,514)	3,245	(1,114)	(2,118)
Net profit from discontinued operations	0	0	(7)	0	(7)
Net profit	(2,736)	(1,514)	3,238	(1,114)	(2,125)
Net profit attributable to non-controlling interests	0	(3)	613	0	610
Net profit attributable to UBS shareholders	(2,736)	(1,511)	2,625	(1,114)	(2,736)

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 2009	UBS AG Parent Bank[1]	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	30,833	(1,716)	57,607	86,723
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(42)	0	0	(42)
Disposal of subsidiaries, associates and intangible assets	296	0	0	296
Purchase of property and equipment	(656)	(124)	(75)	(854)
Disposal of property and equipment	104	53	6	163
Net (investment in) / divestment of financial investments available-for-sale	(63,535)	(15,228)	387	(78,376)
Net cash flow from / (used in) investing activities	(63,832)	(15,299)	318	(78,812)
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	(7,020)	(1,596)	(51,424)	(60,040)
Net movements in treasury shares and own equity derivative activity	673	0	0	673
Capital issuance	3,726	0	0	3,726
Issuance of long-term debt, including financial liabilities designated at fair value	64,956	0	2,106	67,062
Repayment of long-term debt, including financial liabilities designated at fair value	(55,616)	(1,548)	(7,861)	(65,024)
Increase in non-controlling interests	0	0	3	3
Dividends paid to / decrease in non-controlling interests	0	(8)	(576)	(583)
Net activity in investments in subsidiaries	(4,032)	2,419	1,614	0
Net cash flow from / (used in) financing activities	2,686	(733)	(56,136)	(54,183)
Effects of exchange rate differences	5,886	574	(933)	5,529
Net increase / (decrease) in cash and cash equivalents	(24,426)	(17,174)	855	(40,744)
Cash and cash equivalents at the beginning of the year	75,908	18,905	18,799	113,611
Cash and cash equivalents at the end of the year	51,482	1,731	19,654	72,868
Cash and cash equivalents comprise:[2]				
Cash and balances with central banks	15,177	75	5,647	20,899
Money market paper[3]	5,927	207	194	6,327
Due from banks[4]	30,378	1,450	13,814	45,642
Total	51,482	1,731	19,654	72,868

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 In 2011, we have refined the definition of cash and cash equivalents. Prior periods have been adjusted accordingly. Refer to "Note 1 Summary of significant accounting policies" for more information. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. CHF 4,841 million was pledged as of 31 December 2009. 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		Outstanding as of 31.12.11		
Issuing entity	Type of security	Date issued	Interest (%)	Amount
UBS Preferred Funding Trust IV	Floating rate non-cumulative trust preferred securities	May 2003	one-month LIBOR +0.7	0.3
UBS Preferred Funding Trust V	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 2011, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,354 billion.

Guarantee to UBS Ltd.

UBS AG has issued a guarantee to each counterparty of UBS Ltd. Under the guarantee UBS AG irrevocably and unconditionally guarantees, for the benefit of each counterparty, each and every obligation that UBS Ltd. entered into. UBS AG promises to pay to that counterparty on demand any unpaid balance of such liabilities under the terms of the guarantee.

UBS AG (Parent Bank)

Parent Bank review

Income statement

Net profit for UBS AG (Parent Bank) was CHF 5,440 million, a decrease of CHF 683 million from a profit of CHF 6,123 million in 2010.

Net interest income

Net interest income increased by CHF 1,171 million, or 34%, to CHF 4,597 million. Interest and discount income increased by CHF 234 million, or 2%, mainly attributable to higher interest income from securities borrowing and reverse repurchase agreements. Interest and dividend income from our trading portfolio decreased by CHF 452 million, or 10%. Interest and dividend income from financial investments increased by CHF 155 million, or 50%, mainly relating to income from our strategic investment portfolio in the first nine months of 2011.

Interest expense decreased by CHF 1,235 million, or 10%, due to lower interest expenses on paper issued and on trading liabilities.

Net fee and commission income

Net fee and commission income decreased by CHF 931 million, or 13%, to CHF 6,373 million.

Fee and commission income from securities and investment business decreased by CHF 1,631 million, or 19%. Underwriting fees decreased due to an overall market slowdown resulting from volatility in the capital markets and a reduced market fee pool. Portfolio management and advisory fees as well as investment fund fees decreased mainly due to a lower average invested asset base and the strengthening of the Swiss franc. A decrease in brokerage fees resulted from an overall market slowdown, with lower transactional volumes and reduced levels of client activity. These decreases were partly offset by an increase in merger and acquisition and corporate finance fees, which reflected an improved mergers and acquisitions environment including the completion of several large deals.

Fee and commission expense decreased by CHF 699 million, or 34%, mainly due to lower brokerage fees paid.

Net trading income

Net trading income was CHF 3,545 million compared with CHF 6,501 million in 2010. Investment Bank equities and investment banking net trading income was negative CHF 53 million, compared with positive CHF 1,890 million, mainly as we recorded a loss of CHF 1,951 million related to the unauthorized trading incident in 2011. Investment bank fixed income, currencies and commodities net trading income was down CHF 14 million, or 1%, to CHF 2,312 million. Net trading income in other business divisions and Corporate Center was CHF 1,286 million compared with CHF 2,285 million, mainly because in 2011 we recorded a loss of CHF 102 million on the valuation of our option to acquire the SNB StabFund's equity compared with a gain of CHF 745 million in 2010.

Other income from ordinary activities

Other income from ordinary activities was CHF 3,508 million, up CHF 1,336 million, or 62%. Net income from disposals of financial investments increased by CHF 605 million, mainly due to a gain of CHF 652 million from the sale of our strategic investment portfolio. Dividend income from investments in subsidiaries and other participations decreased by CHF 945 million.

Sundry income from ordinary activities was up CHF 809 million, or 22%, to CHF 4,441 million. Sundry income included income received from subsidiaries for services rendered of CHF 3,676 million, an increase of CHF 176 million, or 5%, compared with the prior year. In addition, sundry income included valuation gains from financial investments of CHF 464 million, which mainly reflected the reversal of unrealized losses incurred on the strategic investment portfolio in 2010 which were recorded as sundry ordinary expenses. Gains from disposals of loans and receivables were CHF 233 million, up CHF 189 million from the prior year.

Sundry ordinary expenses were down CHF 868 million, or 25%, to CHF 2,554 million. Charges from subsidiaries for services received were down CHF 283 million, or 10%, to CHF 2,522 million. In addition, the prior year included unrealized losses on financial investments of CHF 573 million, mainly related to our strategic investment portfolio.

Operating expenses

Personnel expenses decreased by CHF 1,991 million, or 19%, to CHF 8,309 million. Discretionary variable compensation decreased by CHF 1,448 million to CHF 1,821 million. Expenses for social security decreased by CHF 216 million as a result of the lower variable compensation. Other personnel expenses decreased by CHF 239 million, mainly as the prior year included a charge of CHF 200 million for the UK bank payroll tax.

Impairment of investments in subsidiaries and other participations
Impairment of investments in subsidiaries and other participations decreased by CHF 1,269 million, or 88%, to CHF 165 million. Impairments in 2010 were mainly related to unfavorable foreign currency impacts on US subsidiaries as well as subsidiaries in various other countries.

Extraordinary income
Extraordinary income decreased by CHF 2,069 million, or 52%, to CHF 1,888 million. Gains from sale of subsidiaries and other participations decreased by CHF 409 million due to fewer disposals in 2011. Reversals of impairments and provisions of subsidiaries and other participations decreased to CHF 1,352 million in 2011 from CHF 2,337 million in 2010. In 2011, net impairment reversals were to a large extent related to positive foreign currency impacts on the valuation of US subsidiaries. Prior period related income decreased to CHF 280 million from CHF 968 million and mainly related to equity compensation plans, hedge accounting and financial liabilities designated at fair value.

Extraordinary expenses
Extraordinary expenses increased by CHF 471 million to CHF 649 million, mainly related to increased prior period related expenses, which increased CHF 479 million and mainly related to hedge accounting charges, valuation corrections on issued structured products and investments in subsidiaries and other participations.

Tax expense
Tax expense for 2011 was CHF 232 million compared with CHF 25 million in the prior year and consisted of CHF 192 million in income tax expenses, mainly related to prior years, and CHF 40 million in capital tax expenses.

Deferred tax assets are not accounted for and reported in the Parent Bank's financial statements which are prepared in accordance with Swiss Federal banking law. As a consequence, there is no amortization of deferred tax assets for tax losses used against profits arising from business operations.

Balance sheet

Assets
Total assets of the UBS AG (Parent Bank) stood at CHF 846 billion on 31 December 2011, down CHF 17 billion from CHF 863 billion on 31 December 2010. This decrease mainly reflected lower money market paper and trading instruments held, as well as the sale of the strategic investment portfolio which was held as a financial investment. These decreases were partially offset by increased reverse repurchase agreements with banks and other customers as well as higher liquid assets held at the Swiss National Bank (SNB).

Liquid assets and money market paper
Liquid assets increased by CHF 12 billion to CHF 38 billion on 31 December 2011, predominantly reflecting higher balances with the SNB. Money market paper decreased by CHF 32 billion to CHF 41 billion on 31 December 2011, primarily due to decreases in Swiss, Japanese and US government bills.

Due from banks and due from customers
Total due from banks increased by CHF 25 billion to CHF 231 billion on 31 December 2011, mainly reflecting increased reverse repurchase agreements with UBS bank subsidiaries, in particular in the Americas and Asia. This was partly offset by lower bank deposits, predominantly with UBS bank subsidiaries in the Americas and Asia.

Due from customers increased by CHF 6 billion to CHF 148 billion, due to an increase of CHF 7 billion in the loan book (excluding mortgage loans) as a result of higher demand from Asian and American clients. Reverse repurchase agreements and securities borrowings with customers increased by CHF 6 billion, equally across all regions. These increases were partially offset by client-driven lower prime brokerage loan balances, which were down CHF 7 billion, mainly in the Americas and to a lesser extent in Europe.

Trading balances and financial investments
Trading balances in securities and precious metals decreased by CHF 19 billion to CHF 120 billion on 31 December 2011, with debt instruments down by CHF 12 billion. Equity instruments were down by CHF 3 billion.

Financial investments declined by CHF 15 billion to CHF 20 billion on 31 December 2011, primarily due to the sale of our strategic investment portfolio.

Investment in subsidiaries
Investments in subsidiaries increased by CHF 2.9 billion to CHF 24.0 billion on 31 December 2011. This was mainly due to net capital injections of CHF 2.4 billion, as well as reversals of impairments of CHF 1.4 billion which were attributable to positive foreign currency translation impacts. These increases were partly offset by reductions of CHF 0.8 billion as a result of foreign currency translation losses recorded in net trading income on borrowings used to fund the respective investments, and the impairment of investments in subsidiaries of CHF 0.2 billion. The termination of the match-funding concept as of 31 October 2011 and the change in accounting policy with regard to the foreign currency translation of investments in subsidiaries resulted in an increase of CHF 0.2 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, were stable at CHF 65 billion.

Liabilities
Money market paper issued increased by CHF 6 billion to CHF 57 billion on 31 December 2011, mainly on higher yield enhancement products for our wealth management clients. Due to banks decreased by CHF 22 billion to CHF 125 billion on 31 December 2011, and reflected lower unsecured interbank-bor-

rowing of CHF 14 billion as well as reduced securities lending of CHF 4 billion.

Trading portfolio liabilities declined by CHF 13 billion to CHF 33 billion, mainly related to debt instruments. Total due to customers increased by CHF 25 billion to CHF 363 billion, mostly due to higher balances on current, savings and personal accounts. Financial liabilities designated at fair value fell by CHF 17 billion.

Equity

Total equity attributable to shareholders stood at CHF 40.2 billion at year-end 2011, compared with CHF 34.7 billion at year-end 2010, due to the 2011 Parent Bank profit of CHF 5.4 billion. The general statutory reserve increased by CHF 5.0 billion to CHF 32.4 billion as of 31 December 2011, reflecting the appropriation of 2010 earnings of CHF 4.5 billion as well as a transfer of CHF 0.4 billion in capital contribution reserves from the reserve for own shares.

The reserve for own shares increased by CHF 0.6 billion to CHF 1.1 billion, due to the net purchase of 46 million treasury shares in order to meet future delivery obligations related to share-based compensation awards. CHF 0.4 billion in capital contribution reserves were transferred from the reserve for own shares to the general statutory reserve. Other reserves increased by CHF 0.5 billion, reflecting the appropriation of 2010 earnings of CHF 1.6 billion, partly offset by a CHF 1.1 billion transfer to the reserve for own shares.

Parent Bank financial statements

Income statement

		For the year ended		% change from
CHF million	Note	**31.12.11**	31.12.10	31.12.10
Interest and discount income		**11,087**	10,853	2
Interest and dividend income from trading portfolio		**3,989**	4,441	(10)
Interest and dividend income from financial investments		**467**	312	50
Interest expense		**(10,946)**	(12,181)	(10)
Net interest income		**4,597**	3,426	34
Credit-related fees and commissions		**326**	295	11
Fee and commission income from securities and investment business		**6,802**	8,433	(19)
Other fee and commission income		**616**	645	(4)
Fee and commission expense		**(1,371)**	(2,070)	(34)
Net fee and commission income		**6,373**	7,304	(13)
Net trading income	3	**3,545**	6,501	(45)
Net income from disposal of financial investments		**833**	228	265
Dividend income from investments in subsidiaries and other participations		**758**	1,703	(55)
Income from real estate holdings		**30**	31	(3)
Sundry income from ordinary activities		**4,441**	3,632	22
Sundry ordinary expenses		**(2,554)**	(3,422)	(25)
Other income from ordinary activities		**3,508**	2,172	62
Operating income		**18,023**	19,402	(7)
Personnel expenses		**8,309**	10,300	(19)
General and administrative expenses		**4,380**	4,502	(3)
Operating expenses		**12,690**	14,802	(14)
Operating profit		**5,333**	4,601	16
Impairment of investments in subsidiaries and other participations		**165**	1,434	(88)
Depreciation of fixed assets		**581**	617	(6)
Allowances, provisions and losses		**153**	181	(15)
Profit before extraordinary items and taxes		**4,434**	2,369	87
Extraordinary income	4	**1,888**	3,957	(52)
Extraordinary expenses	4	**(649)**	(178)	265
Tax expense		**(232)**	(25)	828
Profit / (loss) for the period		**5,440**	6,123	(11)

Balance sheet

CHF million	Note	31.12.11	31.12.10	% change from 31.12.10
Assets				
Liquid assets		38,094	26,372	44
Money market paper		41,222	73,049	(44)
Due from banks		231,401	206,162	12
Due from customers		148,474	142,634	4
Mortgage loans		144,346	141,708	2
Trading balances in securities and precious metals		120,312	139,685	(14)
Financial investments		20,193	34,788	(42)
Investments in subsidiaries and other participations		23,990	21,075	14
Fixed assets		4,807	4,557	5
Accrued income and prepaid expenses		2,114	1,643	29
Positive replacement values	13	64,580	65,449	(1)
Other assets	5	6,552	6,373	3
Total assets		**846,085**	863,495	(2)
of which: subordinated assets		*1,894*	*2,287*	*(17)*
of which: amounts receivable from subsidiaries		*288,870*	*254,762*	*13*
Liabilities				
Money market paper issued		56,788	50,729	12
Due to banks		124,625	146,961	(15)
Trading portfolio liabilities		32,522	45,550	(29)
Due to customers on savings and deposit accounts		85,393	78,322	9
Other amounts due to customers		278,096	260,404	7
Medium-term bonds		1,951	2,605	(25)
Bonds issued and loans from central mortgage institutions		89,361	89,860	(1)
Financial liabilities designated at fair value		62,976	79,847	(21)
Accruals and deferred income		6,671	7,634	(13)
Negative replacement values	13	58,994	60,723	(3)
Other liabilities	5	7,122	4,717	51
Allowances and provisions	8	1,412	1,424	(1)
Total liabilities		**805,911**	828,776	(3)
Equity				
Share capital	9,10	383	383	0
General statutory reserve		32,350	27,379	18
thereof capital contribution reserves		*42,537*	*42,091*	*1*
thereof retained earnings		*(10,187)*	*(14,712)*	*(31)*
Reserve for own shares		1,066	432	147
thereof capital contribution reserves			*432*	
thereof retained earnings		*1,066*		
Other reserves		934	402	132
Profit / (loss) for the period		5,440	6,123	(11)
Equity attributable to shareholders	9	**40,174**	34,719	16
Total liabilities and equity		**846,085**	863,495	(2)
of which: subordinated liabilities		*12,339*	*14,689*	*(16)*
of which: amounts payable to subsidiaries		*133,696*	*129,243*	*3*

Statement of appropriation of retained earnings

Proposed appropriation of retained earnings

The Board of Directors proposes that the Annual General Meeting (AGM) on 3 May 2012 approves the following appropriation of retained earnings.

	For the year ended
CHF million	**31.12.11**
Profit for the period	**5,440**
Total available for appropriation	**5,440**
Appropriation to other reserves	**5,440**
Total appropriation	**5,440**

Proposed distribution of capital contribution reserves

The Board of Directors proposes that the AGM on 3 May 2012 approves the pay-out of CHF 0.10 per share of CHF 0.10 par value out of capital contribution reserves. Provided that the pay-out is approved, the payment of CHF 0.10 per share would be made on 10 May 2012 to holders of record on 9 May 2012. The shares will be traded ex-dividend as of 7 May 2012, and accordingly the last trading day on which the shares may be traded with entitlement to receive a pay-out will be 4 May 2012.

	For the year ended
CHF million, except where indicated	**31.12.11**
Total capital contribution reserves before proposed distribution	**42,537**[1, 2]
Proposed distribution of capital contribution reserves within general statutory reserves: CHF 0.10 per dividend-bearing share[3]	**(383)**
Total capital contribution reserves after proposed distribution	**42,154**

1 As presented on the balance sheet, the capital contribution reserves of CHF 42,537 million are a component of the general statutory reserves of CHF 32,350 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 capital contribution reserves are not subject to withholding tax. The new law has led to interpretational differences between the Swiss Federal Tax Authorities and companies about the qualifying amounts of capital contribution reserves 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 reserves without being subject to the withholding tax deduction that applies to dividends paid out of retained earnings. 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 on the record date 9 May 2012.

Notes to the Parent Bank financial statements

Note 1 Business activities, risk assessment, outsourcing and personnel

Business Activities

The business activities of UBS AG 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, 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 08/7 "Outsourcing banks".

Personnel

The Parent Bank employed 36,693 personnel on a full time equivalent basis 31 December 2011 compared with 36,381 personnel on 31 December 2010.

Note 2 Accounting policies

The Parent Bank financial statements are prepared in accordance with Swiss Federal banking law. The accounting policies are principally the same as for the Group 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 accounting policies applied for the statutory accounts of the Parent Bank are discussed below. The risk management of UBS AG 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 or as Financial investments. Short positions in treasury shares are presented as *Trading portfolio liabilities*. Treasury shares recognized as trading balances 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.

A reserve for own shares held for other than trading purposes must be created in equity through reclassification of free reserves equal to the cost value of the treasury shares held. Repurchases of treasury shares held for other than trading purposes can be made to the extent sufficient free reserves are available. The *Reserve for own shares* is not available for distribution to shareholders.

Foreign currency translation

Assets and liabilities of foreign branches are translated into CHF 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 the Parent Bank can be found in "Note 38 Currency translation rates" to the consolidated financial statements.

Investments in subsidiaries and other participations

Investments in subsidiaries and other participations are equity interests which are held for the purpose of the Parent Bank's business activities or for strategic reasons. They include all directly held subsidiaries through which UBS AG 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 origi-

Note 2 Accounting policies (continued)

nal cost value based on either the increased net asset value or to 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 before extraordinary items and taxes* under *Impairment of investments in subsidiaries and other participations,* except for prior period related amounts which are presented as *Extraordinary income or expense*. 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 the 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 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 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 IFRS "Consolidated financial statements" in the "Financial Information" section of this report for more information.

Changes in accounting policies, comparability and other adjustments

Termination of the match funding concept

Match funding was a concept employed by UBS to offset the currency risk from subsidiaries denominated in a foreign currency by borrowing the invested amount in that foreign currency. As of 31 October 2011, UBS has terminated this concept and started to make the borrowings in Swiss francs for subsidiaries denominated in a foreign currency.

Under the match funding concept, UBS has translated the match funded foreign investments at the spot exchange rate at the balance sheet date into Swiss francs. The related foreign currency gains and losses were reflected in the balance sheet line *Investment in subsidiaries and other participations* and recognized in the income statement; the foreign currency gains and losses of the borrowing in a foreign currency were also reflected in the income statement.

After the termination of the match funding concept UBS changed the accounting policy for the foreign currency translation of investments in subsidiaries. Under the revised policy, the investments in subsidiaries are reported at cost less impairment and any life-to-date foreign currency gains and losses are no longer reflected in the investment in subsidiaries account unless the investment is considered impaired.

At transition date, the difference between the reversal of the life-to-date foreign currency gains and losses on investments in subsidiaries and the consequential and largely offsetting effects from increased impairments of investment values was recognized in a deferral account and reported in the balance sheet lines Other asset (for losses) and *Other liabilities* (for gains). A small population of investments in subsidiaries was written up to cost values based on historical foreign currency rates in a prior year. Respective prior year write-ups resulted in a reclassification from the income statement to the deferral accounts.

This change in accounting policy resulted in the following effects on the balance sheet: an increase of CHF 121 million in

Investments in subsidiaries and other participations, an increase of CHF 15 million in *Other assets* and an increase of CHF 176 million in *Other liabilities.* The impact to the income statement for 2011 was CHF 41 million additional expenses presented as *Impairment of investments in subsidiaries and other participations*.

Performance based equity awards

In 2011, UBS changed the accounting policy for the recognition of compensation expense for performance-based awards which contain substantive future service/vesting conditions. Compensation expense for these awards is no longer recognized over the future service period, but is recognized in the performance year, which is generally the financial year prior to grant date. The change in accounting policy resulted in the following effects on the balance sheet and income statement for 31 December 2011: an increase of CHF 101 million in *Other Liabilities* and a corresponding increase of *Personnel Expenses*.

Change in the presentation of the Balance sheet – Trading portfolio liabilities and comparison period

From 2011 onwards, UBS has changed the presentation of *Trading portfolio liabilities* to improve transparency. *Trading portfolio liabilities* are presented in a separate balance sheet line by transferring the amounts out of *Due to Banks*. The presentation of comparative figures was adjusted accordingly. This change in presentation impacted neither the income statement nor total assets and liabilities.

Change in the presentation of the Income statement

From 2011 onwards, UBS has split the income statement line *Depreciation and write-offs on investments in associated companies and fixed asset* into two separate income statement lines *Impairment of investments in subsidiaries and other participations* and *Depreciation of fixed assets* to improve transparency. The presentation of comparative figures was adjusted accordingly. This change in presentation impacted neither the income statement nor total assets and liabilities.

Additional income statement information

Note 3 Net trading income

	For the year ended		% change from
CHF million	**31.12.11**	31.12.10	31.12.10
Investment Bank equities and investment banking	**(53)**	1,890	
Investment Bank fixed income, currencies and commodities	**2,312**	2,326	(1)
Other business divisions and Corporate Center	**1,286**	2,285	(44)
Total	**3,545**	6,501	(45)

Note 4 Extraordinary income and expenses

	For the year ended		% change from
CHF million	**31.12.11**	31.12.10	31.12.10
Gains from sale of subsidiaries and other participations	**192**	601	(68)
Reversal of impairments and provisions of subsidiaries and other participations[1]	**1,352**	2,337	(42)
Prior period related income[2]	**280**	968	(71)
Other extraordinary income	**64**	51	25
Total extraordinary income	**1,888**	3,957	(52)
Losses on the disposal of subsidiaries and other participations	**(10)**	(18)	(44)
Prior period related expenses[3]	**(639)**	(160)	299
Total extraordinary expenses	**(649)**	(178)	265

1 2011 includes prior period related adjustments. 2 In 2011 mainly related to equity compensation plans, hedge accounting and financial liabilities designated at fair value. 3 In 2011 mainly related to valuation corrections on issued structured products, investments in subsidiaries and other participations, hedge accounting and other valuation adjustments, as well as a release of amounts recognized in other liabilities.

Additional balance sheet information

Note 5 Other assets and other liabilities

CHF million	**31.12.11**	31.12.10
Other assets		
Deferred pension expenses	**2,980**	2,839
Settlement and clearing accounts	**376**	499
VAT and other tax receivables	**99**	203
Other receivables	**3,096**	2,832
Total other assets	**6,552**	6,373
Other liabilities		
Deferral position for hedging instruments	**4,400**	1,443
Settlement and clearing accounts	**600**	581
VAT and other tax payables	**360**	444
Other payables	**1,762**	2,250
Total other liabilities	**7,122**	4,717

Note 6 Assets pledged or assigned as security for own obligations and assets subject to reservation of title

	31.12.11		31.12.10		Change in %	
CHF million	**Book value**	**Effective liability**	Book value	Effective liability	Book value	Effective liability
Money market paper[1]	**10,034**	**788**	31,575	7,876	(68)	(90)
Mortgage loans[2]	**27,841**	**16,966**	27,119	15,706	3	8
Securities[1]	**54,869**	**21,027**	60,989	26,308	(10)	(20)
Other	**4,897**	**0**	5,790	0	(15)	
Total	**97,640**	**38,781**	125,473	49,890	(22)	(22)

1 Includes positions pledged to central banks for credit facilities which are committed but undrawn. 2 Includes mortgage loans transferred for security purposes in preparation of existing and upcoming covered bond issuances.

Financial assets are mainly pledged in securities borrowing and lending transactions, in repurchase and reverse repurchase transactions, under collateralized credit lines with central banks, against loans from mortgage institutions, in connection with derivative transactions, as security deposits for stock exchanges and clearinghouse memberships or transferred for security purposes in connection with the issuance of covered bonds.

Note 7 Due to UBS pension plans

	For the year ended		% change from
CHF million	**31.12.11**	31.12.10	31.12.10
Obligations due to UBS pension plans	**650**	682	(5)

Note 8 Allowances and provisions

CHF million	Balance at 31.12.10	Provisions applied in accordance with their specified purpose	Recoveries, doubtful interest, currency translation differences	Provisions released to income	New provisions charged to income	Balance at 31.12.11
Default risks	964	(212)	18	(211)	243	802
Litigation risks	151	(144)	5	(34)	122	101
Operational risks	25	(14)	2	(9)	17	22
Retirement benefit plans	90	(43)	3	0	48	98
Restructuring provisions	80	(49)	(9)	(40)	210	191
Deferred taxes	4		0		2	6
Other provisions[1]	982	(59)	4	(153)	158	931
Total allowances and provisions	**2,296**	**(522)**	**23**	**(447)**	**801**	**2,150**
Allowances deducted from assets	872					738
Total provisions as per balance sheet	**1,424**					**1,412**

1 Includes provisions of CHF 258 million as of 31 December 2011 (31 December 2010: CHF 230 million) related to parental support provided by UBS AG to subsidiaries in the form of indemnities, letters of support, letters of undertaking and similar arrangements. Also includes reinstatement cost provisions for leasehold improvements of CHF 70 million as of 31 December 2011 (31 December 2010: CHF 83 million), provisions for onerous lease contracts and for employee benefits (service anniversaries and sabbatical leave).

Note 9 Statement of shareholders' equity

CHF million	Share capital	General statutory reserves	Reserves for own shares	Other reserves	Profit / (loss) for the year	Total shareholders' equity (before distribution of profit)
As of 31.12.09 and 1.1.10	**356**	**30,377**	**835**	**2,042**	**(5,041)**	**28,569**
Capital increase		1				1
Capital increase related to Mandatory Convertible Notes (MCNs)	27					27
Profit / (loss) allocation		(2,999)		(2,042)	5,041	0
Prior year dividend						0
Profit / (loss) for the period					6,123	6,123
Changes in reserves for own shares			(402)	402		0
As of 31.12.10 and 1.1.11	**383**	**27,379**	**432**	**402**	**6,123**	**34,719**
Capital increase		14				14
Profit / (loss) allocation		4,525		1,598	(6,123)	0
Prior year dividend						0
Profit / (loss) for the period					5,440	5,440
Changes in reserves for own shares[1]		432	634	(1,066)		0
As of 31.12.11	**383**	**32,350**	**1,066**	**934**	**5,440**	**40,174**

1 The reserve for own shares of CHF 432 million at 31 December 2010 consisting of capital contribution reserves was transferred to general statutory reserves following the issue of own shares to settle employee share awards. Purchases of new shares during 2011 required the transfer of CHF 1,066 million from other reserves to reserves for own shares.

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 31.12.11				
Issued and paid up	**3,832,121,899**	**383,212,190**		
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	***84,751,096***	***8,475,110***		
of which: treasury shares held by subsidiaries of UBS AG	***204,455***	***20,446***	***204,455***	***20,446***
Conditional share capital	**628,639,326**	**62,863,933**		
As of 31.12.10				
Issued and paid up	3,830,840,513	383,084,051		
of which: shares outstanding	*3,791,948,482*	*379,194,848*	*3,791,948,482*	*379,194,848*
of which: treasury shares held by UBS AG	*38,487,074*	*3,848,707*		
of which: treasury shares held by subsidiaries of UBS AG	*404,957*	*40,496*	*404,957*	*40,496*
Conditional share capital	629,920,712	62,992,071		

Conditional share capital

On 31 December 2011, additional 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. On 14 April 2010 the annual general meeting of UBS AG 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, on 30 September 2011, Norges Bank (the Central Bank of Norway), Oslo, disclosed under the Swiss Stock Exchange Act, a holding of 3.04% of the total share capital of UBS AG. On 16 April 2011, the Capital Group Companies, Inc., Los Angeles, disclosed under the Swiss Stock Exchange Act, that their holding of 4.90% of the total share capital of UBS AG, disclosed on 8 June 2010, fell below the threshold of 3%. On 12 March 2010, the Government of Singapore as beneficial owner, disclosed under the Swiss Stock Exchange Act, a holding by the Government of Singapore Investment Corp. of 6.45% of the total share capital of UBS AG. On 17 December 2009, BlackRock Inc., New York, disclosed under the Swiss Stock Exchange Act a holding of 3.45% of the total share capital of UBS AG. In accordance with the Swiss Stock Exchange Act, the percentages indicated above were calculated in relation to the share capital reflected in the Articles of Association of UBS AG (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 "Significant shareholders" table below, were registered with 3% or more of the total share capital on 31 December 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

	31.12.11			31.12.10		
	Quantity	**Total nominal value CHF million**	**Share %**	Quantity	Total nominal value CHF million	Share %
Chase Nominees Ltd, London	**419,533,402**	**42**	**10.95**	409,822,353	41	10.70
DTC (Cede & Co.), New York[1]	**270,808,806**	**27**	**7.07**	280,355,684	28	7.32
Government of Singapore Investment Corp., Singapore	**245,481,682**	**25**	**6.41**	245,481,682	25	6.41
Nortrust Nominees Ltd, London	**160,917,513**	**16**	**4.20**	145,038,407	15	3.79

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.

Off-balance-sheet and other information

Note 12 Commitments and contingent liabilities

CHF million	31.12.11	31.12.10	% change from 31.12.10
Contingent liabilities	131,510	102,820	28
Irrevocable commitments	90,102	106,304	(15)
Irrevocable securities delivery obligations related to forward starting repos and securities lending transactions	23,279	27,215	(14)
Liabilities for calls on shares and other equities	126	168	(25)
Documentary credits	6,151	4,278	44

The table above includes indemnities and guarantees issued by UBS AG for the benefit of subsidiaries and creditors of subsidiaries. In instances where the indemnity amount issued by the Parent Bank is not defined, the indemnity relates to the solvency or minimum capitalization of a subsidiary, and therefore no amount is included in the table above.

Irrevocable commitments and securities delivery obligations: irrevocable commitments include cash payment obligations from forward starting reverse repurchase agreements and securities borrowing transactions. Irrevocable securities delivery obligations related to forward-starting repos and securities lending transactions are presented on a separate line.

UBS AG is jointly and severally liable for the value added tax (VAT) liability of Swiss subsidiaries that belong to its VAT group.

Note 13 Derivative instruments[1]

	31.12.11			31.12.10		
CHF million	PRV[2]	NRV[3]	Notional amount CHF billion	PRV[2]	NRV[3]	Notional amount CHF billion
Interest rate contracts	264,146	252,725	36,209	176,918	166,919	32,963
Credit derivative contracts	67,364	62,704	2,737	57,812	50,578	2,345
Foreign exchange contracts	97,158	106,117	6,323	113,514	122,843	6,561
Precious metal contracts	4,193	3,924	99	3,784	3,755	71
Equity / Index contracts	16,538	18,105	416	16,281	19,455	483
Commodities contracts, excluding precious metal contracts	775	1,012	110	894	927	41
Total derivative instruments	450,173	444,587	45,894	369,203	364,477	42,463
Replacement value netting	385,593	385,593		303,754	303,754	
Replacement values after netting	64,580	58,994		65,449	60,723	

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.

Note 14 Fiduciary transactions

CHF million	31.12.11	31.12.10	% change from 31.12.10
Deposits:			
with third-party banks	9,375	11,529	(19)
with subsidiaries	2,346	1,740	35
Total	11,721	13,269	(12)

Compensation of the members of the Board of Directors and the Group Executive Board

Total compensation for GEB members

CHF, except where indicated[a]			Variable cash compensation under CBP						
Name, function	For the year	Base salary	Immediate cash[b]	Deferred cash[5, b]	Annual bonus under PEP[c]	Annual bonus under SEEOP[d]	Benefits in kind[e]	Contributions to retirement benefit plans[f]	Total
Sergio P. Ermotti, Group CEO[1]	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[2]	2011	2,191,667	0	0	0	0	35,971	0	2,227,638
Oswald J. Grübel, former Group CEO	2010	3,000,000	0	0	0	0	25,600	0	3,025,600
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
Carsten Kengeter, CEO Investment Bank (highest-paid)	2010	874,626	1,002,496	2,339,158	1,670,827	3,341,654	92,547	0	9,321,308
Aggregate of all GEB members who were in office on 31 December 2011[3]	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 were in office on 31 December 2010[3]	2010	14,705,894	15,588,145	14,451,756	15,019,951	30,039,901	381,851	843,402	91,030,900
Aggregate of all GEB members who stepped down during 2011[4]	2011	4,155,602	509,201	1,166,759	0	962,768	171,954	80,499	7,046,783
Aggregate of all GEB members who stepped down during 2010[4]	2010	755,950	1,380,000	920,000	0	0	78,817	118,334	3,253,101

1 Sergio P. Ermotti was appointed on 1 April 2011 as GEB member and regional CEO of Europe, the Middle East and Africa. He was appointed on 24 September 2011 the new Group CEO ad interim and confirmed on 15 November 2011. 2 Oswald J. Grübel stepped down on 24 September 2011 as Group CEO. 3 Number and distribution of GEB members: 12 GEB members were in office on 31 December 2011, 13 GEB members were in office on 31 December 2010. 4 Number and distribution of former GEB members: 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. 2010: includes three months in office as a GEB member for Francesco Morra. 5 In 2011, for Sergio P. Ermotti, due to applicable UK FSA regulations, deferred cash includes blocked shares. In 2010, for John Cryan, Carsten Kengeter and Alexander Wilmot-Sitwell, due to applicable UK FSA regulations, deferred cash includes blocked shares.

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" to the consolidated financial statements.

b. Of the cash award, 60% is paid out immediately (representing 24% of a GEB member's total annual bonus). The balance is paid out in equal installments of 20%, each over the subsequent two years, and is subject to forfeiture.

c. Value of each performance share at grant: CHF 13.26 for PEP awards granted in 2012 relating to the performance year 2011; CHF 18.70 for PEP awards granted in 2011 relating to the performance year 2010. These values are based on valuations for accounting purposes which take into account the performance conditions and the range of possible outcomes for these conditions.

d. SEEOP awards vest in equal installments over five years and are subject to forfeiture. The grant date accounting value per share granted under SEEOP is: CHF 12.76 or USD 14.14 (actual shares) and CHF 12.36 or USD 13.70 (notional shares) for SEEOP awards granted in 2012 relating to the performance year 2011; CHF 18.43 or USD 19.94 (actual shares) and CHF 18.30 or USD 19.80 (notional shares) for SEEOP awards granted in 2011 relating to the performance year 2010.

e. Benefits in kind are all valued at market price, for example, health and welfare benefits and general expense allowances.

f. 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. 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 245,000 (USD 250,000 as from 1 January 2012). 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. As from 2 January 2012 the match is not available anymore for Wealth Management Americas employees with compensation in excess of USD 250,000. 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).

Share and option ownership / entitlements of GEB members on 31 December 2010 / 2011[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 Offcier	2011	0	0	0	0.000	0	0.000
	2010	–	–	–	–	–	–
Oswald J. Grübel, former Group Chief Executive Officer[5]	2011	–	–	–	–	–	–
	2010	0	0	0	0.000	4,000,000	0.181
John Cryan, former Group Chief Financial Officer[5]	2011	–	–	–	–	–	–
	2010	221,879	185,975	407,854	0.018	382,673	0.017
Markus U. Diethelm, Group General Counsel	2011	358,042	91,506	449,548	0.021	0	0.000
	2010	178,619	75,700	254,319	0.012	0	0.000
John A. Fraser, Chairman and CEO Global Asset Management	2011	460,707	280,414	741,121	0.034	1,088,795	0.050
	2010	326,702	316,541	643,243	0.029	1,088,795	0.049
Lukas Gähwiler, CEO UBS Switzerland and co-CEO Wealth Management & Swiss Bank	2011	252,293	37,517	289,810	0.013	0	0.000
	2010	110,000	850	110,850	0.005	0	0.000
Carsten Kengeter, Chairman and CEO Investment Bank	2011	971,575	556,016	1,527,591	0.070	905,000	0.041
	2010	916,201	363,047	1,279,248	0.058	905,000	0.041
Ulrich Körner, Group Chief Operating Officer and CEO Corporate Center	2011	389,090	95,597	484,687	0.022	0	0.000
	2010	177,592	95,597	273,189	0.012	0	0.000
Philip J. Lofts, Group Chief Risk Officer	2011	377,614	150,772	528,386	0.024	577,723	0.026
	2010	200,009	144,603	344,612	0.016	577,723	0.026
Robert J. McCann, CEO Wealth Management Americas	2011	330,047	0	330,047	0.015	0	0.000
	2010	138,598	540,866	679,464	0.031	0	0.000
Maureen Miskovic, former Group Chief Risk Officer[5]	2011	–	–	–	–	–	–
	2010	–	–	–	–	–	–
Tom Naratil, Group Chief Financial Officer	2011	221,238	193,836	415,074	0.019	1,046,122	0.048
	2010	–	–	–	–	–	–
Alexander Wilmot-Sitwell, co-Chairman and co-CEO Group Asia Pacific	2011	495,553	220,955	716,508	0.033	353,807	0.016
	2010	274,739	213,613	488,352	0.022	353,807	0.016
Robert Wolf, former Chairman and CEO, UBS Group Americas / President Investment Bank	2011	–	–	–	–	–	–
	2010	242,805	635,382	878,187	0.040	948,473	0.043
Chi-Won Yoon, co-Chairman and co-CEO Group Asia Pacific	2011	306,515	350,311	656,826	0.030	623,253	0.029
	2010	184,858	318,332	503,190	0.023	623,253	0.028
Jürg Zeltner, CEO UBS Wealth Management and co-CEO Wealth Management & Swiss Bank	2011	306,487	11,756	318,243	0.015	205,470	0.009
	2010	113,609	9,405	123,014	0.006	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 "Deferred variable compensation plans" in this section for more information on the plans. 3 Refer to "Note 30 Equity participation and other compensation plans" to the consolidated financial statements for more information. 4 No conversion rights are outstanding. 5 GEB members who stepped down during 2011.

Compensation details and additional information for non-independent BoD members

CHF, except where indicated[a]

Name, function[1]	For the year	Base salary	Annual bonus (cash)	Annual share award	Benefits in kind[e]	Contributions to retirement benefit plans[f]	Total
Kaspar Villiger, Chairman	2011	850,000	0	500,000[2]	144,568	0	1,494,568
	2010	850,000	0	500,000[2]	141,308	0	1,491,308

1 Kaspar Villiger was the only non-independent member in office on 31 December 2011 and 31 December 2010, respectively. 2 These shares are blocked for four years.

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			2011/2012	325,000	300,000		250,000[5]	**875,000**	50	39,845
	M		M			2010/2011	325,000	300,000		250,000[5]	**875,000**	100	52,631
David Sidwell, Senior Independent Director			M		C	2011/2012	325,000	500,000		250,000[5]	**1,075,000**	50	48,952
					C	2010/2011	325,000	400,000		250,000[5]	**975,000**	50	30,893
Sally Bott, former member						2011/2012	–	–			–	–	–
		C	M	M		2010/2011	325,000	450,000			**775,000**	50	24,556
Rainer-Marc Frey, member	M				M	2011/2012	325,000	400,000			**725,000**	100	62,635
	M				M	2010/2011	325,000	400,000			**725,000**	100	43,583
Bruno Gehrig, member		M	M			2011/2012	325,000	200,000			**525,000**	50	23,907
		M	M			2010/2011	325,000	200,000			**525,000**	50	16,634
Ann F. Godbehere, member	M	C		M		2011/2012	325,000	550,000			**875,000**	50	39,845
	M			M		2010/2011	325,000	250,000			**575,000**	50	18,219
Axel P. Lehmann, member			M		M	2011/2012	325,000	250,000			**575,000**	100	49,632
					M	2010/2011	325,000	200,000			**525,000**	100	31,519
Wolfgang Mayrhuber, member		M		C		2011/2012	325,000	200,000			**525,000**	50	23,907
		M		M		2010/2011	325,000	150,000			**475,000**	50	15,050
Helmut Panke, member		M			M	2011/2012	325,000	300,000			**625,000**	50	28,460
		M			M	2010/2011	325,000	300,000			**625,000**	50	19,803
William G. Parrett, member	C					2011/2012	325,000	300,000			**625,000**	50	28,460
	C					2010/2011	325,000	300,000			**625,000**	50	19,803
Joseph Yam, member				M	M	2011/2012	325,000	250,000			**575,000**	50	26,183
						2010/2011	–	–			–	–	–
Total 2011											**7,000,000**		
Total 2010											**6,700,000**		

Legend: C = Chairperson of the respective Committee; M = Member of the respective Committee

1 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. There were 10 independent BoD members in office on 31 December 2010. Wolfgang Mayrhuber was appointed at the AGM on 14 April 2010, and Sergio Marchionne and Peter Voser stepped down from the BoD at the AGM on 14 April 2010. 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 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), included a price discount of 15%, for a new value of discount price CHF 10.98. These shares are blocked for four years. For 2010, shares valued at CHF 18.56 (average price of UBS shares at SIX Swiss Exchange over the last 10 trading days of February 2011), included a price discount of 15%, for a new value of discount price of CHF 15.78. 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 submitted to social security contribution/withholding tax. 5 This payment is associated with the Vice Chairman or the Senior Independent Director function, respectively.

Total payments to BoD members

CHF, except where indicated[a]	For the year	Total
Aggregate of all BoD members	2011	8,494,568
	2010	8,191,310

Number of shares of BoD members on 31 December 2010 / 2011[1]

Name, function	For the year	Number of shares held	Voting rights in %
Kaspar Villiger, Chairman	2011	49,440	0.002
	2010	22,500	0.001
Michel Demaré, Vice Chairman	2011	76,334	0.003
	2010	23,703	0.001
David Sidwell, Senior Independent Director	2011	100,247	0.005
	2010	69,354	0.003
Sally Bott, former member[2]	2011	–	–
	2010	39,542	0.002
Rainer-Marc Frey, member	2011	100,042	0.005
	2010	56,459	0.003
Bruno Gehrig, member	2011	54,409	0.002
	2010	37,775	0.002
Ann F. Godbehere, member	2011	41,441	0.002
	2010	23,222	0.001
Axel P. Lehmann, member	2011	89,971	0.004
	2010	58,452	0.003
Wolfgang Mayrhuber, member	2011	15,050	0.001
	2010	0	0.000
Helmut Panke, member	2011	109,332	0.005
	2010	89,529	0.004
William G. Parrett, member	2011	62,618	0.003
	2010	42,815	0.002
Joseph Yam, member	2011	0	0.000
	2010	–	–

1 This table includes blocked and unblocked shares held by BoD members, including related parties. No options were granted in 2010 and 2011. 2 Sally Bott stepped down on 11 February 2011 as BoD member.

Compensation paid to former BoD and GEB members[1]

CHF, except where indicated[a]				
Name, function	For the year	Compensation	Benefits in kind	Total
Alberto Togni, former BoD member	2011	0	0	0
	2010	0	20,493	20,493
Aggregate of all former GEB members[2]	2011	0	0	0
	2010	0	57,229	57,229
Aggregate of all former BoD and GEB members	2011	0	0	0
	2010	0	77,722	77,722

1 Compensation or remuneration connected with the former member's activity on the BoD or GEB that is not at market conditions. 2 Includes zero former GEB member in 2011 and one former GEB member in 2010.

Total of all vested and unvested shares of GEB members[1,2]

	Total	Of which vested	Of which vesting				
			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
			2011	2012	2013	2014	2015
Shares on 31 December 2010	**4,409,345**[3]	2,922,411[3]	582,787	411,339	282,754	105,027	105,027

1 Includes related parties. 2 Excludes shares granted under variable compensation plans with forfeiture provisions. 3 Includes 22,500 vested shares of the Chairman.

No individual GEB member holds 1% or more of all shares issued.

Total of all blocked and unblocked shares of BoD members[1]

	Total	Of which unblocked	Of which blocked until			
			2012	2013	2014	2015
Shares on 31 December 2011	**698,884**	72,775	9,349	115,690	225,995	275,075
			2011	2012	2013	2014
Shares on 31 December 2010	**440,851**[2]	46,010[2]	4,266	9,349	127,970	253,256

1 Includes related parties. 2 Excludes 22,500 vested shares of the Chairman.

No individual BoD member holds 1% or more of all shares issued.

Vested and unvested options of GEB members on 31 December 2010 / 2011[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						
2011	0					
2010	–					
Oswald J. Grübel, former Group Chief Executive Officer[4]						
2011	–					
2010	4,000,000	4,000,000	2009	26/02/2009	25/02/2014	CHF 10.10
John Cryan, former Group Chief Financial Officer[4]						
2011	–					
2010	382,673	21,362	2002	31/01/2003	31/01/2012	CHF 36.49
		20,731	2002	31/01/2004	31/01/2012	CHF 36.49
		20,725	2002	31/01/2005	31/01/2012	CHF 36.49
		5,454	2002	28/02/2003	28/02/2012	CHF 36.65
		5,294	2002	28/02/2004	28/02/2012	CHF 36.65
		5,292	2002	28/02/2005	28/02/2012	CHF 36.65
		23,626	2003	01/03/2004	31/01/2013	CHF 27.81
		23,620	2003	01/03/2005	31/01/2013	CHF 27.81
		23,612	2003	01/03/2006	31/01/2013	CHF 27.81
		5,526	2003	01/03/2004	28/02/2013	CHF 26.39
		5,524	2003	01/03/2005	28/02/2013	CHF 26.39
		5,524	2003	01/03/2006	28/02/2013	CHF 26.39
		17,072	2004	01/03/2005	27/02/2014	CHF 44.32
		17,068	2004	01/03/2006	27/02/2014	CHF 44.32
		17,063	2004	01/03/2007	27/02/2014	CHF 44.32
		14,210	2005	01/03/2006	28/02/2015	CHF 47.58
		14,210	2005	01/03/2007	28/02/2015	CHF 47.58
		14,207	2005	01/03/2008	28/02/2015	CHF 47.58
		5,330	2006	01/03/2007	28/02/2016	CHF 65.97
		5,328	2006	01/03/2008	28/02/2016	CHF 65.97
		5,326	2006	01/03/2009	28/02/2016	CHF 65.97
		17,762	2007	01/03/2008	28/02/2017	CHF 67.00
		17,762	2007	01/03/2009	28/02/2017	CHF 67.00
		17,760	2007	01/03/2010	28/02/2017	CHF 67.00
		53,285	2008	01/03/2011	28/02/2018	CHF 32.45
Markus U. Diethelm, Group General Counsel						
2011	0					
2010	0					
John A. Fraser, Chairman and CEO Global Asset Management						
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
John A. Fraser, Chairman and CEO Global Asset Management (continued)						
2010	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 co-CEO Wealth Management & Swiss Bank						
2011	0					
2010	0					
Carsten Kengeter, Chairman and CEO Investment Bank						
2011	905,000	905,000	2009	01/03/2012	27/12/2019	CHF 40.00
2010	905,000	905,000	2009	01/03/2012	27/12/2019	CHF 40.00
Ulrich Körner, Group Chief Operating Officer and CEO Corporate Center						
2011	0					
2010	0					
Philip J. Lofts, Group Chief Risk Officer						
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
2010	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

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 30 Equity participation and other compensation plans" to the consolidated financial statements for more information. 4 GEB members who stepped down during 2011.

Vested and unvested options of GEB members on 31 December 2010 / 2011[1] (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Philip J. Lofts, Group Chief Risk Officer (continued)						
		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 Wealth Management Americas						
2011	0					
2010	0					
Maureen Miskovic, former Group Chief Risk Officer[4]						
2011	–					
2010	–					
Tom Naratil, Group Chief Financial Officer						
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
		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
2010	–					
Alexander Wilmot-Sitwell, co-Chairman and co-CEO Group Asia Pacific						
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
2010	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

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
Alexander Wilmot-Sitwell, co-Chairman and co-CEO Group Asia Pacific (cont.)						
		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
Robert Wolf, former Chairman and CEO, UBS Group Americas / President Investment Bank						
2011	–					
2010	948,473	287,739	2003	31/01/2006	31/01/2013	USD 22.53
		213,140	2004	01/03/2007	27/02/2014	USD 38.13
		127,884	2005	01/03/2008	28/02/2015	USD 44.81
		106,570	2006	01/03/2009	28/02/2016	CHF 72.57
		106,570	2007	01/03/2010	28/02/2017	CHF 73.67
		106,570	2008	01/03/2011	28/02/2018	CHF 35.66
Chi-Won Yoon, co-Chairman and co-CEO Group Asia Pacific						
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
2010	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

1 This table includes all options of GEB members, including related parties. 2 No conversion rights are outstanding. 3 Refer to "Note 30 Equity participation and other compensation plans" to the consolidated financial statements for more information. 4 GEB members who stepped down during 2011.

Vested and unvested options of GEB members on 31 December 2010 / 2011[1] (continued)

Chi-Won Yoon, co-Chairman and co-CEO Group Asia Pacific (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
		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 and co-CEO Wealth Management & Swiss Bank

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
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
		149	2005	09/09/2007	09/09/2015	CHF 50.47
		127	2005	05/12/2007	05/12/2015	CHF 59.03

Jürg Zeltner, CEO UBS Wealth Management and co-CEO Wealth Management & Swiss Bank (continued)

For the year	Total number of options[2]	Number of options[3]	Year of grant	Vesting date	Expiry date	Strike price
		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
2010	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
		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 30 Equity participation and other compensation plans" to the consolidated financial statements for more information. 4 GEB members who stepped down during 2011.

Loans granted to GEB members on 31 December 2010 / 2011[1]

CHF, except where indicated[a]

Name, function	For the year	Loans[2]
Jürg Zeltner, CEO UBS Wealth Management, co-CEO of Wealth Management & Swiss Bank[3]	2011	5,387,500
Jürg Zeltner, CEO UBS Wealth Management, co-CEO of Wealth Management & Swiss Bank[3]	2010	5,739,862
Aggregate of all GEB members	2011	17,539,601[4]
	2010	20,696,569

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 45,435 in 2011. 3 GEB member with the highest loan granted. 4 Includes a loan of CHF 3.3 million that will be forgiven in three equal installments over the next three years, subject to the GEB member's continued full-time employment with UBS and his performance being satisfactory and commensurate with his responsibilities.

Loans granted to BoD members on 31 December 2010 / 2011[1]

CHF, except where indicated[a]

Name, function	For the year	Loans[2]
Kaspar Villiger, Chairman	2011	0
	2010	0
Michel Demaré, Vice Chairman	2011	850,000
	2010	850,000
David Sidwell, Senior Independent Director	2011	0
	2010	0
Sally Bott, former member[3]	2011	–
	2010	0
Rainer-Marc Frey, member	2011	0
	2010	0
Bruno Gehrig, member[4]	2011	798,000
	2010	798,000
Ann F. Godbehere, member	2011	0
	2010	0
Axel P. Lehmann, member	2011	0
	2010	0
Wolfgang Mayrhuber, member	2011	0
	2010	0
Helmut Panke, member	2011	0
	2010	0
William G. Parrett, member	2011	0
	2010	0
Joseph Yam, member	2011	0
	2010	–
Aggregate of all BoD members	2011	1,648,000
	2010	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 Sally Bott stepped down on 11 February 2011 as BoD member. 4 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, 13 March 2012

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of UBS AG which comprise the balance sheet, income statement and notes on pages 414 to 434 for the year ended 31 December 2011.

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 association. 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.

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the Company's articles of association.

Report on other legal requirements

We confirm that we meet the Swiss 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 in accordance with 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 association. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Jonathan Bourne
Licensed audit expert
(Auditor in charge)

Andreas Loetscher
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 2011 to 31 December 2011 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 1'281'386 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 2012

BDO Ltd

Werner Schiesser
Licensed Audit Expert

Markus Egli
Licensed Audit Expert

BDO Ltd, with its statutory seat in Zurich, is the legally independent Swiss member firm of the international BDO network.

Additional disclosure required under SEC regulations

A – Introduction

The following pages contain additional disclosures about the 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 City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York.

On 29 February 2012, the noon purchase rate was 1.1083 USD per 1 CHF.

Year ended 31 December	High	Low	Average rate[1] (USD per 1 CHF)	At period end
2007	0.9087	0.7978	0.8381	0.8827
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

Month	High	Low
September 2011	1.2719	1.1022
October 2011	1.1616	1.0837
November 2011	1.1353	1.0765
December 2011	1.0947	1.0493
January 2012	1.0939	1.0466
February 2012	1.1174	1.0842

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	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Balance sheet data					
Total assets	**1,419,162**	1,317,247	1,340,538	2,014,815	2,274,891
Equity attributable to UBS shareholders	**53,447**	46,820	41,013	32,531	36,875
Average equity to average assets (%)	**3.5**	3.0	1.9	1.5	1.8
Market capitalization	**42,843**	58,803	57,108	43,519	108,654
Shares					
Registered ordinary shares	**3,832,121,899**	3,830,840,513	3,558,112,753	2,932,580,549	2,073,547,344
Treasury shares	**84,955,551**	38,892,031	37,553,872	61,903,121	158,105,524
Capital strength					
BIS tier 1 ratio, Basel 2.5 (%)[1]	**15.9**				
BIS tier 1 ratio, Basel II (%)[1]	**19.6**	17.8	15.4	11.0	9.1
BIS total ratio, Basel 2.5 (%)[1]	**17.2**				
BIS total ratio, Basel II (%)[1]	**21.6**	20.4	19.8	15.0	12.2
BIS risk-weighted assets, Basel 2.5[1]	**240,962**				
BIS risk-weighted assets, Basel II[1]	**198,494**	198,875	206,525	302,273	374,421
Invested assets (CHF billion)	**2,167**	2,152	2,233	2,174	3,189
Personnel (full-time equivalents)					
Switzerland	**23,188**	23,284	24,050	26,406	27,884
United Kingdom	**6,674**	6,634	6,204	7,071	8,813
Rest of Europe	**4,182**	4,122	4,145	4,817	4,776
Middle East/Africa	**162**	137	134	145	139
United States	**21,746**	22,031	22,702	27,362	29,921
Rest of Americas	**1,177**	1,147	1,132	1,984	2,054
Asia Pacific	**7,690**	7,263	6,865	9,998	9,973
Total	**64,820**	64,617	65,233	77,783	83,560

1 Capital management data as of 31 December 2011 is disclosed in accordance with the Basel 2.5 framework. Comparative data under the new framework is not available for the prior periods. The comparative information under the Basel II framework is therefore provided. Refer to "Capital management" in the "Risk, treasury and capital management" section of this report for more information. The calculation as of 31 December 2007 is based on the Basel I approach.

Income statement data

	For the year ended				
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Interest income	**17,969**	18,872	23,461	65,679	109,112
Interest expense	**(11,143)**	(12,657)	(17,016)	(59,687)	(103,775)
Net interest income	**6,826**	6,215	6,446	5,992	5,337
Credit loss (expense) / recovery	**(84)**	(66)	(1,832)	(2,996)	(238)
Net interest income after credit loss (expense) / recovery	**6,742**	6,149	4,614	2,996	5,099
Net fee and commission income	**15,236**	17,160	17,712	22,929	30,634
Net trading income	**4,343**	7,471	(324)	(25,820)	(8,353)
Other income	**1,467**	1,214	599	692	4,341
Total operating income	**27,788**	31,994	22,601	796	31,721
Total operating expenses	**22,439**	24,539	25,162	28,555	35,463
Operating profit from continuing operations before tax	**5,350**	7,455	(2,561)	(27,758)	(3,742)
Tax expense / (benefit)	**923**	(381)	(443)	(6,837)	1,369
Net profit from continuing operations	**4,426**	7,836	(2,118)	(20,922)	(5,111)
Net profit from discontinued operations	**0**	2	(7)	198	403
Net profit	**4,427**	7,838	(2,125)	(20,724)	(4,708)
Net profit attributable to non-controlling interests	**268**	304	610	568	539
Net profit attributable to UBS shareholders	**4,159**	7,534	(2,736)	(21,292)	(5,247)
Cost / income ratio (%)[1]	**80.5**	76.5	103.0	753.0	111.0
Per share data (CHF)					
Basic earnings per share[2]	**1.10**	1.99	(0.75)	(7.63)	(2.40)
Diluted earnings per share[2]	**1.08**	1.96	(0.75)	(7.63)	(2.41)
Cash dividends declared per share (CHF)[3,4]	**0.10**	N/A	N/A	N/A	N/A
Cash dividends declared per share (USD)[3,4]		N/A	N/A	N/A	N/A
Dividend payout ratio (%)[3,4]	**9.1**	N/A	N/A	N/A	N/A
Rates of return (%)					
Return on equity attributable to UBS shareholders[5]	**8.5**	16.7	(7.8)	(58.7)	(10.5)
Return on average equity	**8.5**	16.6	(7.9)	(60.6)	(10.6)
Return on average assets	**0.3**	0.5	(0.1)	(0.9)	(0.2)

1 Operating expenses / operating income before credit loss expense. 2 For EPS calculation, refer to "Note 8 Earnings per share" in the consolidated Financial Statements. 3 Distributions paid in the form of dividends or capital contributions reserves are normally approved and paid in the year subsequent to the reporting period. 4 For the year 2011, an amount of CHF 0.10 per share will be paid out of capital contribution reserves on 10 May 2012, subject to approval by shareholders at the Annual General Meeting on 3 May 2012. The USD amount per share will be determined on 7 May 2012. For the year 2007, a stock dividend was distributed for which 98,698,754 new shares were issued on 19 May 2008 to UBS shareholders with an exchange ratio of 20:1. 5 Net profit attributable to UBS shareholders / average equity attributable to UBS shareholders. The calculation excludes expected deductions for distributions paid in form of dividends or capital contribution reserves.

Balance sheet data

CHF million	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Assets					
Total assets	**1,419,162**	1,317,247	1,340,538	2,014,815	2,274,891
Due from banks	**23,218**	17,133	16,804	17,694	25,976
Cash collateral on securities borrowed	**58,763**	62,454	63,507	122,897	207,063
Reverse repurchase agreements	**213,501**	142,790	116,689	224,648	376,928
Trading portfolio assets	**181,525**	228,815	232,258	312,054	774,372
of which: pledged as collateral	***39,936***	*61,352*	*44,221*	*40,216*	*114,190*
Positive replacement values	**486,584**	401,146	421,694	854,100	428,217
Cash collateral receivables on derivative instruments	**41,322**	38,071	53,774	85,703	64,978
Loans	**266,604**	262,877	266,477	291,456	271,492
Financial investments available-for-sale	**53,174**	74,768	81,757	5,248	4,966
Other assets	**12,465**	22,681	23,682	19,837	51,417
Liabilities					
Due to banks	**30,201**	41,490	31,922	76,822	121,983
Cash collateral on securities lent	**8,136**	6,651	7,995	14,063	31,621
Repurchase agreements	**102,429**	74,796	64,175	102,561	305,887
Trading portfolio liabilities	**39,480**	54,975	47,469	62,431	164,788
Negative replacement values	**473,400**	393,762	409,943	851,864	443,539
Cash collateral payables on derivative instruments	**67,114**	58,924	66,097	92,937	77,781
Financial liabilities designated at fair value	**88,982**	100,756	112,653	101,546	191,853
Due to customers	**342,409**	332,301	339,263	362,639	496,279
Debt issued	**140,617**	130,271	131,352	197,254	222,077
Other liabilities	**61,692**	63,719	72,344	101,969	153,107
Equity attributable to UBS shareholders	**53,447**	46,820	41,013	32,531	36,875

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 combined fixed charges and preferred stock dividend requirements are not presented as there were no preferred share dividends in any of the periods indicated.

		For the year ended		
31.12.11	31.12.10	31.12.09	31.12.08	31.12.07
1.43	1.53	0.82	0.53	0.96

C – Information on the company

Property, plant and equipment

At 31 December 2011, UBS operated about 877 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, 36% 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 2011, 31 December 2010 and 31 December 2009 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

	31.12.11			31.12.10			31.12.09		
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	**3,465**	**22**	**0.6**	3,037	13	0.4	3,420	56	1.6
Foreign	**17,623**	**142**	**0.8**	14,280	60	0.4	16,194	260	1.6
Cash collateral on securities borrowed and reverse repurchase agreements									
Domestic	**8,025**	**15**	**0.2**	11,277	8	0.1	10,029	30	0.3
Foreign	**281,544**	**1,485**	**0.5**	296,252	1,221	0.4	381,049	2,385	0.6
Trading portfolio assets									
Domestic	**12,821**	**299**	**2.3**	14,150	231	1.6	10,976	228	2.1
Foreign taxable	**189,861**	**5,163**	**2.7**	212,430	5,769	2.7	270,674	6,915	2.6
Foreign non-taxable	**1,313**	**4**	**0.3**	2,033	15	0.7	2,160	7	0.3
Foreign total	**191,174**	**5,167**	**2.7**	214,463	5,784	2.7	272,834	6,922	2.5
Cash collateral receivables on derivative instruments									
Domestic	**21**	**0**							
Foreign	**37,696**	**324**	**0.9**	49,095	306	0.6	68,482	282	0.4
Financial assets designated at fair value									
Domestic	**493**	**0**		568	0		548	0	
Foreign	**8,262**	**248**	**3.0**	9,128	262	2.9	11,674	316	2.7
Loans									
Domestic	**182,125**	**4,604**	**2.5**	179,164	4,921	2.7	179,680	5,676	3.2
Foreign	**82,755**	**2,409**	**2.9**	90,032	2,584	2.9	105,791	4,208	4.0
Financial investments available-for-sale									
Domestic	**3,465**	**4**	**0.1**	1,712	18	1.1	991	21	2.1
Foreign taxable	**60,026**	**611**	**1.0**	74,821	539	0.7	28,295	143	0.5
Foreign non-taxable							0		
Foreign total	**60,026**	**611**	**1.0**	74,821	539	0.7	28,295	143	0.5
Other interest-earning assets									
Domestic				0	0		0	0	
Foreign	**12,001**	**501**	**4.2**	15,227	484	3.2	13,785	517	3.8
Total interest-earning assets	**901,496**	**15,830**	**1.8**	973,206	16,431	1.7	1,103,748	21,044	1.9
Net interest income on swaps		**1,923**			2,234			2,203	
Interest income on off-balance sheet securities		**216**			207			214	
Interest income and average interest-earning assets	**901,496**	**17,969**	**2.0**	973,206	18,872	1.9	1,103,748	23,461	2.1
Non-interest-earning assets									
Positive replacement values	**410,839**			471,046			654,651		
Fixed assets	**5,420**			5,884			6,609		
Other	**88,900**			81,876			86,133		
Total average assets	**1,406,655**			1,532,012			1,851,141		

Average balances and interest rates (continued)

CHF million, except where indicated	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 (%)	31.12.09 Average balance	31.12.09 Interest expense	31.12.09 Average interest rate (%)
Liabilities and equity									
Due to banks									
Domestic	**25,672**	**259**	**1.0**	29,400	253	0.9	36,248	219	0.6
Foreign	**10,250**	**93**	**0.9**	10,318	99	1.0	34,205	245	0.7
Cash collateral on securities lent and repurchase agreements									
Domestic	**8,836**	**12**	**0.1**	12,089	8	0.1	11,321	37	0.3
Foreign	**168,429**	**969**	**0.6**	176,098	893	0.5	195,991	1,760	0.9
Trading portfolio liabilities									
Domestic	**1,095**	**26**	**2.3**	1,068	37	3.5	1,411	55	3.9
Foreign	**52,373**	**2,826**	**5.4**	59,672	3,757	6.3	58,091	3,823	6.6
Cash collateral payables on derivative instruments									
Domestic	**357**			361	0		30	0	
Foreign	**58,731**	**281**	**0.5**	69,223	242	0.3	84,747	278	0.3
Financial liabilities designated at fair value									
Domestic	**1,548**	**10**	**0.7**	878	3	0.3	934	17	1.8
Foreign	**91,920**	**1,982**	**2.2**	108,405	2,389	2.2	106,690	2,838	2.7
Due to customers									
Domestic demand deposits	**95,679**	**132**	**0.1**	85,838	106	0.1	64,872	98	0.2
Domestic savings deposits	**82,004**	**422**	**0.5**	75,802	409	0.5	68,042	521	0.8
Domestic time deposits	**6,672**	**41**	**0.6**	7,977	49	0.6	13,075	451	3.4
Domestic total	**184,355**	**595**	**0.3**	169,617	564	0.3	145,989	1,070	0.7
Foreign [1]	**145,772**	**696**	**0.5**	168,099	756	0.4	220,860	1,971	0.9
Short-term debt									
Domestic	**1,303**	**4**	**0.3**	1,140	9	0.8	971	27	2.8
Foreign	**57,873**	**382**	**0.7**	53,454	394	0.7	85,904	1,280	1.5
Long-term debt									
Domestic	**12,705**	**126**	**1.0**	13,462	142	1.1	11,152	153	1.4
Foreign	**57,830**	**2,394**	**4.1**	68,267	2,661	3.9	76,961	2,771	3.6
Other interest-bearing liabilities									
Domestic				0	0		0	0	
Foreign	**36,926**	**116**	**0.3**	37,996	69	0.2	41,139	90	0.2
Total interest-bearing liabilities	**915,975**	**10,772**	**1.2**	979,547	12,276	1.3	1,112,644	16,634	1.5
Interest expense on off-balance sheet securities		**371**			381			382	
Interest expense and average interest-bearing liabilities	**915,975**	**11,143**		979,547	12,657		1,112,644	17,016	
Non-interest-bearing liabilities									
Negative replacement values	**402,535**			459,987			641,028		
Other	**34,590**			40,418			54,720		
Total liabilities	**1,353,100**			1,479,952			1,808,392		
Total equity	**53,555**			52,060			42,749		
Total average liabilities and equity	**1,406,655**			1,532,012			1,851,141		
Net interest income		**6,826**			6,215			6,446	
Net yield on interest-earning assets			**0.8**			0.6			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 77% for 2011 (78% for 2010 and 81% for 2009). The percentage of total average interest-bearing liabilities attributable to foreign activities was 74% for 2011 (77% for 2010 and 81% for 2009). 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 2011 compared with the year ended 31 December 2010, and for the year ended 31 December 2010 compared with the year ended 31 December 2009. 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.

	2011 compared with 2010			2010 compared with 2009		
	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	2	7	9	(6)	(37)	(43)
Foreign	13	69	82	(31)	(169)	(200)
Cash collateral on securities borrowed and reverse repurchase agreements						
Domestic	(3)	10	7	4	(26)	(22)
Foreign	(59)	323	264	(509)	(655)	(1,164)
Trading portfolio assets						
Domestic	(21)	89	68	67	(64)	3
Foreign taxable	(609)	3	(606)	(1,514)	368	(1,146)
Foreign non-taxable	(5)	(6)	(11)	0	8	8
Foreign total	(614)	(3)	(617)	(1,514)	376	(1,138)
Cash collateral receivables on derivative instruments						
Domestic	0	0	0	0	0	0
Foreign	(68)	86	18	(78)	102	24
Financial assets designated at fair value						
Domestic	0	0	0	0	0	0
Foreign	(25)	11	(14)	(69)	15	(54)
Loans						
Domestic	80	(397)	(317)	(17)	(738)	(755)
Foreign	(211)	36	(175)	(630)	(994)	(1,624)
Financial investments available-for-sale						
Domestic	19	(33)	(14)	15	(18)	(3)
Foreign taxable	(104)	176	72	233	163	396
Foreign non-taxable	0	0	0	0	0	0
Foreign total	(104)	176	72	233	163	396
Other interest-bearing assets						
Domestic	0	0	0	0	0	0
Foreign	(103)	120	17	55	(88)	(33)
Interest income						
Domestic	77	(325)	(248)	63	(883)	(820)
Foreign	(1,171)	818	(353)	(2,543)	(1,250)	(3,793)
Total interest income from interest-earning assets	(1,094)	493	(601)	(2,480)	(2,133)	(4,613)
Net interest on swaps			(311)			31
Interest income on off-balance sheet securities			9			(7)
Total interest income			(903)			(4,589)

Analysis of changes in interest income and expense (continued)

	2011 compared with 2010			2010 compared with 2009		
	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 expense on interest-bearing liabilities						
Due to banks						
Domestic	(34)	40	6	(41)	75	34
Foreign	(1)	(5)	(6)	(167)	21	(146)
Cash collateral on securities lent and repurchase agreements						
Domestic	(3)	7	4	2	(31)	(29)
Foreign	(38)	114	76	(179)	(688)	(867)
Trading portfolio liabilities						
Domestic	1	(12)	(11)	(13)	(5)	(18)
Foreign	(460)	(471)	(931)	104	(170)	(66)
Cash collateral payables on derivative instruments						
Domestic	0	0	0	0	0	0
Foreign	(31)	70	39	(47)	11	(36)
Financial liabilities designated at fair value						
Domestic	2	5	7	(1)	(13)	(14)
Foreign	(363)	(44)	(407)	46	(495)	(449)
Due to customers						
Domestic demand deposits	10	16	26	42	(34)	8
Domestic savings deposits	31	(18)	13	62	(174)	(112)
Domestic time deposits	(8)	0	(8)	(173)	(229)	(402)
Domestic total	33	(2)	31	(69)	(437)	(506)
Foreign	(89)	29	(60)	(475)	(740)	(1,215)
Short-term debt						
Domestic	1	(6)	(5)	5	(23)	(18)
Foreign	31	(43)	(12)	(487)	(399)	(886)
Long-term debt						
Domestic	(8)	(8)	(16)	32	(43)	(11)
Foreign	(407)	140	(267)	(313)	203	(110)
Other interest-bearing liabilities						
Domestic	0	0	0	0	0	0
Foreign	(2)	49	47	(6)	(15)	(21)
Interest expense						
Domestic	(8)	25	17	(85)	(477)	(562)
Foreign	(1,360)	(161)	(1,521)	(1,524)	(2,272)	(3,796)
Total interest-bearing liabilities	(1,368)	(136)	(1,504)	(1,609)	(2,749)	(4,358)
Interest expense on off-balance sheet securities			(10)			(1)
Total interest expense			(1,514)			(4,359)

Deposits

The following table analyzes average deposits and average rates on each deposit category listed below for the years ended 31 December 2011, 2010 and 2009. 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 66,540 million, CHF 63,953 million and CHF 54,957 million at 31 December 2011, 31 December 2010 and 31 December 2009, respectively.

	31.12.11		31.12.10		31.12.09	
CHF million, except where indicated	**Average deposits**	**Average rate (%)**	Average deposits	Average rate (%)	Average deposits	Average rate (%)
Banks						
Domestic offices						
Demand deposits	**1,402**	**0.0**	1,315	0.0	1,154	0.1
Time deposits	**2,063**	**2.8**	1,722	2.1	2,266	0.9
Total domestic offices	**3,465**	**1.6**	3,037	1.2	3,420	0.6
Foreign offices						
Interest-bearing deposits[1]	**17,623**	**1.0**	14,280	1.0	16,194	0.7
Total due to banks[2]	**21,088**	**1.1**	17,317	1.0	19,614	0.7
Customer accounts						
Domestic offices						
Demand deposits	**95,679**	**0.1**	85,838	0.1	64,872	0.2
Savings deposits	**82,004**	**0.5**	75,802	0.5	68,042	0.8
Time deposits	**6,672**	**0.6**	7,977	0.6	13,075	3.4
Total domestic offices	**184,355**	**0.3**	169,617	0.3	145,989	0.7
Foreign offices						
Demand deposits	**34,414**	**0.1**	35,588	0.2	29,725	0.8
Time and savings deposits[1]	**111,358**	**0.6**	132,511	0.5	191,135	0.9
Total foreign offices	**145,772**	**0.5**	168,099	0.4	220,860	0.9
Total due to customers	**330,127**	**0.4**	337,716	0.4	366,849	0.8

1 Mainly time deposits. 2 Due to banks is considered to represent short-term borrowings to the extent 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 2011, the maturity of time deposits was as follows:

CHF million	**Domestic**	**Foreign**
Within 3 months	**6,479**	**80,330**
3 to 6 months	**1,066**	**5,870**
6 to 12 months	**437**	**2,971**
1 to 5 years	**285**	**972**
Over 5 years	**103**	**96**
Total time deposits	**8,370**	**90,239**

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 2011, 2010 and 2009.

	Short-term debt			Due to banks[1]			Repurchase agreements[2]		
CHF million, except where indicated	**31.12.11**	31.12.10	31.12.09	**31.12.11**	31.12.10	31.12.09	**31.12.11**	31.12.10	31.12.09
Period-end balance	**71,377**	56,039	51,579	**6,966**	24,332	15,086	**152,121**	150,024	136,811
Average balance	**59,175**	54,594	86,875	**14,834**	22,401	50,838	**170,442**	178,458	195,613
Maximum month-end balance	**71,377**	64,941	125,812	**20,080**	37,886	70,985	**194,684**	207,828	272,443
Average interest rate during the period (%)	**0.7**	0.7	1.5	**1.0**	0.9	0.7	**0.4**	0.4	0.7
Average interest rate at period-end (%)	**0.7**	0.7	0.9	**1.0**	1.0	0.6	**0.3**	0.4	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		**Over 1 up to 5 years**		**Over 5 up 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**
Other debt instruments								
Total fair value[3]	**32,326**		**9,951**		**1,166**		**8,573**	

	Within 1 year		Over 1 up to 5 years		Over 5 up 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**	

	Within 1 year		Over 1 up to 5 years		Over 5 up to 10 years		Over 10 years	
CHF million, except percentages	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
31 December 2009								
Swiss national government and agencies	623	0.47	16	2.27	6	1.11	1	4.00
US Treasury and agencies	41,451	0.16	5,044	0.02				
Foreign governments and official institutions	28,861	0.30	96	2.75	25	1.88	18	3.66
Corporate debt securities[4]	1,139	0.11	1,808	0.10	0	21.80	3	21.80
Mortgage-backed securities	27	0.00	3	4.87	25	3.75	752	0.43
Other debt instruments	98	2.80	3	1.21				
Total fair value	**72,199**		**6,970**		**56**		**774**	

1 Debt instruments without fixed maturities are not disclosed in this table. 2 Average yields are calculated on an amortized cost basis. 3 Includes CHF 25,677 million of investments in debt instruments issued by US government and government agencies and CHF 8,854 million of investments in debt instruments issued by Japanese government and government agencies as of 31 December 2011. 4 Absolute Return Bonds (ARBs) had been purchased below par and therefore generated a yield of 15.8% in 2010 (21.8% in 2009).

Due from banks and loans (gross)

The Group's lending portfolio is widely diversified across industry sectors with no significant concentrations of credit risk. CHF 161.7 billion (55.6% 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 66.3 billion (22.8% 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 December 2011 is CHF 14.3 billion (4.9% 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 2011, 2010, 2009, 2008 and 2007. 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	31.12.11	31.12.10	31.12.09	31.12.08	31.12.07
Domestic					
Banks[1]	566	1,130	609	1,056	735
Construction	1,292	1,356	1,381	1,554	1,594
Financial institutions	4,257	3,735	4,370	5,984	5,322
Hotels and restaurants	1,831	1,803	1,882	1,811	1,824
Manufacturing	3,252	3,192	3,374	3,739	3,768
Private households	120,671	119,796	119,432	119,285	121,536
Public authorities	2,992	4,908	3,785	4,042	4,734
Real estate and rentals	13,169	12,252	11,745	11,921	11,489
Retail and wholesale	4,433	4,101	4,288	4,781	4,647
Services	5,770	5,718	5,702	5,935	5,875
Other[2]	3,131	3,117	3,423	3,523	3,712
Total domestic	161,364	161,108	159,991	163,632	165,235
Foreign					
Banks[1]	22,669	16,028	16,227	16,659	25,269
Chemicals	392	351	2,358	2,765	635
Construction	750	952	741	566	848
Electricity, gas and water supply	746	525	653	1,064	789
Financial institutions	38,802	41,307	43,345	60,198	36,389
Manufacturing	1,955	2,010	2,547	4,126	3,743
Mining	1,979	2,463	2,217	2,859	3,412
Private households	41,045	31,361	33,166	33,216	42,219
Public authorities	5,459	9,858	10,781	8,075	2,739
Real estate and rentals	2,158	1,420	1,110	3,821	4,595
Retail and wholesale	2,044	1,711	1,438	1,873	1,807
Services	8,529	9,534	8,180	9,530	8,502
Transport, storage and communication	2,068	1,652	2,474	3,115	1,345
Other[3]	703	841	734	577	970
Total foreign	129,300	120,014	125,969	148,444	133,263
Total gross	290,664	281,121	285,960	312,076	298,498

1 Includes Due from banks and Loans from Industrial Holdings of CHF 27 million at 31 December 2007. 2 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 3 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 2011, 2010, 2009, 2008 and 2007. Mortgages are included in the industry categories mentioned on the previous page.

CHF million	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Mortgages					
Domestic	**138,204**	136,687	136,029	134,700	135,341
Foreign	**8,818**	6,174	4,972	8,381	8,152
Total gross mortgages	**147,022**	142,861	141,001	143,081	143,493
Mortgages					
Residential	**125,775**	122,499	121,031	121,811	122,435
Commercial	**21,247**	20,362	19,970	21,270	21,058
Total gross mortgages	**147,022**	142,861	141,001	143,081	143,493

Due from banks and loan maturities (gross)

CHF million	Within 1 year	1 to 5 years	Over 5 years	**Total**
Domestic				
Banks	520	27	19	**566**
Mortgages	56,619	56,473	25,112	**138,204**
Other loans	17,474	3,890	1,230	**22,594**
Total domestic	74,613	60,390	26,361	**161,364**
Foreign				
Banks	21,894	716	59	**22,669**
Mortgages	6,214	1,598	1,006	**8,818**
Other loans	69,237	16,354	12,222	**97,813**
Total foreign	97,345	18,668	13,287	**129,300**
Total gross	171,958	79,058	39,648	**290,664**

At 31 December 2011, 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	71,884	28,232	**100,116**
Adjustable or floating-rate loans	7,174	11,416	**18,590**
Total	79,058	39,648	**118,706**

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.

The table below provides an analysis of the Group's non-performing loans. For further information, see "Credit risk" in the "Risk, treasury and capital management" section of this report.

CHF million	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Non-performing loans:					
Domestic	**1,199**	1,164	1,462	1,431	1,349
Foreign	**329**	563	3,940	3,272	132
Total non-performing loans	**1,529**	1,727	5,402	4,703	1,481

CHF million	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Gross interest income that would have been recorded on non-performing loans:					
Domestic	**10**	11	13	16	39
Foreign	**9**	35	89	7	6
Interest income included in Net profit for non-performing loans:					
Domestic	**29**	35	41	32	40
Foreign	**6**	19	30	6	2

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 2011, 2010, 2009, 2008 or 2007.

In addition to the non-performing loans shown above, the Group has CHF 626 million, CHF 2,466 million, CHF 1,463 million, CHF 4,442 million and CHF 911 million in "other impaired loans" for the years ended 31 December 2011, 2010, 2009, 2008 and 2007, respectively.

Other impaired loans are loans where the Group's credit officers have expressed doubts as to the ability of the borrowers to repay the loans. For the years ended 31 December 2011, 2010, 2009, 2008 and 2007, they are loans not considered "non-performing" in accordance with Swiss regulatory guidelines. As of 31 December 2011, 31 December 2010, 31 December 2009, 31 December 2008 and 31 December 2007, specific allowances of CHF 308 million, CHF 536 million, CHF 410 million, CHF 941 million and CHF 124 million, respectively, had been established against these loans.

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.

Effective 2011, UBS has revised its basis for the disclosure of cross-border outstandings. Cross-border outstandings presented below generally reflect our gross exposure. Previously, our disclosures were based on UBS's internal risk view, which considered the risk-reducing effect of collateral and other credit enhancements. In previous years, cross-border outstandings also included exposures in relation to over-the-counter (OTC) derivatives and exchange-traded (ETD) derivatives, which were represented as a credit equivalent based on UBS's internal risk measures, as well as exposures related to debt securities. UBS revised these disclosures in order to better align with the financial statement presentation. Prior periods have been restated to reflect the new basis for disclosure.

The following tables list those countries for which cross-border outstandings exceeded 0.75% of total IFRS assets at 31 December 2011, 2010 and 2009. As of 31 December 2011, 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 the "Credit risk" section of this report.

	31.12.11					
CHF million	**Banks**	**Private sector**	**Public sector**	**Total outstandings**	**% of total assets**	**Guarantees and Commitments[1]**
United States	**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]
United States	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

	31.12.09					
CHF million	Banks	Private sector	Public sector	Total outstandings	% of total assets	Guarantees and Commitments[2]
United States	41,295	100,098	16,978	158,370	11.8	38,140
United Kingdom	16,622	37,363	1,931	55,917	4.2	5,088
Germany	3,997	5,542	5,120	14,660	1.1	4,045
France	9,834	4,170	226	14,230	1.1	2,659

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	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Balance at beginning of year	**1,287**	2,820	3,070	1,164	1,332
Domestic					
Write-offs					
Construction	**(8)**	(8)	(15)	(6)	(9)
Financial institutions	**(17)**	(47)	(2)	(37)	(9)
Hotels and restaurants	**0**	(1)	(2)	(3)	(8)
Manufacturing	**(31)**	(28)	(21)	(24)	(14)
Private households	**(59)**	(66)	(61)	(112)	(69)
Public authorities	**0**	0	0	0	(1)
Real estate and rentals	**(3)**	(2)	(19)	(10)	(26)
Retail and wholesale	**(37)**	(117)	(41)	(4)	(62)
Services	**(21)**	(49)	(3)	(7)	(17)
Other[1]	**(6)**	(16)	(12)	(8)	(54)
Total gross domestic write-offs	**(183)**	(332)	(177)	(210)	(268)
Foreign					
Write-offs					
Banks	**(8)**	(2)	(8)	(134)	(1)
Chemicals	**0**	(846)	(111)	(1)	0
Construction	**0**	0	(10)	0	0
Financial institutions	**(39)**	(267)	(685)	(501)	(15)
Manufacturing	**0**	(22)	(138)	(6)	(21)
Mining	**0**	0	(5)	0	0
Private households	**(72)**	(21)	(40)	(4)	(14)
Public authorities	**(175)**	(1)	(20)	(2)	(2)
Real estate and rentals	**(7)**	(1)	(196)	(1)	0
Retail and wholesale	**0**	(1)	(122)	0	0
Services	**(1)**	(9)	(413)	0	0
Transport, storage and communication	**0**	(3)	(37)	(6)	0
Other[2]	**0**	0	(80)	(1)	0
Total gross foreign write-offs	**(303)**	(1,173)	(1,865)	(658)	(53)
Total usage of provisions	**(14)**	0	(5)	0	0
Total write-offs / usage of provisions	**(501)**	(1,505)	(2,046)	(868)	(321)
Recoveries					
Domestic	50	38	44	43	52
Foreign	1	41	8	1	3
Total recoveries	**51**	79	52	44	55
Total net write-offs / usage of provisions	**(450)**	(1,427)	(1,994)	(824)	(266)
Increase / (decrease) in specific allowances and provisions recognized in the income statement	**0**	67	1,806	3,007	242
Increase / (decrease) in collective loan loss allowances recognized in the income statement	**84**	(2)	26	(11)	(4)
Foreign currency transaction	**17**	(173)	(37)	(43)	(9)
Other adjustments recognized in the income statement	**0**	0	(51)[3]	(223)[3]	(131)
Balance at end of year[4]	**938**	1,287	2,820	3,070	1,164

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 Included 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 2011, 2010, 2009, 2008 and 2007. 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	**31.12.11**	31.12.10	31.12.09	31.12.08	31.12.07
Domestic					
Banks	**1**	1	1	16	10
Construction	**15**	23	27	39	43
Financial services	**19**	28	126	18	52
Hotels and restaurants	**6**	5	6	8	10
Manufacturing	**65**	93	104	84	98
Private households	**77**	91	119	125	190
Public authorities	**0**	0	1	1	1
Real estate and rentals	**14**	19	21	50	57
Retail and wholesale	**131**	165	221	262	247
Services	**24**	45	99	79	87
Other[1]	**28**	27	43	47	53
Total domestic specific allowances	**379**	497	768	729	848
Foreign					
Banks[2]	**16**	23	31	6	35
Chemicals	**8**	8	1,037	960	1
Construction	**6**	2	1	8	1
Electricity, gas and water supply	**1**	0	0	2	3
Financial services	**96**	190	414	530	96
Manufacturing	**23**	15	83	25	13
Mining	**0**	0	0	4	0
Private households	**60**	139	171	226	13
Public authorities	**33**	171	18	19	20
Real estate and rentals	**10**	15	36	208	8
Retail and wholesale	**15**	8	17	81	4
Services	**28**	12	100	205	7
Transport, storage and communication	**39**	29	7	1	1
Other[3]	**0**	0	0	12	17
Total foreign specific allowances	**335**	613	1,913	2,287	219
Collective loan loss allowances	**131**	47	49	23	34
Provisions for loan commitments and guarantees	**93**	130	90	31	63
Total allowances and provisions for credit losses[4]	**938**	1,287	2,820	3,070	1,164

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 %	31.12.11	31.12.10	31.12.09	31.12.08	31.12.07
Domestic					
Banks[1]	0.2	0.4	0.2	0.3	0.2
Construction	0.4	0.5	0.5	0.5	0.5
Financial services	1.5	1.3	1.5	1.9	1.8
Hotels and restaurants	0.6	0.6	0.7	0.6	0.6
Manufacturing	1.1	1.1	1.2	1.2	1.3
Private households	41.5	42.6	41.8	38.2	40.7
Public authorities	1.0	1.7	1.3	1.3	1.6
Real estate and rentals	4.5	4.4	4.1	3.8	3.8
Retail and wholesale	1.5	1.5	1.5	1.5	1.6
Services	2.0	2.0	2.0	1.9	2.0
Other[2]	1.1	1.1	1.2	1.1	1.2
Total domestic	55.5	57.3	55.9	52.4	55.4
Foreign					
Banks[1]	7.8	5.7	5.7	5.3	8.5
Chemicals	0.1	0.1	0.8	0.9	0.2
Construction	0.3	0.3	0.3	0.2	0.3
Electricity, gas and water supply	0.3	0.2	0.2	0.3	0.3
Financial services	13.3	14.7	15.2	19.3	12.2
Manufacturing	0.7	0.7	0.9	1.3	1.3
Mining	0.7	0.9	0.8	0.9	1.1
Private households	14.1	11.2	11.6	10.6	14.1
Public authorities	1.9	3.5	3.8	2.6	0.9
Real estate and rentals	0.7	0.5	0.4	1.2	1.5
Retail and wholesale	0.7	0.6	0.5	0.6	0.6
Services	2.9	3.4	2.9	3.1	2.8
Transport, storage and communication	0.7	0.6	0.9	1.0	0.5
Other[3]	0.2	0.3	0.3	0.2	0.3
Total foreign	44.5	42.7	44.1	47.6	44.6
Total gross	100.0	100.0	100.0	100.0	100.0

1 Includes Due from banks and Loans from industrial holdings of CHF 27 million at 31 December 2007. 2 Includes chemicals, food and beverages, transportation, storage, mining, electricity, gas and water supply. 3 Includes food and beverages, hotels and restaurants.

Loss history statistics

CHF million, except where indicated	31.12.11	31.12.10	31.12.09	31.12.08	31.12.07
Due from banks and loans (gross)	290,664	281,121	285,960	312,076	298,498
Impaired loans (including due from banks)	2,155	4,193	6,865	9,145	2,392
Non-performing loans (including due from banks)	1,529	1,727	5,402	4,703	1,481
Allowances and provisions for credit losses[1, 2]	938	1,287	2,820	3,070	1,164
of which: allowances for due from banks and loans[1]	*842*	*1,111*	*2,680*	*2,927*	*1,031*
Net write-offs[3]	449	1,427	1,994	824	266
of which: net write-offs for due from banks and loans	*413*	*1,428*	*1,882*	*212*	*266*
Credit loss (expense) / recovery[4]	(84)	(66)	(1,832)	(2,996)	(238)
of which: credit loss (expense) / recovery for due from banks and loans	*(126)*	*(24)*	*(1,776)*	*(2,329)*	*(172)*
Ratios					
Impaired loans as a percentage of due from banks and loans (gross)	0.7	1.5	2.4	2.9	0.8
Non-performing loans as a percentage of due from banks and loans (gross)	0.5	0.6	1.9	1.5	0.5
Allowances as a percentage of due from banks and loans (gross)	0.3	0.4	0.9	0.9	0.3
Net write-offs as a percentage of average due from banks and loans (gross) outstanding during the period	0.1	0.5	0.6	0.1	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.

UBS registered shares

UBS share price chart vs Dow Jones Banks Titans 30 Index

UBS shares and market capitalization

	As of			% change from
	31.12.11	31.12.10	31.12.09	31.12.10
Share price (CHF)	**11.18**	15.35	16.05	(27)
Market capitalization (CHF million)[1]	**42,843**	58,803	57,108	(27)

1 Market capitalization is calculated based on the total UBS ordinary shares issued multiplied by the UBS share price at period end. The total UBS ordinary shares issued as of 31 December 2009 do not reflect the 272.7 million UBS shares issued through the conversion of mandatory convertible notes placed with two investors in March 2008 and converted in March 2010. Refer to "Note 8 Earnings per share (EPS) and shares outstanding" in the "Financial information" section of this report for more information.

UBS ordinary shares are registered shares with a par value of CHF 0.10 per share. They are issued in the form of global registered shares. A global registered share is a security that provides direct and equal ownership for all shareholders. It can be traded and transferred across applicable borders without the need for conversion, with identical shares traded on different stock exchanges in different currencies. The shares are currently listed on the SIX Swiss Exchange and the New York Stock Exchange.

➔ **Refer to the "Capital structure" section of this report for more information on our shares, including par value, type and rights of security**

Over the course of 2011, UBS shares declined 27% on the SIX and 28% in US dollar terms on the NYSE. The global banking sector as measured by the Dow Jones Banks Titans 30 Index declined 24% in Swiss franc terms and 25% in US dollar terms.

Ticker symbols

Trading exchange	Bloomberg	Reuters
SIX	UBSN VX	UBSN.VX
NYSE	UBS UN	UBS.N

Security identification codes

ISIN	**CH0024899483**
Valoren	**2489948**
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 UBS 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 and Board of Directors compensation; 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 compensation for senior management and the Board of Directors (non-independent and independent). 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: press 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 *http://www.ubs.com/investors* 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.

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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Investor Relations
UBS's Investor Relations team supports institutional, professional and retail investors from our offices in Zurich and New York.

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UBS's Media Relations team supports global media and journalists from offices in Zurich, London, New York and Hong Kong.

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The Company Secretary receives queries on compensation and related issues addressed to members of the Board of Directors.

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UBS's Shareholder Services team, a unit of the Company Secretary office, is responsible for the registration of the global registered shares.

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Corporate calendar

Publication of first quarter 2012 results
Wednesday, 2 May 2012

Annual General Meeting
Thursday, 3 May 2012

Publication of second quarter 2012 results
Tuesday, 31 July 2012

Publication of third quarter 2012 results
Tuesday, 30 October 2012

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SIGNATURE PAGE

Signed on behalf of the UBS AG,
22 May 2013:

UBS AG

By:

(signed by Philippe Adam)

By:

(signed by Stefanie Ganz)