BASE LISTING DOCUMENT DATED 10 APRIL 2012

If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

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Base Listing Document relating to Structured Products to be issued by

UBS AG

(incorporated with limited liability in Switzerland)
acting through its London Branch

Sponsor

UBS Securities Asia Limited

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and is published for the purpose of giving information with regard to us and our warrants ("**Warrants**"), callable bull/bear contracts ("**CBBCs**") and other structured products (together, "**Structured Products**") to be listed on the Stock Exchange from time to time. This document may be updated and/or amended from time to time by way of addenda.

We accept full responsibility for the accuracy of the information contained in this document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this document misleading.

The Structured Products involve derivatives. Do not invest in them unless you fully understand and are willing to assume the risks associated with them.

Investors are warned that the price of the Structured Products may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. Prospective purchasers should therefore ensure that they understand the nature of the Structured Products and carefully study the risk factors set out in this document and, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general unsecured contractual obligations and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index.

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What is this document about?

This document is for information purposes only and does not constitute an offer, an advertisement or invitation to the public to subscribe for or to acquire any Structured Products.

What documents should you read before investing in the Structured Products?

A supplemental listing document will be issued on the issue date of each series of Structured Products, which will include detailed commercial terms of the relevant series. You must read this document (including any addendum to this document to be issued from time to time) together with such supplemental listing document (including any addendum to such supplemental listing document to be issued from time to time) (together, the "**Listing Documents**") before investing in any Structured Product. You should carefully study the risk factors set out in the Listing Documents.

What are our credit ratings?

Our long term debt ratings are:

Rating agency	*Rating as of 9 April 2012*
Moody's Investors Service, Inc., New York	Aa3
Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc.	A
Fitch Ratings Ltd., London	A

Rating agencies usually receive a fee from the issuers that they rate.

When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the Structured Products;
- ratings of issuers may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and
- a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the date of this document are for reference only. Any downgrading of our ratings could result in a reduction in the value of the Structured Products.

The Structured Products are not rated.

Are we regulated by any bodies referred to in Rule 15A.13(2) or (3) of the Listing Rules?

We are a licensed bank regulated by the Hong Kong Monetary Authority. We are also regulated by, among others, the Swiss Financial Market Supervisory Authority and the Financial Services Authority of United Kingdom.

Are we subject to any litigation?

Save as disclosed in the paragraph headed "Updated information concerning the Issuer's litigation and regulatory matters and other contingent liabilities" under the section headed "Information in relation to us" in this document, we and our subsidiaries are not aware of any litigation or claims of material importance pending or threatened against us or them.

Authorisation for the issue of the Structured Products

The issue of the Structured Products was authorised by our board of directors on 19 September 2001.

Has our financial position changed since last financial year-end?

There has been no material adverse change in our financial or trading position since 31 December 2011.

Do you need to pay any transaction cost?

The Stock Exchange charges a trading fee of 0.005 per cent. and the Securities and Futures Commission charges a transaction levy of 0.003 per cent. in respect of each transaction effected on the Stock Exchange payable by each of the

seller and the buyer and calculated on the value of the consideration for the Structured Products. The levy for the investor compensation fund is currently suspended.

Do you need to pay any tax?

Taxation in Hong Kong

No tax is payable in Hong Kong by way of withholding or otherwise in respect of any capital gains arising on the sale of the Structured Products, except that Hong Kong profits tax may be chargeable on any such gains, which is considered as trading gain, in the case of certain persons carrying on a trade, profession or business in Hong Kong.

You do not need to pay any stamp duty in respect of purely cash settled Structured Products.

Taxation in Switzerland

Under present Swiss law, if you are a non-resident of Switzerland and have not engaged in trade or business through a permanent establishment within Switzerland during the taxable year, you will not be subject to any Swiss Federal, Cantonal or Municipal income or other tax on gains realised during the year on the sale or redemption of the Structured Products.

If you are an individual resident in a member state of the European Union or if you are a citizen of such state, transfers and redemptions of certain Structured Products which wholly or partly qualify as debt claims and any other distribution of interest on debt claims through a paying agent resident in Switzerland may be subject to interest tax withholding in Switzerland.

There is no tax liability in Switzerland in connection with the issue of the Structured Products. However, Structured Products subscribed, transferred or redeemed through a bank or other dealer resident in Switzerland or Liechtenstein may be subject to securities transfer tax.

The above information is of a general nature only and is not intended to be a comprehensive description of all potential relevant tax considerations. We do not provide any tax advice for the Structured Products. Tax treatment depends on the individual circumstances of each client and clients must therefore seek their own tax advice from a reputable service provider. Prior to entering into a transaction you should consult with your own legal, regulatory, tax, financial and accounting advisors to the extent you consider it necessary, and make your own investment, hedging and trading decisions (including decisions regarding the suitability of this transaction) based upon your own judgment and advice from those advisors you consider necessary.

Placing, sale and grey market dealings

No offers, sales, re-sales, transfers or deliveries of any Structured Products, or distribution of any offering material relating to the Structured Products may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and which will not impose any obligation on us. See the section "Placing and Sale" for further information.

Following the launch of a series of Structured Products, we may place all or part of that series with our related party.

The Structured Products may be sold to investors in the grey market in the period between the launch date and the listing date. We will report any dealings in Structured Products by us and/or any of our subsidiaries or associated companies in the grey market to the Stock Exchange on the listing date through the website of HKEx at *www.hkex.com.hk*.

Where can you inspect the relevant documents?

The following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of UBS Securities Asia Limited:

(a) our 2011 annual report;

(b) consent letter of our auditors, Ernst & Young Ltd. ("**Auditors**");

(c) this document and any addendum to this document;

(d) the supplemental listing document as long as the relevant series of Structured Products is listed on the Stock Exchange; and

(e) the instrument executed by us by way of deed poll on 10 April 2006 which constitutes the Structured Products.

Requests for photocopies of the above documents will be subject to a reasonable fee which reflects the cost of making such copies.

The Listing Documents are also available on the website of HKEx at *http://www.hkexnews.hk*.

各上市文件亦可於香港交易所披露易網站 *http://www.hkexnews.hk/index_c.htm* 瀏覽。

Have the Auditors consented to the inclusion of their report to the Listing Documents?

Our Auditors have given and have not withdrawn their written consent to the inclusion of their report dated 13 March 2012 and/or the references to their name in this document, in the form and context in which they are included. Their report was not prepared exclusively for incorporation into this document. The Auditors do not hold our shares or shares in our subsidiaries, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities of any of our subsidiaries.

Authorised representatives

Clara Au and Johnny Yu, both of 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong, are our authorised representatives and are authorised to accept services on our behalf in Hong Kong.

How can you get further information about UBS AG or the Structured Products?

You may visit *www.ubs.com/hkwarrants* to obtain further information about us and/or the Structured Products.

Governing law of the Structured Products

All contractual documentation for the Structured Products will be governed by, and construed in accordance with, the laws of Hong Kong.

The Listing Documents are not the sole basis for making an investment decision

The Listing Documents do not take into account your investment objectives, financial situation or particular needs. Nothing in the Listing Documents should be construed as a recommendation by us or our affiliates to invest in the Structured Products or the underlying asset of the Structured Products.

No person has been authorised to give any information or to make any representations other than those contained in this document in connection with the Structured Products, and, if given or made, such information or representations must not be relied upon as having been authorised by us.

HKEx, the Stock Exchange and HKSCC have made no assessment of, nor taken any responsibility for, our financial soundness or the merits of investing in any Structured Products, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

Capitalised terms

Unless otherwise specified, capitalised terms used in this document have the meanings set out in the terms and conditions of the relevant series of Structured Products set out in Appendix 1 and Appendix 2 (together, the "**Conditions**").

PLACING AND SALE

General

No action has been or will be taken by us that would permit a public offering of any series of Structured Products or possession or distribution of any offering material in relation to any Structured Products in any jurisdiction (other than Hong Kong) where action for the purpose is required.

United States of America

Each series of Structured Products has not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Structured Products or interests therein, may not at any time be offered, sold, resold, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Structured Products, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. No person will offer, sell, re-sell, transfer or deliver any Structured Products within the United States or to U.S. persons, except as permitted by the base placing agreement between us and the Sponsor, acting as manager. As used herein, "**United States**" means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and "**U.S. person**" means any national or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other U.S. person as such term is defined in Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer, sale, re-sale, transfer or delivery of Structured Products within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), no offer of Structured Products which are the subject of the offering contemplated by this Base Listing Document as completed by the relevant Supplemental Listing Document in relation thereto to the public in that Relevant Member State has been, or will be, made except for, with effect from and including the Relevant Implementation Date, an offer of Structured Products to the public in that Relevant Member State:

(a) if the Supplemental Listing Document in relation to the Structured Products specifies that an offer of those Structured Products may be made other than pursuant to Article 3(2) of the Prospectus Directive in that Relevant Member State (a Non-exempt Offer), following the date of publication of a prospectus in relation to such Structured Products which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, provided that any such prospectus has subsequently been completed by the Supplemental Listing Document contemplating such Non-exempt Offer, in accordance with the Prospectus Directive, in the period beginning and ending on the dates specified in such prospectus or Supplemental Listing Document, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in

the Prospectus Directive) subject to obtaining prior consent of the relevant dealer or dealers nominated by the Issuer for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Structured Products referred to in (b) to (d) above shall require us or any dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Structured Products to the public**" in relation to any Structured Products in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Structured Products to be offered so as to enable you to decide to purchase or subscribe the Structured Products, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression "**2010 PD Amending Directive"** means Directive 2010/73/EU.

United Kingdom

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (as amended) ("**FSMA**")) in connection with the issue or sale of the Structured Products has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA would not, if we were not an authorised person, apply to us. All applicable provisions of the FSMA have been complied with, and will be complied with, with respect to anything done by it in relation to any Structured Products in, from or otherwise involving the United Kingdom.

Switzerland

This document does not constitute an offer and does not constitute a prospectus within the meaning of the laws of Switzerland. The Structured Products may not be offered or sold directly or indirectly in Switzerland, except in circumstances which will not result in a public offering within the meaning of the laws of Switzerland. Some or all of the Structured Products constitute structured products within the meaning of Article 5 of the Swiss Federal Act on Collective Investment Schemes (CISA). The Structured Products do not constitute collective investment schemes within the meaning of the CISA and are not subject to the supervision of the Swiss Financial Market Supervisory Authority. Therefore, investors in the Structured Products are not eligible for the specific investor protection under the CISA.

OVERVIEW OF WARRANTS

What is a derivative warrant?

A derivative warrant linked to a share, a unit, an index or other asset (each an "**Underlying Asset**") is an instrument which gives the holder a right to "buy" or "sell" the Underlying Asset at, or derives its value by reference to, a pre-set price or level called the Exercise Price/Strike Level on the Expiry Date. It usually costs a fraction of the value of the Underlying Asset.

A derivative warrant may provide leveraged return to you (but conversely, it could also magnify your losses).

How and when can you get back your investment?

Our Warrants are European style warrants. That means they can only be exercised on the Expiry Date. A warrant will, upon exercise on the Expiry Date, entitle the holder to a cash amount called the "**Cash Settlement Amount**" (if positive) according to the Conditions of that warrant.

You will receive the Cash Settlement Amount less any Exercise Expenses upon settlement at expiry. If the Cash Settlement Amount is equal to or less than the Exercise Expenses, no amount is payable to you upon expiry.

How do our warrants work?

Ordinary warrants

The potential payoff of an ordinary warrant is calculated by us by reference to the difference between:

(a) for a warrant linked to a security, the Exercise Price and the Average Price; and

(b) for a warrant linked to an index, the Strike Level and the Closing Level.

Call warrants

A call warrant is suitable for an investor holding a bullish view of the price or level of the Underlying Asset during the term of the warrant.

A call warrant will be exercised if the Average Price/Closing Level is greater than the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level exceeds the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Average Price/Closing Level is at or below the Exercise Price/Strike Level (as the case may be), an investor in the call warrant will lose all of his investment.

Put warrants

A put warrant is suitable for an investor holding a bearish view of the price or level of the Underlying Asset during the term of the warrant.

A put warrant will be exercised if the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be). The more the Average Price/Closing Level is below the Exercise Price/Strike Level (as the case may be), the higher the payoff upon expiry. If the Exercise Price/ Strike Level is at or below the Average Price/Closing Level (as the case may be), an investor in the put warrant will lose all of his investment.

Other types of warrants

The supplemental listing document applicable to other types of warrants will specify the type of such warrants and whether such warrants are exotic warrants.

The Conditions applicable to each type of our warrants are set out in Parts A to C of Appendix 1 (as may be supplemented by any addendum or the relevant supplemental listing document).

What are the factors determining the price of a derivative warrant?

The price of a warrant generally depends on the prevailing price or level of the Underlying Asset. However, throughout the term of a warrant, its price will be influenced by a number of factors, including:

(a) the Exercise Price or Strike Level;

(b) the volatility of the price or level of the Underlying Asset (being a measure of the fluctuation in the price or level of the Underlying Asset);

(c) the time remaining to expiry: generally, the longer the remaining life of a warrant, the greater its value;

(d) interest rates;

(e) expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index;

(f) the supply and demand for the warrants; and

(g) our creditworthiness.

What is your maximum loss?

Your maximum loss in warrants will be limited to your investment amount plus any transaction cost.

How can you get information about the warrants after issue?

You may visit the website of HKEx at *http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm* to obtain further information on derivative warrants or any notice given by us or the Stock Exchange in relation to our warrants.

OVERVIEW OF CBBCs

What are CBBCs?

CBBCs are a type of Structured Products that track the performance of an Underlying Asset. CBBCs can be issued on different types of Underlying Assets as prescribed by the Stock Exchange from time to time, including:

(a) shares listed on the Stock Exchange;

(b) Hang Seng Index, Hang Seng China Enterprises Index and Hang Seng China H-Financials Index;

(c) unit trusts listed on the Stock Exchange; and/or

(d) overseas shares, indices, currencies or commodities (such as oil, gold and platinum).

A list of eligible Underlying Assets for CBBCs is available on the website of HKEx at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/underlying_latest.htm.*

CBBCs are issued either as callable bull contracts ("**bull CBBCs**") or callable bear contracts ("**bear CBBCs**"), allowing you to take either bullish or bearish positions on the Underlying Asset. Bull CBBCs are designed for investors who have an optimistic view on the Underlying Asset. Bear CBBCs are designed for investors who have a pessimistic view on the Underlying Asset.

Your maximum potential loss in a series of CBBCs is limited to the purchase price, which is generally a fraction of the value of the Underlying Asset, for the CBBCs plus the cost involved in your purchase.

CBBCs have a mandatory call feature (the "**Mandatory Call Event**") and, subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate our CBBCs upon the occurrence of a Mandatory Call Event. See "What are the mandatory call features of CBBCs?" below.

There are 2 categories of CBBCs, namely:

(a) Category R CBBCs; and

(b) Category N CBBCs.

Your entitlement following the occurrence of a Mandatory Call Event will depend on the category of the CBBCs.

If no Mandatory Call Event occurs, the CBBCs will be exercised automatically on the Expiry Date by payment of a Cash Settlement Amount (if any) on the Settlement Date. The Cash Settlement Amount (if any) payable at expiry represents the difference between the Closing Price/Closing Level of the Underlying Asset on the Valuation Date and the Strike Price/Strike Level.

The Conditions applicable to CBBCs are set out in Parts A, B and C of Appendix 2.

What are the mandatory call features of CBBCs?

Mandatory Call Event

Subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed, we must terminate the CBBCs if a Mandatory Call Event occurs. A Mandatory Call Event occurs if the Spot Price/Spot Level of the Underlying Asset is:

(a) at or below the Call Price/Call Level (in the case of a bull CBBC); or

(b) at or above the Call Price/Call Level (in the case of a bear CBBC),

at any time during the Observation Period.

The Observation Period starts from and including the Observation Commencement Date of the relevant CBBCs and ends on and including the Trading Day immediately preceding the Expiry Date.

Subject to the limited circumstances set out in the relevant Conditions in which a Mandatory Call Event may be reversed and such modification and amendment as may be prescribed by the Stock Exchange from time to time:

(a) all trades in the CBBCs concluded or recorded in the Stock Exchange's system after the time of the occurrence of a Mandatory Call Event; and

(b) where the Mandatory Call Event occurs during a pre-opening session or closing auction session (if applicable), all auction trades in the CBBCs concluded in such session,

will be invalid and will be cancelled, and will not be recognised by us or the Stock Exchange.

The time at which a Mandatory Call Event occurs will be determined by reference to:

(a) in respect of CBBCs over single equities ("**Single Equity CBBCs**") or CBBCs over single unit trusts ("**Single Unit Trust CBBCs**"), the Stock Exchange's automatic order matching and execution system time at which the Spot Price is at or below the Call Price (for a series of bull CBBCs) or is at or above the Call Price (for a series of bear CBBCs); or

(b) in respect of CBBCs over index ("**Index CBBCs**"), the time the relevant Spot Level is published by the Index Compiler at which the Spot Level is at or below the Call Level (for a series of bull CBBCs) or is at or above the Call Level (for a series of bear CBBCs),

subject to the rules and requirements as prescribed by the Stock Exchange from time to time.

Category R CBBCs vs. Category N CBBCs

The supplemental listing document for the relevant series of CBBCs will specify whether the CBBCs are Category R CBBCs or Category N CBBCs.

"**Category N CBBCs**" refer to CBBCs for which the Call Price/Call Level is equal to their Strike Price/Strike Level. In respect of a series of Category N CBBCs, you will not receive any cash payment following the occurrence of a Mandatory Call Event.

"**Category R CBBCs**" refer to CBBCs for which the Call Price/Call Level is different from their Strike Price/Strike Level. In respect of a series of Category R CBBCs, you may receive a cash payment called the Residual Value upon the occurrence of a Mandatory Call Event. The amount of the Residual Value payable (if any) is calculated by reference to:

(a) in respect of a bull CBBC, the difference between the Minimum Trade Price/Minimum Index Level of the Underlying Asset and the Strike Price/Strike Level; and

(b) in respect of a bear CBBC, the difference between the Strike Price/Strike Level and the Maximum Trade Price/ Maximum Index Level of the Underlying Asset.

You must read the relevant Conditions and the relevant supplemental listing document to obtain further information on the calculation formula of the Residual Value applicable to Category R CBBCs.

You may lose all of your investment in a particular series of CBBCs if:

(a) in the case of a series of bull CBBCs, the Minimum Trade Price/ Minimum Index Level of the Underlying Asset is equal to or less than the Strike Price/Strike Level; or

(b) in the case of a series of bear CBBCs, the Maximum Trade Price/ Maximum Index Level of the Underlying Asset is equal to or greater than the Strike Price/Strike Level.

How is the funding cost calculated?

The issue price of a CBBC represents the difference between the initial reference spot price or level of the Underlying Asset as at the launch date of the CBBC and the Strike Price/Strike Level, plus the applicable funding cost.

The initial funding cost applicable to each series of CBBCs will be specified in the relevant supplemental listing document for the relevant series and will fluctuate throughout the life of the CBBCs as the funding rate changes from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including but not limited to the Strike Price/Strike Level, the prevailing interest rate, the expected life of the CBBCs, expected notional dividends or distributions in respect of the Underlying Asset and the margin financing provided by us.

Further details about the funding cost applicable to a series of CBBCs will be described in the relevant supplemental listing document.

Do you own the Underlying Asset?

CBBCs convey no interest in the Underlying Asset. We may choose not to hold the Underlying Asset or any derivatives contracts linked to the Underlying Asset. There is no restriction through the issue of the CBBCs on the ability of us and/or our affiliates to sell, pledge or otherwise convey all right, title and interest in any Underlying Asset or any derivatives products linked to the Underlying Asset.

What are the factors determining the price of a CBBC?

The price of a CBBC tend to mirror the movement in the value of the Underlying Asset in dollar value (on the assumption of an entitlement ratio of one CBBC to one Underlying Asset).

However, throughout the term of a CBBC, its price will be influenced by a number of factors, including:

(a) the Strike Price/Strike Level and the Call Price/Call Level;

(b) the likelihood of the occurrence of a Mandatory Call Event;

(c) for Category R CBBCs only, the probable range of the Residual Value payable upon the occurrence of a Mandatory Call Event;

(d) the time remaining to expiry;

(e) any change(s) in interim interest rates;

(f) expected dividend payments or other distribution on the Underlying Asset or on any components comprising the underlying index;

(g) the supply and demand for the CBBCs;

(h) the probable range of the Cash Settlement Amounts;

(i) the depth of the market or liquidity of future contracts relating to the underlying index;

(j) our related transaction cost; and

(k) our creditworthiness.

What is your maximum loss?

Your maximum loss in CBBCs will be limited to your investment amount plus any transaction cost.

How can you get information about the CBBCs after issue?

You may visit the website of HKEx at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/intro.htm* to obtain further information on CBBCs or any notice given by us or the Stock Exchange in relation to our CBBCs.

INFORMATION IN RELATION TO US

1 Overview

UBS AG with its subsidiaries (UBS AG also "Issuer" or "Company"; together with its subsidiaries "**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 drive further growth and expand its premier wealth management franchise. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centers.

2. Corporate Information

The legal and commercial name of the Company 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 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.

3. 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 stricter 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.

3.1 Members of the Board of Directors

Members and business addresses	Title	Term of office	Current positions outside UBS AG
Kaspar Villiger UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8001, Zurich, Switzerland	Chairman	2012	None
Michel Demaré ABB Ltd., Affolternstrasse 44, P.O. Box 5009, CH-8050 Zurich, Switzerland	Independent Vice Chairman	2012	CFO and member of the Group Executive Committee of ABB; member of the IMD Foundation Board, Lausanne.

Members and business addresses	Title	Term of office	Current positions outside UBS AG
David Sidwell UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8001, Zurich, Switzerland	Senior Independent Director	2012	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; trustee of the International Accounting Standards Committee Foundation, London; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Rainer-Marc Frey Office of Rainer-Marc Frey, Seeweg 39, CH-8807 Freienbach Switzerland	Member	2012	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.
Bruno Gehrig Swiss International Air Lines AG, Obstgartenstrasse 25, CH-8302 Kloten, Switzerland	Member	2012	Chairman of the board of Swiss International Air Lines; Vice Chairman and Chairperson of the Remuneration Committee of Roche Holding Ltd., Basel.
Ann F. Godbehere UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8001, Zurich, Switzerland	Member	2012	Board member and Chairperson of the Audit Committees of Prudential plc, Rio Tinto plc and Rio Tinto Limited, London; board member and Chairperson of the Audit and Conflicts Committees of Atrium Underwriters Ltd. and Atrium Underwriting Group Ltd., London; member of the board and Chairperson of the Audit Committee of Ariel Holdings Ltd., Bermuda; member of the board of British American Tobacco plc.
Axel P. Lehmann Zurich Financial Services, Mythenquai 2, CH-8002, Zurich, Switzerland	Member	2012	Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Financial Services; Chairman of the board of Farmers Group, Inc.; Chairman of the Institute of Insurance Economics at the University of St. Gallen; member and past Chairman of the Chief Risk Officer Forum and member of the executive committee of the International Financial Risk Institute Foundation.
Wolfgang Mayrhuber Deutsche Lufthansa AG, Flughafen Frankfurt am Main 302, D-60549 Frankfurt am Main Germany	Member	2012	Chairman of the supervisory board and Chairperson of the Mediation, the Nomination and the Executive Committees of Infineon Technologies AG, as well as member of the supervisory boards of Munich Re Group, BMW Group, Lufthansa Technik AG and Austrian Airlines AG; member of the board of HEICO Corporation, Hollywood, FL; member of the executive board of Acatech (Deutsche Akademie der Technikwissenschaften) and trustee of the American Academy of Berlin.
Helmut Panke BMW AG, Petuelring 130, D-80788 Munich Germany	Member	2012	Member of the board and Chairperson of the Antitrust Compliance Committee of Microsoft Corporation; member of the board and Chairperson of the Board Safety & Risk Committee of Singapore Airlines Ltd.; member of the supervisory board of Bayer AG.

Members and business addresses	Title	Term of office	Current positions outside UBS AG
William G. Parrett UBS AG, Bahnhofstrasse 45, P.O. Box, CH-8001, Zurich, Switzerland	Member	2012	Independent Director, 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 Board of Trustees of Carnegie Hall.
Joseph Yam 18 B South Bay Towers 59 South Bay Rd. Hong Kong	Member	2012	Executive Vice President of the China Society for Finance and Banking; Chairman of the board of Macroprudential Consultancy Limited and 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.

On 15 November 2011, UBS announced that Kaspar Villiger, Chairman of the BoD, will not stand for re-election to the BoD at the AGM on 3 May 2012. Axel Weber, who was to have been nominated to be Vice Chairman of the BoD, has now been proposed to succeed Mr. Villiger as its Chairman should he be elected at the AGM.

On 3 February 2012, UBS announced that the UBS AG Board of Directors will nominate Beatrice Weder di Mauro and Isabelle Romy for election as new members of the Board at the Annual General Meeting of Shareholders on 3 May 2012. Bruno Gehrig, along with Kaspar Villiger, will not stand for re-election.

4. Updated information concerning the Issuer's litigation and regulatory matters and other contingent liabilities

4.1 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 section and the section "Other contingent liabilities" 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 within the last twelve months until the date of this document are described below. In some cases UBS provides 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. UBS is 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 UBS 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 UBS's ability to estimate the financial effect of contingent liabilities. UBS also believes that such estimates could seriously prejudice its 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 in the section "Other contingent liabilities" below, 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 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 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, 20024 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 prejudgment 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 BadenWurttemberg 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 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. UBS understands that the investigations focus on whether there were improper attempts by UBS (among others), either acting on its 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, UBS will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where UBS has conditional immunity or leniency in connection with the matters it reported to those authorities, 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 against UBS. 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's 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.

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.

Besides the proceedings specified above under (1) through (16) no governmental, legal or arbitration proceedings, which may significantly affect UBS's financial position, 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.

4.2 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, UBS sponsored securitizations of US residential mortgage-backed securities (RMBS) and was 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.

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.

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 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. UBS has 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.

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 UBS's prior practice in the presentation of this information. For this reason, the comparable table in UBS's 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.

UBS's balance sheet as of 31 December 2011 reflected a provision of USD 104 million (adjusted from USD 93 million previously reported) based on UBS's best estimate of the loss arising from certain loan repurchase demands received since 2006 to which it has agreed or which remain unresolved, and for certain anticipated loan repurchase demands of which it has 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 in the section "Litigation and regulatory matters" above, 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 UBS would be required to repurchase loans or indemnify against losses due to misrepresentations, it 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 and 2011, UBS has in turn asserted indemnity or repurchase demands against originators. Only a small number of UBS's demands have been resolved, and UBS has not recognized any asset on its 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.

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.

As described in the section "Litigation and regulatory matters" above, UBS is also subject to claims and threatened claims in connection with its role as underwriter and issuer of RMBS.

RISK FACTORS

Not all of the risk factors described below will be applicable to a particular series of the Structured Products. Please consider all risks carefully prior to investing in any Structured Products and consult your professional independent financial adviser and legal, accounting, tax and other advisers with respect to any investment in the Structured Products. Please read the following section together with the risk factors set out in the relevant supplemental listing document.

General risks relating to us

Structured Products are unsecured obligation

Each series of Structured Products constitutes our general unsecured contractual obligations and of no other person and will rank equally with our other unsecured contractual obligations and unsecured and unsubordinated debt. At any given time, the number of our Structured Products outstanding may be substantial.

Repurchase of our Structured Products

We, our subsidiaries and affiliates (the "**Group**") may repurchase the Structured Products from time to time in the private market or otherwise at a negotiated price or the prevailing market price at our discretion. You should not make any assumption as to the number of Structured Products in issue for any particular series at any time.

Our creditworthiness

If you purchase our Structured Products, you are relying upon our creditworthiness and have no rights under these products against:

(a) any company which issues the underlying shares;

(b) the trustee or the manager of the underlying trust; or

(c) any index compiler of the underlying index.

We do not guarantee the repayment of your investment in any Structured Product.

Any downgrading of our rating by rating agencies such as Moody's Investors Service, Inc., New York, Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies Inc. or Fitch Ratings Ltd., London, could result in a reduction in the value of the Structured Products.

No deposit liability or debt obligation

We are obliged to deliver to you the Cash Settlement Amount under the Conditions of each series of the Structured Products upon expiry. We do not intend (expressly, implicitly or otherwise) to create a deposit liability or a debt obligation of any kind by the issue of any Structured Product.

Conflicts of interest

The Group is a diversified financial institution with relationships in countries around the world. The Group engages in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for our own account or the account of others. In addition, the Group, in connection with our other business activities, may possess or acquire material information about the Underlying Assets or may issue or update research reports on the Underlying Assets. Such activities, information and/or research reports may involve or otherwise affect the Underlying Assets in a manner that may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of Structured Products by us. Such actions and conflicts may include, without limitation, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Group:

(a) has no obligation to disclose such information about the Underlying Assets or such activities. The Group and our officers and directors may engage in any such activities without regard to the issue of Structured Products by us or the effect that such activities may directly or indirectly have on any Structured Product;

(b) may from time to time engage in transactions involving the Underlying Assets for our proprietary accounts and/or for accounts under our management and/or to hedge against the market risk associated

with issuing the Structured Products. Such transactions may have a positive or negative effect on the price/level of the Underlying Assets and consequently upon the value of the relevant series of Structured Products;

(c) may from time to time act in other capacities with regard to the Structured Products, such as in an agency capacity and/or as the liquidity provider;

(d) may issue other derivative instruments in respect of the Underlying Assets and the introduction of such competing products into the market place may affect the value of the relevant series of Structured Products; and

(e) may also act as underwriter in connection with future offerings of shares, units or other securities or may act as financial adviser to the issuer, or sponsor, as the case may be, of any such share, unit or other security or in a commercial banking capacity for the issuer of any share, units or other security or the trustee or the manager of the trust. Such activities could present certain conflicts of interest and may affect the value of the Structured Products.

General risks relating to Structured Products

You may lose all your investment in the Structured Products

Structured Products involve a high degree of risk, and are subject to a number of risks which may include interest, foreign exchange, time value, market and/or political risks. Structured Products may expire worthless.

Options, warrants and asset linked instruments are priced primarily on the basis of the price/level of the Underlying Asset, the volatility of the Underlying Asset's price/level and the time remaining to expiry of the Structured Product.

The price of Structured Products generally may fall in value as rapidly as they may rise and you should be prepared to sustain a significant or total loss of the purchase price of the Structured Products. Assuming all other factors are held constant, the more the underlying share price, unit price or index level of a Structured Product moves in a direction against you and the shorter its remaining term to expiration, the greater the risk that you will lose all or a significant part of your investment.

The Structured Products are only exercisable on their respective Expiry Dates and may not be exercised by you prior to the relevant Expiry Date. Accordingly, if on such Expiry Date the Cash Settlement Amount is zero or negative, you will lose the value of your investment.

The risk of losing all or any part of the purchase price of a Structured Product means that, in order to recover and realise a return on investment, you must generally anticipate correctly the direction, timing and magnitude of any change in the price/level of the Underlying Asset as may be specified in the relevant supplemental listing document.

Changes in the price/level of an Underlying Asset can be unpredictable, sudden and large and such changes may result in the price/level of the Underlying Asset moving in a direction which will negatively impact upon the return on your investment. You therefore risk losing your entire investment if the price/level of the relevant Underlying Asset does not move in the anticipated direction.

The value of the Structured Products may be disproportionate or opposite to movement in price/level of the Underlying Assets

An investment in Structured Products is not the same as owning the Underlying Assets or having a direct investment in the Underlying Asset. The market values of Structured Products are linked to the relevant Underlying Assets and will be influenced (positively or negatively) by it or them but any change may not be comparable and may be disproportionate. It is possible that while the price/level of the Underlying Assets is increasing, the value of the Structured Product is falling.

If you intend to purchase any series of Structured Products to hedge against the market risk associated with investing in the Underlying Asset specified in the relevant supplemental listing document, you should recognise the complexities of utilizing Structured Products in this manner. For example, the value of the Structured Products may not exactly correlate with the price/level of the Underlying Asset. Due to fluctuations in supply and demand for Structured Products, there

is no assurance that their value will correlate with movements of the Underlying Asset. The Structured Products may not be a perfect hedge to the Underlying Asset or portfolio of which the Underlying Asset forms a part.

It may not be possible to liquidate the Structured Products at a level which directly reflects the price/level of the Underlying Asset or portfolio of which the Underlying Asset forms a part. Therefore, it is possible that you could suffer substantial losses in the Structured Products in addition to any losses suffered with respect to investments in or exposures to the Underlying Asset.

Possible illiquidity of secondary market

It is not possible to predict if and to what extent a secondary market may develop in any series of Structured Products and at what price such series of Structured Products will trade in the secondary market and whether such market will be liquid or illiquid. The fact that the Structured Products are listed does not necessarily lead to greater liquidity than if they were not listed.

If any series of Structured Products are not listed or traded on any exchange, pricing information for such series of Structured Products may be difficult to obtain and the liquidity of that series of Structured Products may be adversely affected.

The liquidity of any series of Structured Products may also be affected by restrictions on offers and sales of the Structured Products in some jurisdictions. Transactions in off-exchange Structured Products may be subject to greater risks than dealing in exchange-traded Structured Products. To the extent that any Structured Products of a series is closed out, the number of Structured Products outstanding in that series will decrease, which may result in a lessening of the liquidity of Structured Products. A lessening of the liquidity of the affected series of Structured Products may cause, in turn, an increase in the volatility associated with the price of such Structured Products.

While we have, or will appoint, a liquidity provider for the purposes of making a market for each series of Structured Products, there may be circumstances outside our control or the appointed liquidity provider's control where the appointed liquidity provider's ability to make a market in some or all series of Structured Products is limited, restricted, and/or without limitation, frustrated. In such circumstances we will use our best endeavours to appoint an alternative liquidity provider.

Interest rates

Investments in the Structured Products may involve interest rate risk with respect to the currency of denomination of the Underlying Assets and/or the Structured Products. A variety of factors influence interest rates such as macro economic, governmental, speculative and market sentiment factors. Such fluctuations may have an impact on the value of the Structured Products at any time prior to valuation of the Underlying Assets relating to the Structured Products.

Time decay

The settlement amount of certain series of Structured Products at any time prior to expiration may be less than the trading price of such Structured Products at that time. The difference between the trading price and the settlement amount will reflect, among other things, a "time value" of the Structured Products. The "time value" of the Structured Products will depend upon, among others, the length of the period remaining to expiration and expectations concerning the range of possible future price/level of the Underlying Assets. The value of a Structured Product will decrease over time as the length of the period remaining to expiration becomes shorter. Therefore, the Structured Products should not be viewed as products for long term investments.

Exchange rate risk

There may be an exchange rate risk in the case of Structured Products where the Cash Settlement Amount will be converted from a foreign currency into Hong Kong dollars. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation.

Fluctuations in foreign exchange rates, foreign political and economic developments and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Structured Products. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies. There can be no assurance that rates of exchange between any relevant currencies which are current rates at the date of issue of any Structured Products will be representative of the relevant rates of exchange used in computing the value of the relevant Structured Products at any time thereafter.

Where Structured Products are described as being "quantoed", the value of the Underlying Assets will be converted from one currency (the "**Original Currency**") into a new currency (the "**New Currency**") on the date and in the manner specified in, or implied by, the Conditions using a fixed exchange rate. The cost to us of maintaining such a fixing between the Original Currency and the New Currency will have an implication on the value of the Structured Products, which will vary during the term of the Structured Products. No assurance can be given as to whether or not, taking into account relative exchange rate and interest rate fluctuations between the Original Currency and the New Currency, a quanto feature in a Structured Product would at any time enhance the return on the Structured Product over a level of a similar Structured Product issued without such a quanto feature.

Taxes

You may be required to pay stamp duty or other taxes or other documentary charges. If you are in doubt as to your tax position, you should consult your own independent tax advisers. In addition, you should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. See "Do you need to pay any tax?" in the section headed "Important Information" on page 4 for further information.

Modification to the Conditions

Under the Conditions, we may, without your consent, effect any modification of the terms and conditions of the Structured Products or the Instrument which, in our opinion, is:

(a) not materially prejudicial to the interest of the Structured Products holders generally (without considering your individual circumstances or the tax or other consequences of such modification in any particular jurisdiction);

(b) of a formal, minor or technical nature;

(c) made to correct a manifest error; or

(d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Possible early termination for illegality or impracticability

If we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, the performance of our obligations under the Structured Products has become illegal or impracticable (or in the case of CBBCs only, it is no longer desirable or practical for us to maintain our hedging arrangement with respect to the CBBCs), we may terminate early such Structured Products. If we terminate early the Structured Products, we will, if and to the extent permitted by applicable law, pay an amount determined by us in good faith and in a commercially reasonable manner to be their fair market value notwithstanding the illegality or impracticability (or hedging disruption) less the cost to us of unwinding any related hedging arrangements.

Risks relating to the Underlying Asset

You have no right to the Underlying Asset

Unless specifically indicated in the Conditions, you will not be entitled to:

(i) voting rights or rights to receive dividends or other distributions or any other rights that a holder of the Underlying Asset would normally be entitled to; or

(ii) voting rights or rights to receive dividends or other distributions or any other rights with respect to any company constituting any underlying index.

Valuation risk

An investment in Structured Products may involve valuation risk as regards the Underlying Assets to which the particular series of Structured Products relate. The price/level of the Underlying Asset may vary over time and may increase or decrease by reference to a variety of factors which may include corporate actions, macro economic factors, speculation and (where the Underlying Asset is an index) changes in the formula for or the method of calculating the index.

You must be experienced with dealing in these types of Structured Products and must understand the risks associated with dealing in such products. You should reach an investment decision only after careful consideration, with your advisers, of the suitability of any Structured Product in light of your particular financial circumstances, the information regarding the relevant Structured Product and the particular Underlying Asset to which the value of the relevant Structured Product relates.

Adjustment related risk

In the case of Structured Products relating to a single equity or a unit trust ("**Security**"), certain corporate events relating to the Security require or, as the case may be, permit us to make certain adjustments or amendments to the Conditions. You have limited anti-dilution protection under the Conditions of the Structured Products. We may, in our sole discretion adjust, among other things, the Entitlement, the Exercise Price (if applicable), the Call Price (if applicable), the Strike Price (if applicable) or any other terms (including without limitation the Closing Price of the Security) of any series of Structured Product for events such as rights issue, bonus issue, subdivision, consolidation, cash distribution or restructuring event. However, we are not required to make an adjustment for every event that may affect a Security, in which case the market price of the Structured Products and the return upon the expiry of the Structured Products may be affected.

In addition, if the Security ceases to be listed on the Stock Exchange during the term of the Structured Products, we may make adjustments and/or amendments to the rights attaching to the Structured Products pursuant to the Conditions of the Structured Products. Such adjustments and/or amendments will be conclusive and binding on you.

In the case of Structured Products which relate to an index, the level of the index may be published by the index compiler at a time when one or more shares comprising in the index are not trading. If this occurs on the Valuation Date but such occurrence does not constitute a Market Disruption Event under the Conditions then the value of such share(s) may not be included in the level of the index. In addition, certain events relating to the index (including a material change in the formula or the method of calculating the index or a failure to publish the index) permit us to determine the level of the index on the basis of the formula or method last in effect prior to such change in formula or method.

Suspension of trading

If the Underlying Assets are suspended from trading or dealing for whatever reason on the market on which they are listed or dealt in (including the Stock Exchange), trading in the relevant series of Structured Products will be suspended for a similar period. The value of the Structured Products will decrease over time as the length of the period remaining to expiration becomes shorter. In such circumstances, you should note that in the case of a prolonged suspension period, the market price of the Structured Products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the Structured Products. This may adversely affect your investment in the Structured Products.

Delay in settlement

Unless otherwise specified in the relevant Conditions, in the case of any expiry of Structured Products, there may be a time lag between the date on which the Structured Products expire, and the time the applicable settlement amount relating to such event is determined. Any such delay between the time of expiry and the determination of the settlement amount will be specified in the relevant Conditions.

However, such delay could be significantly longer, particularly in the case of a delay in the expiry of such Structured Products arising from our determination that a Market Disruption Event, Settlement Disruption Event or delisting of the underlying shares or units has occurred at any relevant time or that adjustments are required in accordance with the Conditions.

That applicable settlement amount may change significantly during any such period, and such movement or movements could decrease or modify the settlement amount of the Structured Products.

You should note that in the event of there being a Settlement Disruption Event or a Market Disruption Event, payment of the Cash Settlement Amount may be delayed as more fully described in the Conditions.

Risks relating to Structured Products over trusts

General risks

In the case of Structured Products which relate to the units of a trust:

(a) neither we nor any of our affiliates have the ability to control or predict the actions of the trustee or the manager of the relevant trust. Neither the trustee nor the manager of the relevant trust (i) is involved in the offer of any Structured Product in any way, or (ii) has any obligation to consider the interest of the holders of any Structured Product in taking any corporate actions that might affect the value of any Structured Product; and

(b) we have no role in the relevant trust. The manager of the relevant trust is responsible for making strategic, investment and other trading decisions with respect to the management of the relevant trust consistent with its investment objectives and in compliance with the investment restrictions as set out in the constitutive documents of the relevant trust. The manner in which the relevant trust is managed and the timing of actions may have a significant impact on the performance of the relevant trust. Hence, the market price of the relevant units is also subject to these risks.

Exchange traded funds

Where the Underlying Asset of Structured Products comprises the units of an exchange traded fund ("**ETF**"), you should note that:

(a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;

(b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses; and

(c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the unit creation or redemption to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value. Hence, the market price of the Structured Products will also be indirectly subject to these risks.

Synthetic exchange traded funds

Additionally, where the Underlying Asset of Structured Products comprises the units of an ETF adopting a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**Synthetic ETF**"), you should note that:

(a) investments in financial derivative instruments will expose the Synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of any such counterparty may have a negative effect on other counterparties of the Synthetic ETF. Even if the Synthetic ETF has collateral to reduce the counterparty risk, there may still

be a risk that the market value of the collateral has fallen substantially when the Synthetic ETF seeks to realise the collateral; and

(b) the Synthetic ETF may be exposed to higher liquidity risk if the Synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

The above risks may have a significant impact on the performance of the relevant ETF or Synthetic ETF and hence the market price of Structured Products linked to such ETF or Synthetic ETF.

Risk relating to CBBCs

Correlation between the price of a CBBC and the price/level of the Underlying Asset

When the Underlying Asset of a CBBC is trading at a price/level close to its Call Price/Call Level, the price of that CBBC tends to be more volatile and any change in the value of that CBBC at such time may be incomparable and disproportionate to the change in the price/level of the Underlying Asset.

Mandatory Call Event is irrevocable except in limited circumstances

A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(a) system malfunction or other technical errors of HKEx (such as the setting up of wrong Call Price/Call Level and other parameters), and such event is reported by the Stock Exchange to us and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; or

(b) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant index compiler), and such event is reported by us to the Stock Exchange and we and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached between the Stock Exchange and us as prescribed in the relevant procedures by the Stock Exchange from time to time. Upon revocation of the Mandatory Call Event, trading of the CBBCs will resume and any trade cancelled after such Mandatory Call Event will be reinstated.

Non-recognition of Post MCE Trades

The Stock Exchange and its recognised exchange controller, HKEx, shall not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the Stock Exchange and/or HKEx) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Mandatory Call Event or the suspension of trading ("**Trading Suspension**") or the non-recognition of trades after a Mandatory Call Event ("**Non-Recognition of Post MCE Trades**"), including without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

We and our affiliates shall not have any responsibility towards you for any losses suffered as a result of the Trading Suspension and/or Non-Recognition of Post MCE Trades in connection with the occurrence of a Mandatory Call Event, notwithstanding that such Trading Suspension or Non-Recognition of Post MCE Trades may have occurred as a result of an error in the observation of the event.

Residual Value will not include residual funding cost

For Category R CBBCs, the Residual Value (if any) payable by us following the occurrence of a Mandatory Call Event will not include the residual funding cost for the CBBCs. You will not receive any residual funding cost back from us upon early termination of a Category R CBBC upon a Mandatory Call Event.

Delay in announcements of a Mandatory Call Event

The Stock Exchange will notify the market as soon as practicable after the CBBC has been called. You must however be aware that there may

be delay in the announcements of a Mandatory Call Event due to technical errors or system failures and other factors that are beyond our control or the control of the Stock Exchange.

Our hedging activities may adversely affect the price/level of the Underlying Asset

We and/or any of our affiliates may carry out activities that minimise our risks related to the CBBCs, including effecting transactions for our own account or for the account of our customers and hold long or short positions in the Underlying Asset whether for risk reduction purposes or otherwise. In addition, in connection with the offering of any CBBCs, we and/or any of our affiliates may enter into one or more hedging transactions with respect to the Underlying Asset. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by us and/or any of our affiliates, we and/or any of our affiliates may enter into transactions in the Underlying Asset which may affect the market price, liquidity or price/level of the Underlying Asset and/or the value of CBBCs and which could be deemed to be adverse to your interests. We and/or our affiliates are likely to modify our hedging positions throughout the life of the CBBCs whether by effecting transactions in the Underlying Asset or in derivatives linked to the Underlying Asset. Further, it is possible that the advisory services which we and/or our affiliates provide in the ordinary course of our business could lead to an adverse impact on the value of the Underlying Asset.

Unwinding of hedging arrangements

The trading and/or hedging activities of us or our affiliates related to CBBCs and/or other financial instruments issued by us from time to time may have an impact on the price/level of the Underlying Asset and may trigger a Mandatory Call Event. In particular, when the Underlying Asset is trading close to the Call Price/Call Level, our unwinding activities may cause a fall or rise (as the case may be) in the trading price/level of the Underlying Asset, leading to a Mandatory Call Event as a result of such unwinding activities.

In respect of Category N CBBCs, we or our affiliates may unwind any hedging transactions entered into by us in relation to the CBBCs at any time even if such unwinding activities may trigger a Mandatory Call Event.

In respect of Category R CBBCs, before the occurrence of a Mandatory Call Event, we or our affiliates may unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs we repurchase from time to time. Upon the occurrence of a Mandatory Call Event, we or our affiliates may unwind any hedging transactions in relation to the CBBCs. Such unwinding activities after the occurrence of a Mandatory Call Event may affect the trading price/level of the Underlying Asset and consequently the Residual Value for the CBBCs.

Risk relating to the legal form of the Structured Products

Each series of Structured Products will be represented by a global certificate registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by HKSCC from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS).

Structured Products issued in global registered form and held on your behalf within a clearing system effectively means that the evidence of your title, as well as the efficiency of ultimate delivery of the Cash Settlement Amount, will be subject to the CCASS Rules. You should be aware of the following risks:

(a) you will not receive definitive certificates where the Structured Products remain in the name of HKSCC Nominees Limited for the entire life of the Structured Products;

(b) any register that is maintained by us or on our behalf, while available for inspection by you, will not be capable of registering any interests other than that of the legal title owner, in other words, it will record at all times that the Structured Products are being held by HKSCC Nominees Limited;

(c) you will have to rely solely upon your broker/custodians and the statements you receive from such party as evidence of your interest in the investment;

(d) notices or announcements will be published on the HKEx website and/or released by HKSCC to its participants via CCASS. You

will need to check the HKEx website regularly and/or rely on your brokers/ custodians to obtain such notices/ announcements; and

(e) following the Expiry Date and the determination by us as to the Cash Settlement Amount, our obligations to you will be duly performed by payment of the Cash Settlement Amount in accordance with the Conditions to HKSCC Nominees Limited as the "holder" of the Structured Products. HKSCC or HKSCC Nominees Limited will then distribute the received Cash Settlement Amount to the respective CCASS participants in accordance with the CCASS Rules.

Fee arrangements with brokers and conflicts of interest of brokers

We may enter into fee arrangements with brokers and/or any of its affiliates with respect to the primary market in the Structured Products. You should note that any brokers with whom we have a fee arrangement does not, and cannot be expected to, deal exclusively in the Structured Products, therefore any broker and/or its subsidiaries or affiliates may from time to time engage in transactions involving the Underlying Assets and/or the structured products of other issuers over the same Underlying Assets to which the particular series of Structured Products may relate, or other underlying assets as the case may be, for their proprietary accounts and/or for the accounts or their clients. The fact that the same broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Structured Products and present certain conflicts of interests.

Effect of the combination of risk factors unpredictable

Two or more risk factors may simultaneously have an effect on the value of a series of Structured Products such that the effect of any individual risk factor may not be predictable. No assurance can be given as to the effect any combination of risk factors may have on the value of a series of Structured Products.

APPENDIX 1 — TERMS AND CONDITIONS OF WARRANTS

The following pages set out the Conditions in respect of different types of Warrants.

PAGE

Part A — Terms and Conditions of Cash Settled Warrants over Single Equities 35

Part B — Terms and Conditions of Cash Settled Index Warrants 45

Part C — Terms and Conditions of Cash Settled Warrants over Single Unit Trusts 53

PART A — TERMS AND CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE EQUITIES

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate ("**Global Certificate**") registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

2. Warrant Rights, Exercise Price and Exercise Expenses

(A) Every Board Lot entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 3, to payment of the Cash Settlement Amount (as defined below), if any.

(B) The Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 3(E).

(C) For the purposes of these Conditions:

"**Average Price**" means the arithmetic mean of the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(i) In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(ii) In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Company**" means the company specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Share**" means the share specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited; and

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate.

3. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) is positive (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 3(E).

Any Warrant which has not been automatically exercised in accordance with this Condition 3(B) shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

(C) Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 3, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Subject to exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of each Warrantholder from the register of Warrantholders in respect of such Warrants and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

(E) Upon exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three CCASS Settlement Days following the Expiry Date ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(F) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(E).

4. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 9.

5. Adjustments

(A) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollars 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(D) *Restructuring Events*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Cash Distribution*. No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the relevant Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Distribution Adjustment Date.

(F) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

6. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Global Certificate

A Global Certificate representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

8. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant

court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 9 as soon as practicable after they are determined.

13. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the Warrants in whole or in part as a result of:

   (a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

   (b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

   (each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value

in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

PART B — TERMS AND CONDITIONS OF CASH SETTLED INDEX WARRANTS

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) relating to the Index are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate ("**Global Certificate**") registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expressions "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

2. Warrant Rights and Exercise Expenses

(A) Every Board Lot entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 3, to payment of the Cash Settlement Amount (as defined below), if any.

(B) The Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 3(E).

(C) For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level - Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level - Closing Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Level**" means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 5;

"**Divisor**" means the number specified as such in the relevant Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Compiler**" means the index compiler specified as such in the relevant Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" means the index exchange specified as such in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified in the relevant Supplemental Listing Document;

"**Market Disruption Event**" means:

(i) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

(1) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index;

(2) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

(3) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (i), (a) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (b) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(ii) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(iii) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(iv) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances.

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the date specified in the relevant Supplemental Listing Document.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalised terms shall, unless otherwise defined herein, bear the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate.

3. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) is positive (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 3(E).

Any Warrant which has not been automatically exercised in accordance with this Condition 3(B) shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

(C) Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 3, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Subject to exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of each Warrantholder from the register of Warrantholders in respect of such Warrants and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

(E) Upon exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three CCASS Settlement Days following the Expiry Date ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of a Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

(F) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(E).

4. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another agent provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 9.

5. Adjustments to the Index

(A) *Successor Index Compiler Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) *Modification and Cessation of Calculation of Index.* If (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts or commodities and other routine events), or (ii) on the Valuation Date the Index Compiler or (if applicable) the Successor Index

Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at the Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(D) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

6. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Global Certificate

A Global Certificate representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised officer(s) or attorney(s) of the Issuer.

8. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

11. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the Warrants in whole or in part as a result of:

(a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

12. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

13. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

14. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

15. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

PART C — TERMS AND CONDITIONS OF CASH SETTLED WARRANTS OVER SINGLE UNIT TRUSTS

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of Warrants may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of Warrants.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 11) relating to the Units of the Trust are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Warrantholders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The Warrants are represented by a global certificate ("**Global Certificate**") registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The Warrants can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the Warrants represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

Warrants represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of warrants deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of Warrants may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the Warrants. The expression "**Warrantholder**" and "**Warrantholders**" shall be construed accordingly.

(E) Warrantholders are responsible for additional costs and expenses in connection with any exercise of the Warrants including the Exercise Expenses (as defined below) which amount shall, subject to Condition 2(B) and to the extent necessary, be payable to the Issuer and collected from the Warrantholders.

2. **Warrant Rights, Exercise Price and Exercise Expenses**

(A) Every Board Lot entitles the Warrantholders, upon due exercise and upon compliance with these Conditions, in particular Condition 3, to payment of the Cash Settlement Amount (as defined below), if any.

(B) The Warrantholders will be required to pay a sum equal to all the expenses resulting from the exercise of such Warrants. To effect such payment an amount equivalent to the Exercise Expenses (defined below) shall be deducted from the Cash Settlement Amount in accordance with Condition 3(E).

(C) For the purposes of these Conditions:

"**Average Price**" means the arithmetic mean of the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing prices as may be necessary to reflect any capitalisation, rights issue, distribution or the like) in respect of each Valuation Date;

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Cash Settlement Amount**" means:

(i) In the case of a series of call Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price - Exercise Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

(ii) In the case of a series of put Warrants:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price - Average Price) x one Board Lot}}{\text{Number of Warrant(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of Warrants;

"**Exercise Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 5;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**HKEx**" means Hong Kong Exchanges and Clearing Limited;

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means each of the five Business Days immediately preceding the Expiry Date, provided that if the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price.

If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then:

(a) the Business Day immediately preceding the Expiry Date (the "**Last Valuation Date**") shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and

(b) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

Trading in Warrants on the Stock Exchange shall cease prior to the Expiry Date in accordance with the requirements of the Stock Exchange.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate.

3. Exercise of Warrants

(A) Warrants may only be exercised in Board Lots or integral multiples thereof.

(B) The Warrants will automatically be exercised on the Expiry Date, if the Issuer determines that the Cash Settlement Amount (calculated in accordance with these Conditions) is positive (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) in accordance with Condition 3(E).

Any Warrant which has not been automatically exercised in accordance with this Condition 3(B) shall expire immediately thereafter and all rights of the Warrantholders and obligations of the Issuer with respect to such Warrant shall cease.

(C) Any Exercise Expenses which are not determined by the Issuer on the Expiry Date and deducted from the Cash Settlement Amount prior to delivery to the Warrantholders in accordance with this Condition 3, shall be notified by the Issuer to the Warrantholders as soon as practicable after determination thereof and shall be paid by the Warrantholders to the Issuer immediately upon demand.

(D) Subject to exercise of Warrants in accordance with these Conditions, or in the event that Warrants have expired worthless, the Issuer will, with effect from the first Business Day following the Expiry Date, remove the name of each Warrantholder from the register of Warrantholders in respect of such Warrants and thereby cancel the relevant Warrants and, if applicable, cancel the Global Certificate.

(E) Upon exercise of Warrants in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Warrantholder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than three CCASS Settlement Days following the Expiry Date ("**Settlement Date**"), by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Warrantholder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such Warrantholder may suffer as a result of the existence of a Settlement Disruption Event.

(F) The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment in accordance with Condition 3(E).

4. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Warrantholders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the Warrants are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Warrantholders in accordance with Condition 9.

5. Adjustments

(A) *Rights Issues*. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a Cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Units held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(D) *Restructuring Events*. If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to, or may, sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the Warrants shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) *Cash Distribution*. No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a script alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the relevant Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Distribution and the Cash Distribution have different ex-entitlement dates

In addition, the Issuer shall adjust the Exercise Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Exercise Price shall take effect on the Distribution Adjustment Date.

(F) *Other Adjustments*. Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9.

6. Purchase

The Issuer or any of its subsidiaries may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

7. Global Certificate

A Global Certificate representing the Warrants will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

8. Meetings of Warrantholders and Modification

(A) *Meetings of Warrantholders*. The Instrument contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Instrument.

Any resolution to be passed in a meeting of the Warrantholders shall be decided by poll. A meeting may be convened by the Issuer or by Warrantholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantholders being held if passed unanimously.

(B) *Modification*. The Issuer may, without the consent of the Warrantholders, effect any modification of the terms and conditions of the Warrants or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 9.

9. Notices

All notices to the Warrantholders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Warrantholders.

10. Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised Warrants will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary

liquidation, the unexercised Warrants will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 10, "**Termination**" means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

12. Delisting

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Warrants as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 12(A), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of the Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 9 as soon as practicable after they are determined.

13. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the Warrants in whole or in part as a result of:

(a) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(b) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (a) and (b), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner

15. Governing Law

The Warrants and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) submit for all purposes in connection with the Warrants and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within ten years of the Expiry Date and thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

APPENDIX 2 — TERMS AND CONDITIONS OF CBBCS

The following pages set out the Conditions in respect of different types of CBBCs.

PAGE

Part A — Terms and Conditions of Cash Settled Callable Bull/Bear Contracts over Single Equities 64

Part B — Terms and Conditions of Cash Settled Callable Bull/Bear Contracts over an Index 78

Part C — Terms and Conditions of Cash Settled Callable Bull/Bear Contracts over Single Unit Trusts 90

PART A — TERMS AND CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE EQUITIES

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Shares of the Company are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Holders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The CBBCs are represented by a global certificate ("**Global Certificate**") registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The CBBCs can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the CBBCs represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the CBBCs. The expression "**Holder**" and "**Holders**" shall be construed accordingly.

(E) Holders are responsible for additional costs and expenses in connection with any exercise of the CBBCs including the Exercise Expenses (as defined below) which amount shall, subject to Condition 4(G) and to the extent necessary, be payable to the Issuer and collected from the Holders.

2. Definitions

For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Cash Settlement Amount**" means:

(i) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

(ii) at expiry:

(a) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price - Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

“**Company**” means the company specified as such in the relevant Supplemental Listing Document;

“**Dealing Commencement Date**” means the date specified as such in the relevant Supplemental Listing Document;

“**Entitlement**” means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of CBBCs;

“**Expiry Date**” means the date specified as such in the relevant Supplemental Listing Document;

“**Mandatory Call Event**” occurs when the Spot Price of the Shares on any Trading Day during the Observation Period is:

(i) in the case of a series of bull CBBCs, at or below the Call Price; or

(ii) in the case of a series of bear CBBCs, at or above the Call Price;

“**Market Disruption Event**” means:

(1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Shares; or (b) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a “BLACK” rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the “BLACK” rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“**Maximum Trade Price**” means the highest Spot Price of the Shares during the MCE Valuation Period;

“**MCE Valuation Period**” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the “**1st Session**”) and up to the end of the trading session on the Stock Exchange immediately following the 1st Session (“**2nd Session**”) unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least

1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(b) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Shares during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date and ending on and including the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means:

(i) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Date**" means the third CCASS Settlement Day following (i) the Valuation Date or (ii) the end of the MCE Valuation Period, as the case may be;

"**Share**" means the share specified as such in the relevant Supplemental Listing Document;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Share on the Stock Exchange and such other factors as the Issuer determines to be relevant.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate.

3. Hedging Disruption and Illegality or Impracticability

(A) Hedging Disruption

(i) *Notification.* The Issuer shall as soon as reasonably practicable give notice to the Holders in accordance with Condition 10:

(1) if it determines that a Hedging Disruption Event has occurred; and

(2) of the consequence of such Hedging Disruption Event as determined by the Issuer pursuant to Condition 3(A)(iii).

(ii) *Hedging Disruption Event*. A "**Hedging Disruption Event**" occurs if the Issuer determines in good faith and in a commercially reasonable manner that it is or has become not reasonably practicable or it has otherwise become undesirable, for any reason, for the Issuer wholly or partially to establish, re-establish, substitute or maintain a relevant hedging transaction (a "**Relevant Hedging Transaction**") it deems necessary or desirable to hedge the Issuer's obligations in respect of the CBBCs. The reasons for such determination by the Issuer may include, but are not limited to, the following:

(1) any material illiquidity in the market for the Shares;

(2) a change in any applicable law (including, without limitation, any tax law) or the promulgation of, or change in, the interpretation of any court, tribunal or regulatory authority with competent jurisdiction of any applicable law (including any action taken by a taxing authority);

(3) a material decline in the creditworthiness of a party with whom the Issuer has entered into any such Relevant Hedging Transaction; or

(4) the general unavailability of:

(A) market participants who will agree to enter into a Relevant Hedging Transaction; or

(B) market participants who will so enter into a Relevant Hedging Transaction on commercially reasonable terms.

(iii) *Consequences.* The Issuer, in the event of a Hedging Disruption Event, may determine to:

(1) terminate the CBBCs. In such circumstances the Issuer will, however, if and to the extent permitted by the applicable law, pay to each Holder in respect of each CBBC held by such Holder an amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value of the CBBC immediately prior to such termination less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10; or

(2) make any other adjustment to the Conditions as it considers appropriate in order to maintain the theoretical value of the CBBCs after adjusting for the relevant Hedging Disruption Event.

(B) Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the CBBCs in whole or in part as a result of:

(1) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(2) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (1) and (2), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 10.

4. EXERCISE OF CBBCS

(A) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(B) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.

(C) Mandatory Call Event

(i) Subject to paragraph (ii) below, following a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 10. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

Revocation

(ii) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(1) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited ("**HKEx**") (such as the setting up of wrong Call Price and other parameters); or

(2) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of an error by the relevant price source prescribed in paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

(D) Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

(E) Any Exercise Expenses which are not determined by the Issuer by the Business Day after the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Condition 4, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

(F) In the event that the CBBCs have been exercised or have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date, as the case may be, remove the name of each Holder from the register of Holders in respect of such CBBCs and thereby cancel the relevant CBBCs and, if applicable, cancel the Global Certificate.

(G) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date, by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Holder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

(H) In the absence of gross negligence or wilful misconduct on its part, none of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation of the Cash Settlement Amount.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Shares.

(I) Exercise and settlement of the CBBCs is subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(J) Subject to Condition 4(C)(ii), trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of a Mandatory Call Event or (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session), whichever is the earlier. All Post MCE Trades will be invalid and will be cancelled, and will not be recognised by the Issuer or the Stock Exchange.

5. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 10.

6. Adjustments

(A) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a Cum-Rights basis

R: Subscription price per new Share specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Right

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of Shares for each Share held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a "**Subdivision**") or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(D) *Restructuring Events*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

(E) *Cash Distribution*. No adjustment will be made for an ordinary cash dividend (whether or not it is offered with a script alternative) ("**Ordinary Dividend**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for 2 percent or more of the Share's closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Shares becomes ex-entitlement in respect of the Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Share price being the closing price of an existing Share as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Share

OD: The Ordinary Dividend per Share, provided that the Ordinary Dividend and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Dividend and the Cash Distribution have different ex-entitlement dates

In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the Distribution Adjustment Date.

(F) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchase

The Issuer or any of its subsidiaries may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

A Global Certificate representing the CBBCs will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

9. Meetings of Holders and Modification

(A) *Meetings of Holders.* The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the CBBCs or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to the Holders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

11. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of voluntary liquidation, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

13. Delisting

(A) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 10 as soon as practicable after they are determined.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Governing Law

The CBBCs and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Holder (by its purchase of the CBBCs) submit for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the CBBCs will become void unless made within ten years after the MCE Valuation Period or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such CBBCs shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

PART B — TERMS AND CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER AN INDEX

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 11) relating to the Index are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Holders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The CBBCs are represented by a global certificate ("**Global Certificate**") registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The CBBCs can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the CBBCs represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the CBBCs. The expressions "**Holder**" and "**Holders**" shall be construed accordingly.

(E) Holders are responsible for additional costs and expenses in connection with any exercise of the CBBCs including the Exercise Expenses (as defined below) which amount shall, subject to Condition 4(G) and to the extent necessary, be payable to the Issuer and collected from the Holders.

2. Definitions

For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Level**" means the level specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Cash Settlement Amount**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (i) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (ii) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

(ii) at expiry:

(a) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level - Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level - Closing Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Level is equal to the Strike Level;

"**Category R CBBCs**" means a series of CBBCs where the Call Level is different from the Strike Level;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Level**" means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Divisor**" means the number specified as such in the relevant Supplemental Listing Document;

"**Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of CBBCs;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**First Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Index**" means the index specified as such in the relevant Supplemental Listing Document;

"**Index Business Day**" means any day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

"**Index Compiler**" means the index compiler specified as such in the relevant Supplemental Listing Document;

"**Index Currency Amount**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Index Exchange**" means the index exchange specified as such in the relevant Supplemental Listing Document;

"**Interim Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Level of the Index is, at any time on any Index Business Day during the Observation Period:

(a) in the case of a series of bull CBBCs, at or below the Call Level; or

(b) in the case of a series of bear CBBCs, at or above the Call Level;

"**Market Disruption Event**" means:

(i) the occurrence or existence, on any Trading Day or Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:

  (1) the suspension or material limitation of the trading of a material number of constituent securities that comprise the Index;

  (2) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or

  (3) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

For the purposes of this paragraph (i), (a) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (b) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event;

(ii) where the Index Exchange is the Stock Exchange, the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued;

(iii) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or

(iv) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate, the First Exchange Rate or the Second Exchange Rate (as the case may be) cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances.

"**Maximum Index Level**" means the highest Spot Level of the Index during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Index Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available, the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the 2nd Session during which Spot Levels are available for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which Spot Levels are available. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(b) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

"**Minimum Index Level**" means the lowest Spot Level of the Index during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date and ending on and including the close of trading (Hong Kong time) on the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means an amount calculated by the Issuer in accordance with the following formula (and, if appropriate, either (a) converted (if applicable) into the Settlement Currency at the Exchange Rate or, as the case may be, (b) converted into the Interim Currency at the First Exchange Rate and then (if applicable) converted into Settlement Currency at the Second Exchange Rate):

(i) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Minimum Index Level - Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{(\text{Strike Level - Maximum Index Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

"**Second Exchange Rate**" means the rate specified as such in the relevant Supplemental Listing Document;

"**Settlement Currency**" means the currency specified as such in the relevant Supplemental Listing Document;

"**Settlement Date**" means the third CCASS Settlement Day following (i) the Valuation Date or (ii) the end of the MCE Valuation Period, as the case may be;

"**Spot Level**" means the spot level of the Index as compiled and published by the Index Compiler;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Level**" means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

"**Valuation Date**" means the date specified as such in the relevant Supplemental Listing Document.

Other capitalised terms shall, unless otherwise defined herein, bear the meaning ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate.

3. Hedging Disruption and Illegality or Impracticability

(A) Hedging Disruption

(i) *Notification.* The Issuer shall as soon as reasonably practicable give notice to the Holders in accordance with Condition 10:

(1) if it determines that a Hedging Disruption Event has occurred; and

(2) of the consequence of such Hedging Disruption Event as determined by the Issuer pursuant to Condition 3(A)(iii).

(ii) *Hedging Disruption Event*. A "**Hedging Disruption Event**" occurs if the Issuer determines in good faith and in a commercially reasonable manner that it is or has become not reasonably practicable or it has otherwise become undesirable, for any reason, for the Issuer wholly or partially (a) to establish, re-establish, substitute or maintain a relevant hedging transaction (including, without limitation, any hedging transaction with respect to options or futures relating to the Index, or any currency in which the components of the Index are denominated) (a "**Relevant Hedging Transaction**") it deems necessary or desirable to hedge the Issuer's obligations in respect of the CBBCs or (b) to freely realize, recover, receive, repatriate, remit or transfer the proceeds of the Relevant Hedging Transactions between accounts within the jurisdiction of the Relevant Hedging Transactions (the "**Affected Jurisdiction**") or from accounts within the Affected Jurisdiction to accounts outside of the Affected Jurisdiction. The reasons for such determination by the Issuer may include, but are not limited to, the following:

(1) any material illiquidity in the market for the components of the Index;

(2) a change in any applicable law (including, without limitation, any tax law) or the promulgation of, or change in, the interpretation of any court, tribunal or regulatory authority with competent jurisdiction of any applicable law (including any action taken by a taxing authority);

(3) a material decline in the creditworthiness of a party with whom the Issuer has entered into any such Relevant Hedging Transaction; or

(4) the general unavailability of:

(A) market participants who will agree to enter into a Relevant Hedging Transaction; or

(B) market participants who will so enter into a Relevant Hedging Transaction on commercially reasonable terms.

(iii) *Consequences.* The Issuer, in the event of a Hedging Disruption Event, may determine to:

(1) terminate the CBBCs. In such circumstances the Issuer will, however, if and to the extent permitted by the applicable law, pay to each Holder in respect of each CBBC held by such Holder an amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value of the CBBC immediately prior to such termination less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10; or

(2) make any other adjustment to the Conditions as it considers appropriate in order to maintain the theoretical value of the CBBCs after adjusting for the relevant Hedging Disruption Event.

(B) Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the CBBCs in whole or in part as a result of:

(1) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(2) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (1) and (2), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 10.

4. EXERCISE OF CBBCS

(A) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(B) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.

(C) Mandatory Call Event

(i) Subject to paragraph (ii) below, following a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 10. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and any Post MCE Trades will be cancelled and will not be recognised by the Stock Exchange.

Revocation

(ii) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(1) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited ("**HKEx**") (such as the setting up of wrong Call Level and other parameters); or

(2) manifest errors caused by the relevant third party price source where applicable (such as miscalculation of the index level by the relevant index compiler);

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of an error by the relevant price source prescribed in paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

and in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

(D) Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

(E) Any Exercise Expenses which are not determined by the Issuer by the Business Day after the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Condition 4, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

(F) In the event that the CBBCs have been exercised or have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or Expiry Date, as the case may be, remove the name of each Holder from the register of Holders in respect of such CBBCs and thereby cancel the relevant CBBCs and, if applicable, cancel the Global Certificate.

(G) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date, by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by a Holder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of a Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

If the Issuer determines, in its sole discretion, that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer may, if applicable, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

(H) In the absence of gross negligence or wilful misconduct on its part, none of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation of the Cash Settlement Amount.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the constituent securities, contracts, commodities or currencies comprising the Index.

(I) Exercise and settlement of the CBBCs is subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(J) Subject to Condition 4(C)(ii), trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of a Mandatory Call Event or (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session), whichever is the earlier. All Post MCE Trades will be invalid and will be cancelled, and will not be recognised by the Issuer or the Stock Exchange.

5. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another agent provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 10.

6. Adjustments to the Index

(A) *Successor Index Compiler Calculates and Reports Index*. If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the "**Successor Index Compiler**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(B) *Modification and Cessation of Calculation of Index.* If (i) on or prior to the Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent securities, contracts, commodities or currencies and other routine events), or (ii) on the Valuation Day the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event), then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Index Business Day as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts, commodities or currencies that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(C) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

   (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

   (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(D) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchase

The Issuer or any of its subsidiaries may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

A Global Certificate representing the CBBCs will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised officer(s) or attorney(s) of the Issuer.

9. Meetings of Holders and Modification

(A) *Meetings of Holders.* The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the CBBCs or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to the Holders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

12. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

13. Governing Law

The CBBCs and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Holders (by its purchase of the CBBCs) submit for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

14. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

15. Prescription

Claims against the Issuer for payment of any amount in respect of the CBBCs will become void unless made within ten years after the MCE Valuation Period or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such CBBCs shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

PART C — TERMS AND CONDITIONS OF CASH SETTLED CALLABLE BULL/BEAR CONTRACTS OVER SINGLE UNIT TRUSTS

These Conditions will, together with the supplemental provisions contained in the relevant Supplemental Listing Document, and subject to completion and amendment, be endorsed on the Global Certificate. The relevant Supplemental Listing Document in relation to the issue of any series of CBBCs may specify other terms and conditions which shall, to the extent so specified or to the extent they are inconsistent with these Conditions, replace or modify these Conditions for the purpose of such series of CBBCs.

1. Form, Status, Transfer, Title and Additional Costs and Expenses

(A) The CBBCs (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Units of the Trust are issued in registered form subject to and with the benefit of an instrument by way of deed poll (the "**Instrument**" as defined more fully in the relevant Supplemental Listing Document) executed by UBS AG (the "**Issuer**") acting through its London branch or any of its branches outside Switzerland as it may specify from time to time. The Holders (as defined below) are entitled to the benefit of, are bound by, and are deemed to have notice of all the provisions of the Instrument. A copy of the Instrument is available for inspection at the offices of UBS Securities Asia Limited ("**Sponsor**") at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

The CBBCs are represented by a global certificate ("**Global Certificate**") registered in the name of HKSCC Nominees Limited (or such other nominee company as may be used by Hong Kong Securities Clearing Company Limited ("**HKSCC**") from time to time in relation to the provision of nominee services to persons admitted for the time being by HKSCC as a participant of CCASS) (the "**Nominee**"). No definitive certificate will be issued. The CBBCs can only be exercised by HKSCC or the Nominee.

(B) The settlement obligation of the Issuer in respect of the CBBCs represents general unsecured contractual obligations of the Issuer and of no other person which rank, and will rank, equally among themselves and pari passu with all other present and future unsecured and unsubordinated contractual obligations of the Issuer, except for obligations accorded preference by mandatory provisions of applicable law.

CBBCs represent general contractual obligations of the Issuer, and are not, nor is it the intention (expressed, implicit or otherwise) of the Issuer to create by the issue of CBBCs deposit liabilities of the Issuer or a debt obligation of any kind.

(C) Transfers of CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS in accordance with the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time (the "**CCASS Rules**").

(D) Each person who is for the time being shown in the register kept by the Issuer in Hong Kong as the holder shall be treated by the Issuer and the Sponsor as the absolute owner and holder of the CBBCs. The expression "**Holder**" and "**Holders**" shall be construed accordingly.

(E) Holders are responsible for additional costs and expenses in connection with any exercise of the CBBCs including the Exercise Expenses (as defined below) which amount shall, subject to Condition 4(G) and to the extent necessary, be payable to the Issuer and collected from the Holders.

2. Definitions

For the purposes of these Conditions:

"**Board Lot**" has the meaning given to it in the relevant Supplemental Listing Document;

"**Business Day**" means a day (excluding Saturdays) on which the Stock Exchange is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong;

"**Call Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Cash Settlement Amount**" means:

(i) following a Mandatory Call Event:

(a) in the case of a series of Category R CBBCs, the Residual Value; or

(b) in the case of a series of Category N CBBCs, zero.

(ii) at expiry:

(a) in the case of a series of bull CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Closing Price - Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(b) in the case of a series of bear CBBCs:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Strike Price - Closing Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

For the avoidance of doubt, if the Cash Settlement Amount is a negative figure, it shall be deemed to be zero;

"**Category N CBBCs**" means a series of CBBCs where the Call Price is equal to the Strike Price;

"**Category R CBBCs**" means a series of CBBCs where the Call Price is different from the Strike Price;

"**CCASS**" means the Central Clearing and Settlement System;

"**CCASS Settlement Day**" has the meaning ascribed to the term "Settlement Day" in the CCASS Rules, subject to such modification and amendment prescribed by HKSCC from time to time;

"**Closing Price**" means the closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments (as determined by the Issuer in accordance with these Conditions) to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**Dealing Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Entitlement**" means the number specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Exercise Expenses**" means any charges or expenses including any taxes or duties which are incurred in respect of the exercise of a Board Lot of CBBCs;

"**Expiry Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Mandatory Call Event**" occurs when the Spot Price of the Units on any Trading Day during the Observation Period is:

(i) in the case of a series of bull CBBCs, at or below the Call Price; or

(ii) in the case of a series of bear CBBCs, at or above the Call Price;

"**Market Disruption Event**" means:

(1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (a) the Units; or (b) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;

(2) the issuance of the tropical cyclone warning signal number 8 or above or the issuance of a "BLACK" rainstorm signal on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of the tropical cyclone warning signal number 8 or above or the "BLACK" rainstorm signal having been issued; or

(3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

"**Maximum Trade Price**" means the highest Spot Price of the Units during the MCE Valuation Period;

"**MCE Valuation Period**" means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the "**1st Session**") and up to the end of the trading session on the Stock Exchange immediately following the 1st Session ("**2nd Session**") unless, in the determination of the Issuer in its good faith, the 2nd Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the 2nd Session) does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, the MCE Valuation Period shall be extended to the end of the subsequent trading session following the 2nd Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least 1 hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in its good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of 1 hour or more than 1 hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

(i) the period commencing from the 1st Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and

(ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in its good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

(a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and

(b) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

"**Minimum Trade Price**" means the lowest Spot Price of the Units during the MCE Valuation Period;

"**Observation Commencement Date**" means the date specified as such in the relevant Supplemental Listing Document;

"**Observation Period**" means the period commencing from and including the Observation Commencement Date and ending on and including the Trading Day immediately preceding the Expiry Date;

"**Post MCE Trades**" has the meaning given to it in the relevant Supplemental Listing Document, subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Residual Value**" means:

(i) in the case of a series of bull CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Minimum Trade Price - Strike Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

(ii) in the case of a series of bear CBBCs:

$$\text{Residual Value per Board Lot} = \frac{\text{Entitlement x (Strike Price - Maximum Trade Price) x one Board Lot}}{\text{Number of CBBC(s) per Entitlement}}$$

"**Settlement Date**" means the third CCASS Settlement Day following (i) the Valuation Date or (ii) the end of the MCE Valuation Period, as the case may be;

"**Spot Price**" means:

(a) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and

(b) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange, as the case may be, the final Indicative Equilibrium Price (as defined in the Trading Rules) of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable), as the case may be, in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

"**Stock Exchange**" means The Stock Exchange of Hong Kong Limited;

"**Strike Price**" means the price specified as such in the relevant Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

"**Trading Day**" means any day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

"**Trading Rules**" means the Rules and Regulations of the Exchange prescribed by the Stock Exchange from time to time;

"**Trust**" means the trust specified as such in the relevant Supplemental Listing Document;

"**Unit**" means the unit specified as such in the relevant Supplemental Listing Document; and

"**Valuation Date**" means the Trading Day immediately preceding the Expiry Date unless, in the determination of the Issuer, a Market Disruption Event has occurred on that day in which case, the Valuation Date shall be the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event occurring on each of the four Trading Days immediately following the original date which (but for the Market Disruption Event) would have been the Valuation Date. In that case:

(a) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date (regardless of the Market Disruption Event); and

(b) the Issuer shall determine the Closing Price having regard to the then prevailing market conditions, the last reported trading price of the Unit on the Stock Exchange and such other factors as the Issuer determines to be relevant.

Other capitalized terms shall, unless otherwise defined herein, have the meaning ascribed to them in the Base Listing Document, any addendum to the Base Listing Document, the relevant Supplemental Listing Document or the Global Certificate.

3. Hedging Disruption and Illegality or Impracticability

(A) Hedging Disruption

(i) *Notification.* The Issuer shall as soon as reasonably practicable give notice to the Holders in accordance with Condition 10:

(1) if it determines that a Hedging Disruption Event has occurred; and

(2) of the consequence of such Hedging Disruption Event as determined by the Issuer pursuant to Condition 3(A)(iii).

(ii) *Hedging Disruption Event*. A "**Hedging Disruption Event**" occurs if the Issuer determines in good faith and in a commercially reasonable manner that it is or has become not reasonably practicable or it has otherwise become undesirable, for any reason, for the Issuer wholly or partially to establish, re-establish, substitute or maintain a relevant hedging transaction (a "**Relevant Hedging Transaction**") it deems necessary or desirable to hedge the Issuer's obligations in respect of the CBBCs. The reasons for such determination by the Issuer may include, but are not limited to, the following:

(1) any material illiquidity in the market for the Units;

(2) a change in any applicable law (including, without limitation, any tax law) or the promulgation of, or change in, the interpretation of any court, tribunal or regulatory authority with competent jurisdiction of any applicable law (including any action taken by a taxing authority);

(3) a material decline in the creditworthiness of a party with whom the Issuer has entered into any such Relevant Hedging Transaction; or

(4) the general unavailability of:

(A) market participants who will agree to enter into a Relevant Hedging Transaction; or

(B) market participants who will so enter into a Relevant Hedging Transaction on commercially reasonable terms.

(iii) *Consequences*. The Issuer, in the event of a Hedging Disruption Event, may determine to:

(1) terminate the CBBCs. In such circumstances the Issuer will, however, if and to the extent permitted by the applicable law, pay to each Holder in respect of each CBBC held by such Holder an amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value of the CBBC immediately prior to such termination less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Holder in such manner as shall be notified to the Holder in accordance with Condition 10; or

(2) make any other adjustment to the Conditions as it considers appropriate in order to maintain the theoretical value of the CBBCs after adjusting for the relevant Hedging Disruption Event.

(B) Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

(i) for it to perform its obligations under the CBBCs in whole or in part as a result of:

(1) the adoption of, or any change in, any relevant law or regulation (including any tax law); or

(2) the promulgation of, or any change in, the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law),

(each of (1) and (2), a "**Change in Law Event**"); or

(ii) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by the applicable law or regulation, pay to each Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement as determined by the Issuer in its sole and absolute discretion. Payment will be made to each Holder in such manner as shall be notified to the Holder in accordance with Condition 10.

4. EXERCISE OF CBBCS

(A) CBBCs may only be exercised in Board Lots or integral multiples thereof.

(B) If no Mandatory Call Event has occurred during the Observation Period, the CBBCs will be deemed to be automatically exercised on the Expiry Date.

(C) Mandatory Call Event

(i) Subject to paragraph (ii) below, following a Mandatory Call Event, the CBBCs will terminate automatically and the Issuer shall have no further obligation under the CBBCs except for the payment of the Cash Settlement Amount (if any) following the Mandatory Call Event on the relevant Settlement Date. The Issuer will give notice to the Holders in accordance with Condition 10. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

Revocation

(ii) A Mandatory Call Event is irrevocable unless it is triggered as a result of any of the following events:

(1) system malfunction or other technical errors of Hong Kong Exchanges and Clearing Limited ("**HKEx**") (such as the setting up of wrong Call Price and other parameters); or

(2) manifest errors caused by the relevant third party price source where applicable;

and

(A) in the case of a system malfunction or other technical errors prescribed in paragraph (1) above, such event is reported by the Stock Exchange to the Issuer and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked; and

(B) in the case of an error by the relevant price source prescribed in paragraph (2) above, such event is reported by the Issuer to the Stock Exchange and the Issuer and the Stock Exchange mutually agree that such Mandatory Call Event is to be revoked,

in each case, such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs or such other time frame as prescribed by the Stock Exchange from time to time.

(D) Every Board Lot of CBBCs entitles the Holder to receive from the Issuer on the Settlement Date the Cash Settlement Amount (if any).

(E) Any Exercise Expenses which are not determined by the Issuer by the Business Day after the MCE Valuation Period or the Expiry Date (as the case may be) and deducted from the Cash Settlement Amount prior to delivery to the Holders in accordance with this Condition 4, shall be notified by the Issuer to the Holders as soon as practicable after determination thereof and shall be paid by the Holders to the Issuer immediately upon demand.

(F) In the event that the CBBCs have been exercised or have expired worthless, the Issuer will, with effect from the first Business Day following the MCE Valuation Period or the Expiry Date, as the case may be, remove the name of each Holder from the register of Holders in respect of such CBBCs and thereby cancel the relevant CBBCs and, if applicable, cancel the Global Certificate.

(G) Upon exercise following a Mandatory Call Event or on the Expiry Date in accordance with these Conditions, the Issuer will pay the Cash Settlement Amount minus the determined Exercise Expenses to the relevant Holder. If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

The aggregate Cash Settlement Amount minus the determined aggregate Exercise Expenses shall be despatched no later than the Settlement Date, by crediting that amount, in accordance with the CCASS Rules, to the relevant bank account designated by each Holder (the "**Designated Bank Account**").

If as a result of an event beyond the control of the Issuer ("**Settlement Disruption Event**"), it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Holder for any interest in respect of the amount due or any loss or damage that such Holder may suffer as a result of the existence of a Settlement Disruption Event.

(H) In the absence of gross negligence or wilful misconduct on its part, none of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation of the Cash Settlement Amount.

The purchase of CBBCs does not confer on any Holder of such CBBCs any rights (whether in respect of voting, distributions or otherwise) in relation to the Units.

(I) Exercise and settlement of the CBBCs is subject to all applicable laws, regulations and practices in force at the relevant time and neither the Issuer nor the Sponsor shall incur any liability whatsoever if it is unable to effect the transactions contemplated, after using all reasonable efforts, as a result of any such laws, regulations or practices. Neither the Issuer nor the Sponsor shall under any circumstances be liable for any acts or defaults of the CCASS in relation to the performance of its duties in relation to the CBBCs.

(J) Subject to Condition 4(C)(ii), trading in CBBCs on the Stock Exchange shall cease (i) immediately upon the occurrence of a Mandatory Call Event or (ii) at the close of trading for the Trading Day immediately preceding the Expiry Date (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning session only, at the close of trading for the morning session), whichever is the earlier. All Post MCE Trades will be invalid and will be cancelled, and will not be recognised by the Issuer or the Stock Exchange.

5. Sponsor

(A) The Sponsor will not assume any obligation or duty to or any relationship or agency or trust for the Holders.

(B) The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the initial Sponsor and to appoint another sponsor provided that it will at all times maintain a sponsor in Hong Kong for so long as the CBBCs are listed on the Stock Exchange. Notice of any such termination or appointment will be given to the Holders in accordance with Condition 10.

6. Adjustments

(A) *Rights Issues*. If and whenever the Trust shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a "**Rights Offer**"), the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Rights Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a Cum-Rights basis

R: Subscription price per new Unit specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Right

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the Rights Issue Adjustment Date.

For the purposes of these Conditions:

"**Rights**" means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

(B) *Bonus Issues*. If and whenever the Trust shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip distribution or similar scheme for the time being operated by the Trust or otherwise in lieu of a cash distribution and without any

payment or other consideration being made or given by such holders) (a "**Bonus Issue**") the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement ("**Bonus Issue Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

Adjustment Component = (1 + N)

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of Units for each Unit held prior to the Bonus Issue

Provided that if the above formula would result in an adjustment to the Entitlement which would amount to one per cent. or less of the Entitlement immediately prior to the adjustment, then no adjustment will be made. In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the Bonus Issue Adjustment Date.

(C) *Subdivisions and Consolidations*. If and whenever the Trust shall subdivide its Units or any class of its outstanding Units into a greater number of units (a "**Subdivision**") or consolidate the Units or any class of its outstanding Units into a smaller number of units (a "**Consolidation**"), then:

(i) in the case of a Subdivision, the Entitlement in effect immediately prior thereto will be increased whereas the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be decreased in the same ratio as the Subdivision; and

(ii) in the case of a Consolidation, the Entitlement in effect immediately prior thereto will be decreased whereas the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) will be increased in the same ratio as the Consolidation,

in each case on the day on which the Subdivision or Consolidation (as the case may be) shall have taken effect.

(D) *Restructuring Events*. If it is announced that the Trust is to or may merge with or into any other trust or consolidate with or into any other trust or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Trust is the surviving entity in a merger) or that it is to, or may, sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a "**Restructuring Event**") (as determined by the Issuer in its absolute discretion) so that the CBBCs shall, after such Restructuring Event, relate to the number of units of the trust(s) resulting from or surviving such Restructuring Event or other securities ("**Substituted Securities**") and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event, and thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer, be deemed to be replaced by an amount in Hong Kong dollars equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as

practicable after such Restructuring Event is effected. For the avoidance of doubt, any remaining Units shall not be affected by this paragraph and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

(E) *Cash Distribution*. No adjustment will be made for an ordinary cash distribution (whether or not it is offered with a script alternative) ("**Ordinary Distribution**"). For any other forms of cash distribution ("**Cash Distribution**") announced by the Trust, such as a cash bonus, special distribution or extraordinary distribution, no adjustment will be made unless the value of the Cash Distribution accounts for 2 per cent. or more of the Unit's closing price on the day of announcement by the Trust.

If and whenever the Trust shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement shall be adjusted to take effect on the Business Day on which trading in the Units becomes ex-entitlement in respect of the Cash Distribution ("**Distribution Adjustment Date**") in accordance with the following formula:

Adjusted Entitlement = Adjustment Component x E

Where:

$$\text{Adjustment Component} = \frac{S - OD}{S - OD - CD}$$

E: The existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Unit price being the closing price of an existing Unit as derived from the Daily Quotation Sheet of the Stock Exchange on the last Business Day on which the Units are traded on a cum-Cash Distribution basis

CD: The Cash Distribution per Unit

OD: The Ordinary Distribution per Unit, provided that the Ordinary Distribution and the Cash Distribution have the same ex-entitlement date. For avoidance of doubt, the OD shall be zero if the Ordinary Distribution and the Cash Distribution have different ex-entitlement dates

In addition, the Issuer shall adjust the Strike Price and/or the Call Price (which shall be rounded to the nearest Hong Kong dollar 0.001) by the reciprocal of the Adjustment Component, where the "**reciprocal of the Adjustment Component**" means one divided by the relevant Adjustment Component. The adjustment to the Strike Price and/or the Call Price shall take effect on the Distribution Adjustment Date.

(F) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:

(i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or

(ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

(G) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 10.

7. Purchase

The Issuer or any of its subsidiaries may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

8. Global Certificate

A Global Certificate representing the CBBCs will be deposited with CCASS in the name of HKSCC Nominees Limited. The Global Certificate must be executed manually on behalf of the Issuer by authorised person(s) or attorney(s) of the Issuer.

9. Meetings of Holders and Modification

(A) *Meetings of Holders.* The Instrument contains provisions for convening meetings of the Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the CBBCs or of the Instrument.

Any resolution to be passed in a meeting of the Holders shall be decided by poll. A meeting may be convened by the Issuer or by Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Holders shall be binding on all the Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Holders being held if passed unanimously.

(B) *Modification.* The Issuer may, without the consent of the Holders, effect any modification of the terms and conditions of the CBBCs or the Instrument which, in the opinion of the Issuer, is (i) not materially prejudicial to the interests of the Holders generally (without considering the circumstances of any individual Holder or the tax or other consequences of such modification in any particular jurisdiction); (ii) of a formal, minor or technical nature; (iii) made to correct a manifest error; or (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong. Any such modification shall be binding on the Holders and shall be notified to them by the Issuer as soon as practicable thereafter in accordance with Condition 10.

10. Notices

All notices to the Holders will be validly given if published in English and in Chinese on the HKEx website. In such circumstances, the Issuer shall not be required to despatch copies of the notice to the Holders.

11. Termination or Liquidation

In the event of a Termination or the liquidation or dissolution of the trustee of the Trust (including any successor trustee appointed from time to time) ("**Trustee**") (in its capacity as trustee of the Trust) or the appointment of a liquidator, receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, all unexercised CBBCs will lapse and shall cease to be valid for any purpose. In the case of a Termination, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the Termination, in the case of a voluntary liquidation, the unexercised CBBCs will lapse and shall cease to be valid on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Trustee's undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law.

For the purpose of this Condition 11, "**Termination**" means (i) the Trust is terminated, or the Trustee or the manager of the Trust (including any successor manager appointed from time to time) ("**Manager**") is required to terminate the Trust under the trust deed ("**Trust Deed**") constituting the Trust or applicable law, or the termination of the Trust commences; (ii) the Trust is held or is conceded by the Trustee or the Manager not to be have been constituted or to have been imperfectly constituted; (iii) the Trustee ceases to be authorised under the Trust to hold the property of the Trust in its name and perform its obligations under the Trust Deed; or (iv) the Trust ceases to be authorised as an authorised collective investment scheme under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong).

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

13. Delisting

(A) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the CBBCs as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Holders generally are not materially prejudiced as a consequence of such delisting (without considering the circumstances of any individual Holder or the tax or other consequences that may result in any particular jurisdiction).

(B) Without prejudice to the generality of Condition 13(A), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer, be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Holders, make such adjustments to the entitlements of the Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into Hong Kong currency) as may be appropriate in the circumstances.

(C) The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Holders in accordance with Condition 10 as soon as practicable after they are determined.

14. Good Faith and Commercially Reasonable Manner

Any exercise of discretion by the Issuer under these Conditions will be made in good faith and in a commercially reasonable manner.

15. Governing Law

The CBBCs and the Instrument are governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Holder (by its purchase of the CBBCs) submit for all purposes in connection with the CBBCs and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

16. Language

A Chinese translation of these Conditions will be made available for collection during normal office hours from the Sponsor at 52nd Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. In the event of any inconsistency between the Chinese translation and the English version of these Conditions, the English version of these Conditions shall prevail.

17. Prescription

Claims against the Issuer for payment of any amount in respect of the CBBCs will become void unless made within ten years after the MCE Valuation Period or the Expiry Date (as the case may be) and thereafter, any sums payable in respect of such CBBCs shall be forfeited and shall revert to the Issuer.

Sponsor:
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

APPENDIX 3 — AUDITOR'S REPORT AND OUR CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2011

This information in this Appendix 3 has been extracted from our Annual Report 2011 as at and for the year ended 31 December 2011. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix 3.

Ernst & Young Ltd
Aeschengraben 9
CH-4002 Basel

Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

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

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 Licensed Audit Expert (Auditor in Charge)	Andreas Loetscher Licensed Audit Expert

Income statement

CHF million, except per share data	Note	31.12.11	For the year ended 31.12.10	31.12.09	% change from 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

CHF million	For the year ended 31.12.11 Total	31.12.11 UBS shareholders	31.12.11 Non-controlling interests	31.12.10	31.12.09
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

Note 1 Summary of significant accounting policies (continued)

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 de-

ferred 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:

Note 1 Summary of significant accounting policies (continued)

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.

Note 1 Summary of significant accounting policies (continued)

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)

CHF million	Goodwill	Intangible assets				
	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 docu-

Note 21 Provisions and contingent liabilities (continued)

ments 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

CHF million	For the year ended 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:

CHF million	For the year ended 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]	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]
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.

	31.12.11					31.12.10[6]				
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	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 cash-flows 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	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	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	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	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 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 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]

CHF million	Personnel expenses for the year 2009: Expenses relating to awards for 2009	Expenses relating to awards for prior years	Total	Personnel expenses deferred to 2010 and later: 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 (Curaçao) 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.

APPENDIX 4 — RISK MANAGEMENT AND CONTROL

The information in this Appendix 4 describes the risk management and control process of UBS AG and references herein to "**UBS**" or the "**Group**" are to UBS AG and its subsidiaries.

The information in this Appendix 4 has been extracted from our Annual Report 2011 as at and for the year ended 31 December 2011. Reference to page numbers in this Appendix 4 are to pages of such document. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix 4.

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

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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

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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 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:

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– Credit risk: the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations.

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- 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.

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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

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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.

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**

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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	
	Moody's Investors Service	Standard & Poor's		LGD buckets						
Internal UBS ratings	mapping	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

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

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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

Audited

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**

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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.

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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

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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.

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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%.

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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

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

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).

Audited

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.

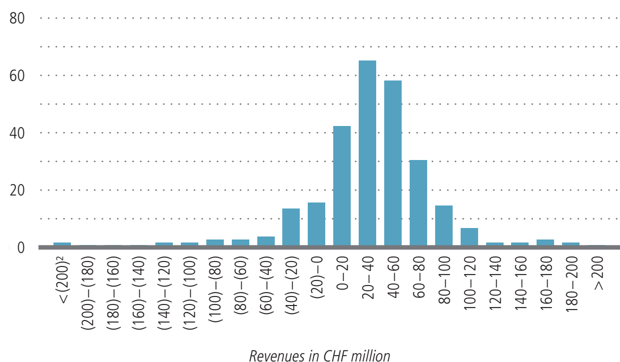
The chart "Investment Bank: development of backtesting revenues against value-at-risk" shows the 12-month development of 1-day 99% VaR against backtesting revenues in the Investment Bank for the whole year of 2011. The histogram "Investment Bank: all revenue distribution" shows the Investment Bank's 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

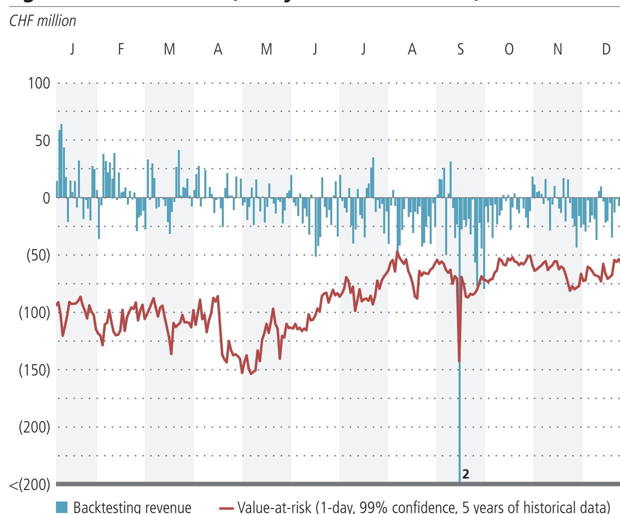
Backtesting exceptions are also reported to internal and external auditors and to the relevant regulators.

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

Audited

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.

Audited

(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

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 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

Audited

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

Audited

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

PARTIES

OUR HEAD OFFICE
UBS AG
Bahnhofstrasse 45
CH-8001 Zurich
Switzerland
and
Aeschenvorstadt 1
CH-4051 Basel
Switzerland

OUR OFFICE
UBS AG, London Branch
1 Finsbury Avenue
London
EC2M 2PP
United Kingdom

OUR PLACE OF BUSINESS IN HONG KONG
52nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

SPONSOR
UBS Securities Asia Limited
52nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

LEGAL ADVISORS AS TO HONG KONG LAW
King & Wood Mallesons
13th Floor
Gloucester Tower, The Landmark
15 Queen's Road Central
Central
Hong Kong

AUDITORS
Ernst & Young Ltd.
Aeschengraben 9
P.O. Box 2149 CH-4002 Basel
Switzerland

LIQUIDITY PROVIDER
UBS Securities Hong Kong Limited
52nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong