BASE LISTING DOCUMENT DATED 5 APRIL 2013

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

Non-collateralised Structured Products Base Listing Document relating to Structured Products to be issued by

UBS

UBS AG

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

Sponsor

UBS Securities Asia Limited

This document, for which we accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") 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, having made all reasonable enquiries, confirm that to the best of our knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or 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. If we become insolvent or default on our obligations under the Structured Products, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

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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. You should also consider your financial position and investment objectives before deciding to invest in the Structured Products. We cannot give you investment advice. You must decide whether the Structured Products meet your investment needs before investing in the Structured Products.

Is there any guarantee or collateral for the Structured Products?

No. Our obligations under the Structured Products are neither guaranteed by any third party, nor collateralised with any of our assets or other collaterals. When you purchase our Structured Products, you are relying on our creditworthiness only, and of no other person. If we become insolvent or default on our obligations under the Structured Products, you can only claim as our unsecured creditor. In such event, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

What are our credit ratings?

Our long term debt ratings are:

Rating agency	*Rating as of the date immediately preceding the date of this document*
Moody's Investors Service, Inc., New York	A2
Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.	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 companies 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 immediately preceding the date of this document are for reference only. Any downgrading of our credit ratings could result in a reduction in the value of the Structured Products.

The Structured Products are not rated.

Our credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to our credit ratings from time to time.

Are we regulated by the Hong Kong Monetary Authority referred to in Rule 15A.13(2) or the Securities and Futures Commission referred to in Rule 15A.13(3)?

We are a licensed bank regulated by the Hong Kong Monetary Authority. We are also authorised and regulated by the Financial Market Supervisory Authority in Switzerland, and authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority in the United Kingdom.

Are we subject to any litigation?

Save as disclosed 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 2012.

Do you need to pay any trading fees and levies?

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. for 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.

If you are an individual resident in the United Kingdom or in Austria or if you are a citizen of one of these states, payments on coupon dates, transfers and redemptions of certain Structured Products or other financial instruments through a paying agent resident in Switzerland may be subject to the bilateral agreements on cooperation in the area of taxation of Switzerland with the United Kingdom or Austria if you hold the product directly or indirectly as a relevant person as defined in the agreements.

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 by the listing date and such report will be released on the website of HKEx.

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 2012 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 the HKEx at *www.hkexnews.hk* and our website at *http://warrants.ubs.com/en/home_e.cgi*.

各上市文件亦可於香港交易所披露易網站 *www.hkexnews.hk* 以及我們的網站 *http://warrants.ubs.com/ch/home_c.cgi* 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 7 March 2013 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 own any of 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* to obtain further information about us and *http://warrants.ubs.com/en/home_e.cgi* to obtain further information about 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, with effect from and including the Relevant Implementation Date, an offer of Structured Products to the public in that Relevant Member State may be made:

(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 does not or where applicable 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 to non-qualified investors. 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 derivative warrant generally depends on the prevailing price or level of the Underlying Asset. However, throughout the term of a derivative warrant, its price will be influenced by a number of factors, including:

(a) the Exercise Price or Strike Level;

(b) the value and 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 over time);

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

(d) the interim interest rates and expected dividend payments or other distributions on the Underlying Asset or on any components comprising the underlying index;

(e) the liquidity of the Underlying Asset;

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

(g) our related transaction costs; and

(h) our creditworthiness.

What is your maximum loss?

Your maximum loss in warrants will be your entire investment amount plus any transaction costs.

How can you get information about our warrants after issue?

You may visit the website of HKEx at *http://www.hkex.com.hk/eng/prod/secprod/dwrc/dw.htm* or our website at *http://warrants.ubs.com/home/html/warrants_e.html* to obtain information on our 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 bull CBBCs or 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 to C of Appendix 2 (as may be supplemented by any addendum or the relevant supplemental listing document).

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 or CBBCs over single unit trusts, 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, 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?

Although the price of a CBBC tends 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), movement in the price of the CBBC may not always correspond with the movement in value of the 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 (if any) payable upon the occurrence of a Mandatory Call Event;

(d) the time remaining to expiry;

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

(f) the liquidity of the Underlying Asset;

(g) the supply and demand for the CBBCs;

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

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

(j) our related transaction costs; and

(k) our creditworthiness.

What is your maximum loss?

Your maximum loss in CBBCs will be your entire investment amount plus any transaction costs.

How can you get information about our CBBCs after issue?

You may visit the website of HKEx at *http://www.hkex.com.hk/eng/prod/secprod/cbbc/intro.htm* or our website at *http://warrants.ubs.com/home/html/cbbc_e.html* to obtain information on our 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 ("**Issuer**") with its subsidiaries (together with the Issuer, "**UBS Group**", "**Group**" or "**UBS**") draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. UBS's business strategy is centered on its pre-eminent global wealth management businesses and its leading universal bank in Switzerland. These businesses, together with a client-focused Investment Bank and a strong, well-diversified Global Asset Management business, will enable UBS to expand its premier wealth management franchise and drive further growth across the Group. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centers.

2. Corporate Information

The legal and commercial name of the Issuer is UBS AG. The company was incorporated under the name SBC AG on 28 February 1978 for an unlimited duration and entered in the Commercial Register of Canton Basel-City on that day. On 8 December 1997, the company changed its name to UBS AG. The company in its present form was created on 29 June 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872). UBS AG is entered in the Commercial Registers of Canton Zurich and Canton Basel-City. The registration number is CH-270.3.004.646-4.

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

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

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

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

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 strictest standard. The Chairman is not required to be independent.

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

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

3.1 Members of the Board of Directors

Members	Title	Term of office	Current positions outside UBS AG
Axel A. Weber	Chairman	2013	Member of the Group of Thirty, Washington,D.C.; research fellow at the Center for Economic Policy Research, London, and the Center for Financial Research, Cologne; member of the board of the International Institute of Finance and senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the Monetary Economics and International Economics Councils of the Verein für Socialpolitik; member of the Advisory Board of the German Market Economy Foundation; member of the Advisory Council of the Goethe University, Frankfurt/Main.

Members	Title	Term of office	Current positions outside UBS AG
Michel Demaré	Independent Vice Chairman	2013	Member of the board of Syngenta, of the IMD Foundation, Lausanne, and of SwissHoldings, Berne.
David Sidwell	Senior Independent Director	2013	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Rainer-Marc Frey	Member	2013	Founder of Horizon21 AG; Chairman of Horizon21 AG, its holding company and related entities and subsidiaries; member of the board of DKSH Group, Zurich, and of the Frey Charitable Foundation, Freienbach.
Ann F. Godbehere	Member	2013	Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc, Rio Tinto Limited, Atrium Underwriters Ltd., and Atrium Underwriting Group Ltd., London. Member of the board of Arden Holdings Ltd., Bermuda, and British American Tobacco plc.
Axel P. Lehmann	Member	2013	Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Insurance Group; Chairman of the board of Farmers Group, Inc.; Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen; member of the Chief Risk Officer Forum; member of the board of Economiesuisse.
Wolfgang Mayrhuber	Member	2013	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).
Helmut Panke	Member	2013	Member of the board and Chairperson of the Regulatory and Public Policy Committee of Microsoft Corporation; member of the board and Chairperson of the Safety & Risk Committee of Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG.
William G. Parrett	Member	2013	Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; Past Chairman of the board of the United States Council for International Business and of United Way Worldwide; member of the Carnegie Hall Board of Trustees.
Isabelle Romy	Member	2013	Partner at Froriep Renggli, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; member and Vice Chairman of the Sanction Commission of the SIX Swiss Exchange.

Members	Title	Term of office	Current positions outside UBS AG
Beatrice Weder di Mauro	Member	2013	Professor at the Johannes Gutenberg University, Mainz; research fellow at the Centre for Economic Policy Research, London; member of the board of Roche Holding Ltd., Basel; member of the Supervisory Board of ThyssenKrupp AG, Essen, and of the Deutsche Investitions- und Entwicklungsgesellschaft, Cologne.
Joseph Yam	Member	2013	Executive Vice President of the China Society for Finance and Banking; member of the international advisory councils of a number of government and academic institutions. Board member and Chairperson of the Risk Committee of China Construction Bank. Member of the board of Johnson Electric Holdings Limited and of UnionPay International Co., Ltd.

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

Non-collateralised Structured Products

The Structured Products are not secured on any of our assets or any collateral.

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.

Our creditworthiness

If you invest in our Structured Products, you are relying on our creditworthiness and of no other person. If we become insolvent or default on our obligations under the Structured Products, you can only claim as our unsecured creditor regardless of the performance of the Underlying Asset and you may not be able to recover all or even part of the amount due under the Structured Products (if any). You have no rights under the terms of the Structured 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 or any company which has issued any constituent securities of the underlying index.

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

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

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.

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.

Our operating environment and strategy

Certain risks, including those as set out in Appendix 5, may impact our ability to execute our strategy and directly affect our business activities, financial condition, results of operations and prospects. As a broad-based international financial services firm, we are inherently exposed to risks that become apparent only with the benefit of hindsight, risks of which we are not presently aware or which we currently do not consider to be material could also materially affect our business activities, financial condition, results of operations and prospects. The sequence in which the risk factors are set out in Appendix 5 is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

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, which may be substantially less than your initial investment and may be zero.

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.

You may lose your entire investment when a Mandatory Call Event occurs

Unlike warrants, CBBCs has a mandatory call feature and trading in the CBBCs will be suspended when the Spot Level/Spot Price reaches the Call Level/Call Price (subject to the circumstances in which a Mandatory Call Event will be reversed as set out below). No investors can sell the CBBCs after the occurrence of a Mandatory Call Event. Even if the level/price of the Underlying Asset bounces back in the right direction, the CBBCs which have been terminated as a result of the Mandatory Call Event will not be revived and investors will not be able to profit from the bounce-back. Investors may receive a Residual Value after the occurrence of a Mandatory Call Event but such amount may be zero.

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 following the occurrence of 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.

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 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 prices of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments 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, for every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(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;

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

"**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;

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

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with the Conditions;

"**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 the 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) *Right*s *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 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 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 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 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 the relevant currency 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 scrip 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 per cent. 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 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 the relevant 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, for every Board Lot, 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;

"**Listing Date**" means the date specified as such 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;

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with the Conditions;

"**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 the 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 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 prices of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustments 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, for every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(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;

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

"**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;

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

"**Settlement Date**" means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with the Conditions;

"**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 the 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 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 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 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 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 the relevant currency 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 scrip 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 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 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 the relevant 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.

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, for every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(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 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;

"**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;

"**Listing 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, for every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

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

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with the Conditions (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) None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

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, rules, regulations and guidelines 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, rules, regulations or guidelines. 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 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 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 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 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 the relevant currency 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 scrip 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 per cent. 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 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 the relevant 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, for every Board Lot, 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:

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

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

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

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;

"**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;

"**Listing Date**" means the date 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 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, for every Board Lot, 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:

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

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

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

"**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 after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with the Conditions (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 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 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) None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

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, rules, regulations and guidelines 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, rules, regulations or guidelines. 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 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.

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, for every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

(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 to such closing price as may be necessary to reflect any capitalisation, rights issue, distribution or the like) on the Valuation Date;

"**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;

"**Listing 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, for every Board Lot, an amount in the Settlement Currency calculated by the Issuer in accordance with the following formula:

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

"**Settlement Date**" means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of: (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with the Conditions (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) None of the Issuer, the Sponsor or their respective agents shall have any responsibility for any errors or omissions in the calculation and dissemination of any variables published by a third party and used in any calculation made pursuant to these Conditions or in the calculation of the Cash Settlement Amount arising from such errors or omissions.

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, rules, regulations and guidelines 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, rules, regulations or guidelines. 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 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 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 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 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 the relevant currency 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 scrip 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 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 the relevant 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 2012

This information in this Appendix 3 has been extracted from our Annual Report 2012 as at and for the year ended 31 December 2012. The page numbers of such document appear on the bottom left or right hand side of the pages in this Appendix 3.

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CH-4002 Basel

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www.ey.com/ch

To the General Meeting of

UBS AG, Zurich and Basel

Basel, 7 March 2013

Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of UBS AG and its subsidiaries which are comprised of the consolidated balance sheets as of 31 December 2012 and 2011, and the related consolidated income statements and consolidated statements of comprehensive income, changes in equity and cash flows, and notes thereto, for each of the three years in the period ended 31 December 2012 on pages 323 to 456.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards, International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used

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and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UBS AG and its subsidiaries at 31 December 2012 and 2011, and the consolidated results of operations and the cash flows for each of the three years in the period ended 31 December 2012 in accordance with IFRS, as issued by the International Accounting Standards Board, and comply with Swiss law.

Report on other legal and regulatory requirements

We confirm that we meet the Swiss legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements in accordance with the instructions of the Board of Directors.

In accordance with Swiss law, we recommend that the consolidated financial statements submitted to you be approved.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the internal control over financial reporting of UBS AG and its subsidiaries as of 31 December 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated 7 March 2013 expresses an unqualified opinion on the effectiveness of the Group's internal control over financial reporting.

Ernst & Young Ltd

Jonathan Bourne
Licensed Audit Expert
(Auditor in Charge)

Troy J. Butner
Certified Public Accountant (U.S.)

Income statement

		For the year ended			% change from
CHF million, except per share data	Note	**31.12.12**	31.12.11	31.12.10	31.12.11
Continuing operations					
Interest income	3	**15,968**	17,969	18,872	(11)
Interest expense	3	**(9,974)**	(11,143)	(12,657)	(10)
Net interest income	3	**5,994**	6,826	6,215	(12)
Credit loss (expense) / recovery	11	**(118)**	(84)	(66)	40
Net interest income after credit loss expense		**5,875**	6,742	6,149	(13)
Net fee and commission income	4	**15,405**	15,236	17,160	1
Net trading income	3	**3,480**	4,343	7,471	(20)
Other income	5	**682**	1,467	1,214	(54)
Total operating income		**25,443**	27,788	31,994	(8)
Personnel expenses	6	**14,737**	15,634	17,031	(6)
General and administrative expenses	7	**8,653**	5,959	6,585	45
Depreciation and impairment of property and equipment	16	**689**	761	918	(9)
Impairment of goodwill	17	**3,030**	0	0	
Amortization and impairment of intangible assets	17	**106**	127	117	(17)
Total operating expenses		**27,216**	22,482	24,650	21
Operating profit / (loss) from continuing operations before tax		**(1,774)**	5,307	7,345	
Tax expense / (benefit)	24	**461**	901	(409)	(49)
Net profit / (loss) from continuing operations		**(2,235)**	4,406	7,754	
Discontinued operations					
Profit from discontinued operations before tax		**0**	0	2	
Tax expense	24	**0**	0	0	
Net profit from discontinued operations		**0**	0	2	
Net profit / (loss)		**(2,235)**	4,406	7,756	
Net profit attributable to non-controlling interests		**276**	268	304	3
from continuing operations		**276**	268	303	3
from discontinued operations		**0**	0	1	
Net profit / (loss) attributable to UBS shareholders		**(2,511)**	4,138	7,452	
from continuing operations		**(2,511)**	4,138	7,451	
from discontinued operations		**0**	0	1	
Earnings per share (CHF)					
Basic earnings per share	8	**(0.67)**	1.10	1.97	
Diluted earnings per share	8	**(0.67)**	1.08	1.94	

Statement of comprehensive income[1]

	For the year ended				
CHF million	31.12.12			31.12.11	31.12.10
	Total	**UBS shareholders**	**Non-controlling interests**		
Net profit / (loss)	(2,235)	(2,511)	276	4,406	7,756
Other comprehensive income					
Foreign currency translation					
Foreign currency translation movements, before tax	(395)	(362)	(33)	985	(740)
Foreign exchange amounts reclassified to the income statement from equity	(58)	(58)		8	237
Income tax relating to foreign currency translation movements	(91)	(91)		20	88
Subtotal foreign currency translation movements, net of tax[2]	(544)	(511)	(33)	1,014	(415)
Financial investments available-for-sale					
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	323	323		1,458	(499)
Impairment charges reclassified to the income statement from equity	85	85		39	72
Realized gains reclassified to the income statement from equity	(433)	(433)		(950)	(357)
Realized losses reclassified to the income statement from equity	19	19		24	153
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	20	20		(76)	13
Subtotal net unrealized gains / (losses) on financial investments available-for-sale, net of tax[2]	14	14	0	495	(618)
Cash flow hedges					
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	1,714	1,714		3,093	927
Net realized (gains) / losses reclassified to the income statement from equity	(1,235)	(1,235)		(1,140)	(1,108)
Income tax effects relating to cash flow hedges	(95)	(95)		(417)	38
Subtotal changes in fair value of derivative instruments designated as cash flow hedges, net of tax[2]	384	384	0	1,537	(143)
Defined benefit plans					
Gains / (losses) on defined benefit plans, before tax	1,023	1,023		(2,141)	124
Income tax relating to gains / losses on defined benefit plans	(413)	(413)		321	(3)
Subtotal changes in gains / (losses) on defined benefit plans, net of tax[2]	609	609	0	(1,820)	120
Property revaluation surplus					
Gains on property revaluation, before tax	8	8			
Income tax relating to gains on property revaluation	(2)	(2)			
Subtotal changes in property revaluation surplus, net of tax[2]	6	6	0		
Total other comprehensive income	469	502	(33)	1,226	(1,055)
Total comprehensive income	(1,766)	(2,009)	243	5,632	6,701
Total comprehensive income attributable to non-controlling interests	243			560	609
Total comprehensive income attributable to UBS shareholders	(2,009)			5,071	6,092

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS 19R. 2 Other comprehensive income attributable to UBS shareholders related to foreign currency translations was positive CHF 722 million in 2011 and negative CHF 731 million in 2010. Other comprehensive income attributable to UBS shareholders related to financial investments available-for-sale was positive CHF 495 million in 2011 and negative CHF 607 million in 2010. Other comprehensive income related to cash flow hedges, defined benefit plans and property revaluation surplus was wholly attributable to UBS shareholders for all periods presented.

Balance sheet

CHF million	Note	31.12.12	31.12.11	31.12.10	% change from 31.12.11
Assets					
Cash and balances with central banks		**66,383**	40,638	26,939	63
Due from banks	9	**21,230**	23,218	17,133	(9)
Cash collateral on securities borrowed	10	**37,372**	58,763	62,454	(36)
Reverse repurchase agreements	10	**130,941**	213,501	142,790	(39)
Trading portfolio assets	12	**160,861**	181,525	228,815	(11)
of which: assets pledged as collateral which may be sold or repledged by counterparties	28	***44,698***	*39,936*	*61,352*	*12*
Positive replacement values	25	**418,029**	486,584	401,146	(14)
Cash collateral receivables on derivative instruments	10	**30,413**	41,322	38,071	(26)
Financial assets designated at fair value	13	**9,106**	10,336	8,504	(12)
Loans	9	**279,901**	266,604	262,877	5
Financial investments available-for-sale	14	**66,383**	53,174	74,768	25
Accrued income and prepaid expenses		**6,093**	6,327	5,466	(4)
Investments in associates	15	**858**	795	790	8
Property and equipment	16	**6,004**	5,688	5,467	6
Goodwill and intangible assets	17	**6,461**	9,695	9,822	(33)
Deferred tax assets	24	**8,143**	9,627	10,262	(15)
Other assets	18	**11,055**	9,165	19,506	21
Total assets		**1,259,232**	1,416,962	1,314,813	(11)
Liabilities					
Due to banks	19	**23,024**	30,201	41,490	(24)
Cash collateral on securities lent	10	**9,203**	8,136	6,651	13
Repurchase agreements	10	**37,639**	102,429	74,796	(63)
Trading portfolio liabilities	12	**34,154**	39,480	54,975	(13)
Negative replacement values	25	**395,070**	473,400	393,762	(17)
Cash collateral payables on derivative instruments	10	**71,148**	67,114	58,924	6
Financial liabilities designated at fair value	20	**92,878**	88,982	100,756	4
Due to customers	19	**371,892**	342,409	332,301	9
Accrued expenses and deferred income		**6,881**	6,850	7,738	0
Debt issued	21	**104,656**	140,617	130,271	(26)
Provisions	23	**2,536**	1,626	1,704	56
Other liabilities	22	**59,902**	62,784	62,674	(5)
Total liabilities		**1,208,983**	1,364,027	1,266,042	(11)
Equity					
Share capital		**384**	383	383	0
Share premium		**33,898**	34,614	34,393	(2)
Treasury shares		**(1,071)**	(1,160)	(654)	(8)
Equity classified as obligation to purchase own shares		**(37)**	(39)	(54)	(5)
Retained earnings		**21,231**	23,742	19,604	(11)
Cumulative net income recognized directly in equity, net of tax		**(8,509)**	(9,011)	(9,945)	(6)
Equity attributable to UBS shareholders		**45,895**	48,530	43,728	(5)
Equity attributable to non-controlling interests		**4,353**	4,406	5,043	(1)
Total equity		**50,249**	52,935	48,770	(5)
Total liabilities and equity		**1,259,232**	1,416,962	1,314,813	(11)

Statement of changes in equity

CHF million	Share capital	Share premium	Treasury shares	Equity classified as obligation to purchase own shares	Retained earnings
Balance as of 1 January 2010 before the adoption of IAS 19R	**356**	**34,824**	**(1,040)**	**(2)**	**11,910**
Effect of adoption of IAS 19R[1]					242
Balance as of 1 January 2010 after the adoption of IAS 19R	**356**	**34,824**	**(1,040)**	**(2)**	**12,152**
Issuance of share capital	27				
Acquisition of treasury shares			(1,574)		
Disposition of treasury shares			1,960		
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity[2]		(237)			
Premium on shares issued and warrants exercised		(27)			
Employee share and share option plans		(104)			
Tax (expense)/benefit recognized in share premium[2]		186			
Transaction costs related to share issuances, net of tax		(113)			
Dividends					
Equity classified as obligation to purchase own shares – movements				(52)	
Preferred securities					
New consolidations and other increases / (decrease)		(136)			
Deconsolidations and other decreases					
Total comprehensive income for the year recognized in equity					7,452
Balance as of 31 December 2010	**383**	**34,393**	**(654)**	**(54)**	**19,604**
Issuance of share capital					
Acquisition of treasury shares			(2,455)		
Disposition of treasury shares			1,949		
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity[2]		(83)			
Premium on shares issued and warrants exercised		10			
Employee share and share option plans		19			
Tax (expense)/benefit recognized in share premium[2]		280			
Transaction costs related to share issuances, net of tax					
Dividends					
Equity classified as obligation to purchase own shares – movements				15	
Preferred securities					
New consolidations and other increases / (decrease)		(5)			
Deconsolidations and other decreases					
Total comprehensive income for the year recognized in equity					4,138
Balance as of 31 December 2011	**383**	**34,614**	**(1,160)**	**(39)**	**23,742**
Issuance of share capital	0				
Acquisition of treasury shares			(1,398)[4]		
Disposition of treasury shares			1,486		
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		(9)			
Premium on shares issued and warrants exercised		4			
Employee share and share option plans		126			
Tax (expense)/benefit recognized in share premium		(457)			
Transaction costs related to share issuances, net of tax					
Dividends		(379)[5]			
Equity classified as obligation to purchase own shares – movements				2	
Preferred securities					
New consolidations and other increases / (decrease)		(1)			
Deconsolidations and other decreases					
Total comprehensive income for the year recognized in equity					(2,511)
Balance as of 31 December 2012	**384**	**33,898**	**(1,071)**	**(37)**	**21,231**

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS 19R. 2 Presentational changes have been made in 2012. The line Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity is now shown gross of tax. Previously, this line was shown net of tax. All income tax related to share premium is reported on the line Tax (expense) / benefit recognized in share premium. 3 Includes reclassifications from equity attributable to non-controlling interests to liabilities for preferred securities dividend payment obligations which were accrued in the period. 4 Net acquisitions of 5 million treasury shares (CHF 92 million) related to market making and hedging activities of the Investment Bank are presented as acquisitions. 5 Reflects the payment of CHF 0.10 per share of CHF 0.10 par value out of capital contribution reserve of UBS AG (Parent Bank).

Cumulative net income recognized directly in equity, net of tax	*of which Foreign currency translation*	*of which Financial investments available-for-sale*	*of which Cash flow hedges*	*of which Defined benefit plans*	*of which Property revaluation surplus*	Total equity attributable to UBS shareholders	Non-controlling interests	Total equity
(5,034)	***(6,604)***	***364***	***1,206***	***0***	***0***	**41,013**	**7,620**	**48,633**
(3,551)	*166*			*(3,716)*		(3,309)		(3,309)
(8,585)	***(6,438)***	***364***	***1,206***	***(3,716)***	***0***	**37,704**	**7,620**	**45,324**
						27		27
						(1,574)		(1,574)
						1,960		1,960
						(237)		(237)
						(27)		(27)
						(104)		(104)
						186		186
						(113)		(113)
						0	(305)[3]	(305)
						(52)		(52)
						0	(2,622)	(2,622)
						(136)	6	(130)
						0	(264)	(264)
(1,360)	*(731)*	*(607)*	*(143)*	*120*		6,092	609	6,701
(9,945)	***(7,169)***	***(243)***	***1,063***	***(3,596)***	**0**	**43,728**	**5,043**	**48,770**
						0		0
						(2,455)		(2,455)
						1,949		1,949
						(83)		(83)
						10		10
						19		19
						280		280
						0		0
						0	(269)[3]	(269)
						15		15
						0	(882)	(882)
						(5)	1	(4)
						0	(47)	(47)
934	*722*	*495*	*1,537*	*(1,820)*		5,071	560	5,632
(9,011)	***(6,447)***	***252***	***2,600***	***(5,415)***	**0**	**48,530**	**4,406**	**52,935**
						0		0
						(1,398)		(1,398)
						1,486		1,486
						(9)		(9)
						4		4
						126		126
						(457)		(457)
						0		0
						(379)	(277)[3]	(656)
						2		2
						0		0
						(1)	(10)	(11)
						0	(9)	(9)
502	*(511)*	*14*	*384*	*609*	*6*	(2,009)	243	(1,766)
(8,509)	*(6,958)*	*267*	*2,983*	*(4,806)*	*6*	45,895	4,353	50,249

Equity attributable to non-controlling interests

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Preferred securities[1]			
Balance at the beginning of the year	**4,359**	4,907	7,254
Redemptions[2]	**0**	(882)	(2,622)
Foreign currency translation	**(48)**	334	275
Balance at the end of the year	**4,311**	4,359	4,907
Other non-controlling interests at the end of the year	**42**	47	136
Total equity attributable to non-controlling interests	**4,353**	4,406	5,043

1 Increases and offsetting decreases due to dividend payment obligations are excluded from this table. 2 Represents nominal amount translated at the historic currency exchange rate.

	For the year ended			% change from
Number of shares	**31.12.12**	31.12.11	31.12.10	31.12.11
Shares issued				
Balance at the beginning of the year	**3,832,121,899**	3,830,840,513	3,558,112,753	0
Issuance of shares	**3,128,334**	1,281,386	272,727,760	144
Balance at the end of the year	**3,835,250,233**	3,832,121,899	3,830,840,513	0
Treasury shares				
Balance at the beginning of the year	**84,955,551**	38,892,031	37,553,872	118
Acquisitions	**114,292,481**	155,636,639	105,824,816	(27)
Dispositions	**(111,368,431)**	(109,573,119)	(104,486,657)	2
Balance at the end of the year	**87,879,601**	84,955,551	38,892,031	3

Conditional share capital

As of 31 December 2012, 145,510,992 additional shares (31 December 2011: 148,639,326 shares) could have been issued to fund UBS's employee share option programs. Further conditional capital of up to 100,000,000 shares was available in connection with an arrangement with the Swiss National Bank (SNB). The SNB provided a loan to a fund owned and controlled by the SNB (the SNB StabFund), to which UBS transferred certain illiquid securities and other positions. As part of this arrangement, UBS granted warrants on shares to the SNB and these warrants become exercisable if the SNB incurs a loss on its loan to the SNB StabFund.

Further on 14 April 2010, the Annual General Meeting of UBS AG (Parent Bank) shareholders approved the creation of conditional capital to a maximum amount of 380,000,000 shares for conversion rights/warrants granted in connection with the issuance of bonds or similar financial instruments. These positions are shown as conditional share capital in UBS AG's (Parent Bank) disclosure.

Statement of cash flows[1]

CHF million	For the year ended 31.12.12	31.12.11	31.12.10
Cash flow from / (used in) operating activities			
Net profit / (loss)	**(2,235)**	4,406	7,756
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation and impairment of property and equipment	**689**	761	918
Impairment of goodwill	**3,030**	0	0
Amortization and impairment of intangible assets	**106**	127	117
Credit loss expense / (recovery)	**118**	84	66
Share of net profits of associates	**(88)**	(42)	(81)
Deferred tax expense / (benefit)	**294**	795	(634)
Net loss / (gain) from investing activities	**(507)**	(996)	(531)
Net loss / (gain) from financing activities	**3,717**	(5,856)	1,125
Other net adjustments	**6,081**	3,703	15,298
Net (increase) / decrease in operating assets and liabilities:			
Net due from / to banks	**(7,686)**	(14,569)	10,046
Reverse repurchase agreements and cash collateral on securities borrowed	**102,436**	(67,262)	(47,207)
Trading portfolio, net replacement values and financial assets designated at fair value	**8,740**	17,225	6,635
Loans / due to customers	**16,011**	6,068	(1,703)
Accrued income, prepaid expenses and other assets	**(889)**	9,648	(1,994)
Repurchase agreements, cash collateral on securities lent	**(66,111)**	27,116	17,588
Net cash collateral on derivative instruments	**4,399**	6,330	5,239
Accrued expenses, deferred income and other liabilities	**(794)**	(1,430)	1,246
Income taxes paid, net of refunds	**(261)**	(349)	(498)
Net cash flow from / (used in) operating activities	**67,050**	(14,241)	13,385
Cash flow from / (used in) investing activities			
Purchase of subsidiaries, associates and intangible assets	**(11)**	(58)	(75)
Disposal of subsidiaries, associates and intangible assets[2]	**41**	50	307
Purchase of property and equipment	**(1,118)**	(1,129)	(541)
Disposal of property and equipment	**202**	233	242
Net (investment in) / divestment of financial investments available-for-sale	**(13,946)**[3]	20,281	4,164
Net cash flow from / (used in) investing activities	**(14,831)**	19,377	4,097
Cash flow from / (used in) financing activities			
Net short-term debt issued / (repaid)	**(37,967)**	15,338	4,459
Net movements in treasury shares and own equity derivative activity	**(1,159)**	(1,885)	(1,456)
Capital issuance	**0**	0	(113)
Dividends paid	**(379)**	0	0
Issuance of long-term debt, including financial liabilities designated at fair value	**55,747**	52,590	78,418
Repayment of long-term debt, including financial liabilities designated at fair value	**(53,996)**	(62,626)	(77,497)
Increase in non-controlling interests	**0**	1	6
Dividends paid to / decrease in non-controlling interests	**(288)**	(749)	(2,053)
Net cash flow from / (used in) financing activities	**(38,041)**	2,670	1,764

1 In 2012, the estimation of the effects of foreign currency translation on the statement of cash flows was refined. This change in estimate resulted in Net cash flows from / (used in) operating activities being higher by CHF 1.8 billion (recorded in Other net adjustments), from / (used in) investing activities being higher by CHF 0.5 billion, from / (used in) financing activities being higher by CHF 1.4 billion and the amounts presented under the line item Effects of exchange rate differences being lower by CHF 3.7 billion. In conjunction with this change in estimate, the presentation of amounts within Net cash flows from / (used in) operating activities has been enhanced by eliminating the estimated foreign currency effects from individual balance sheet movements presented under Net (increase) / decrease in operating assets and liabilities and reflecting these within Other net adjustments, for which comparatives have been restated. 2 Includes dividends received from associates. 3 Includes gross cash inflows from sales and maturities of CHF 8,796 million and gross cash outflows from purchases of CHF 7,422 million related to the Wealth Management Americas' available-for-sale portfolio. Other net cash outflows of CHF 15,320 million almost entirely related to our multi-currency portfolio of unencumbered, high-quality, short-term assets.

Table continues on the next page.

Statement of cash flows (continued)

Table continued from previous page.

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Effects of exchange rate differences	**(673)**	(2,129)	(12,181)
Net increase / (decrease) in cash and cash equivalents	**13,506**	5,678	7,066
Cash and cash equivalents at the beginning of the year	**85,612**	79,934	72,868
Cash and cash equivalents at the end of the year	**99,118**	85,612	79,934
Cash and cash equivalents comprise:			
Cash and balances with central banks	**66,383**	40,638	26,939
Money market paper[1]	**4,382**	3,900	17,110
Due from banks[2]	**28,354**	41,074	35,885
Total	**99,118**	85,612	79,934
Additional information			
Net cash flow from / (used in) operating activities include:			
Cash received as interest	**14,551**	16,669	17,344
Cash paid as interest	**9,153**	9,845	12,606
Cash received as dividends on equity investments, investment funds and associates[3]	**1,430**	1,343	1,395

1 Money market paper is included in the balance sheet under Trading portfolio assets (31 December 2012: CHF 2,192 million, 31 December 2011: CHF 1,783 million) and Financial investments available-for-sale (31 December 2012: CHF 2,190 million, 31 December 2011: CHF 2,117 million). 2 Includes positions recognized in the balance sheet under Due from banks (31 December 2012: CHF 15,961 million, 31 December 2011: CHF 18,733 million) and Cash collateral receivables on derivative instruments with bank counterparties (31 December 2012: CHF 12,393 million, 31 December 2011: CHF 22,341 million, refer to Note 10). 3 Includes dividends received from associates (2012: CHF 37 million, 2011: CHF 28 million, 2010: CHF 29 million) reported within cash flow from / (used in) investing activities.

Significant non-cash investing and financing activities

No significant items for 2012, 2011 and 2010.

Notes to the consolidated financial statements

Note 1 Summary of significant accounting policies

a) Significant accounting policies

The significant accounting policies applied in the preparation of the consolidated financial statements of UBS (the "Financial Statements") are described in this note. These policies have been consistently applied in all the years presented unless otherwise stated.

1) Basis of accounting

UBS AG and its subsidiaries ("UBS" or the "Group") provide a broad range of financial services including: advisory services, underwriting, financing, market-making, asset management and brokerage on a global level, and retail banking in Switzerland. The Group was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged.

The Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are presented in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. On 7 March 2013, the Financial Statements were authorized for issue by the Board of Directors. Consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events. Transactions and balances between Group companies are eliminated.

Disclosures incorporated in the "Risk, treasury and capital management" section which are part of these financial statements are marked as audited. These disclosures relate to requirements under IFRS 7 *Financial Instruments: Disclosures* and IAS 1 *Presentation of Financial Statements* and are not repeated in the "Financial information – consolidated financial statements" section.

2) Use of estimates in the preparation of the Financial Statements

In preparing the Financial Statements in conformity with IFRS, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and the disclosure of contingent assets and liabilities. Assessing available information and the application of judgment are necessary elements in making estimates. Actual results in the future could differ from such estimates, and such differences may be material to the Financial Statements. Estimates and their underlying assumptions are reviewed on an ongoing basis. Any revisions to estimates resulting from these reviews are recognized in the period in which such estimates are revised.

The following notes to the Financial Statements contain information about those areas of estimation uncertainty considered to require critical judgment in applying those accounting policies that have the most significant effect on the amounts recognized in the Financial Statements: Note 11 *Allowances and provisions for credit losses*; Note 17 *Goodwill and intangible assets*; Note 23 *Provisions and contingent liabilities*; Note 24 *Income taxes*; Note 27 *Fair value of financial instruments*; Note 29a *Measurement categories of financial assets and financial liabilities*; Note 30 *Pension and other post-employment benefit plans*; and Note 31 *Equity participation and other compensation plans*.

3) Subsidiaries

The Financial Statements comprise those of the parent company (UBS AG) and its subsidiaries, including controlled special purpose entities (SPEs), presented as a single economic entity. UBS controls an entity when it has the power to govern the financial and operating policies of the entity. Generally this is indicated by a direct shareholding of more than one-half of the voting rights. Subsidiaries, including SPEs that are controlled by the Group, are consolidated from the date control is transferred to the Group and are deconsolidated from the date control ceases.

Equity attributable to non-controlling interests is presented on the consolidated balance sheet within equity, and is separate from equity attributable to UBS shareholders.

Special purpose entities

The Group sponsors the formation of SPEs and interacts with non-sponsored SPEs for a variety of reasons in order to accomplish certain narrow and well-defined objectives. Many SPEs are established as bankruptcy remote, meaning that only the assets in the SPE are available for the benefit of the investors in the SPE and such investors have no other recourse to UBS. SPEs, including trusts, are consolidated when the substance of the relationship between the Group and the SPE indicates that the SPE is controlled by the Group. The following circumstances may indicate a relationship in which, in substance, UBS controls and consequently consolidates the SPE:

- the activities of the SPE are being conducted on behalf of UBS according to its specific business needs, so that UBS obtains benefits from the SPE's operations;
- UBS has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, through setting up an "autopilot" mechanism, UBS has delegated these decision-making powers;
- UBS has rights to obtain the majority of the benefits of the SPE and, therefore, may be exposed to risks associated with the activities of the SPE; or

Note 1 Summary of significant accounting policies (continued)

– UBS retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

SPEs that are established to facilitate clients holding investments are structures that allow one or more clients to invest in specific assets or risk and reward profiles. Typically, UBS will receive service and commission fees for the creation of the SPEs, or for its services as investment manager, custodian or in some other capacity. Some of these SPEs are single-investor or family trusts while others allow multiple investors to invest in a diversified asset base through shares, notes or certificates. The majority of UBS's SPEs created for client investment purposes are not consolidated. However, UBS will consolidate such SPEs when a control relationship exists - for example when UBS absorbs the majority of the risks and rewards, or when UBS has unilateral liquidation rights.

SPEs used for securitization are established when UBS sells assets (for example, a portfolio of loans) to an SPE or facilitates the purchase of assets on behalf of an SPE, and the SPE in turn sells interests in the assets as securities to investors. Consolidation of these SPEs depends mainly on whether UBS retains the majority of the risks and rewards of the assets in the SPE. UBS does not consolidate SPEs used for securitization if it has no control over the assets and if it no longer retains any significant gain or loss exposure to the income or investment returns on the assets sold to the SPE, or the proceeds of their liquidation.

SPEs used for credit protection are established so as to transfer the credit risk on single names or portfolios, which may or may not be held by UBS, to one or more investors. UBS generally consolidates SPEs that are used for credit protection when, for instance, UBS receives funding from the SPE or has unilateral liquidation rights.

Employee benefit trusts are used in connection with share-based payment arrangements and deferred compensation schemes. Such trusts are consolidated when the substance of the relationship between UBS and the entity indicates that the entity is controlled by UBS.

UBS continuously evaluates whether triggering events require the reconsideration of consolidation decisions that were first made at inception of its involvement with any particular SPE. This is especially relevant for securitization vehicles. Triggering events are usually caused by restructuring, the vesting of potential rights and the acquisition, disposal or expiration of interests in the SPE. SPEs may be consolidated or deconsolidated depending on the facts and circumstances of any change.

Business combinations

Business combinations are accounted for using the acquisition method. As of the acquisition date, UBS recognizes the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. For each business combination, UBS measures the non-controlling interests in the acquiree (being present ownership interests providing entitlement to a proportionate share of the net assets of the acquiree in the event of liquidation) either at fair value or at their proportionate share of the acquiree's identifiable net assets.

The cost of an acquisition is the aggregate of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity instruments issued, measured at acquisition-date fair values. Acquisition-related costs are expensed as incurred. Any contingent consideration that may be transferred by UBS is recognized at fair value at the acquisition date. If the contingent consideration is classified as an asset or liability, subsequent changes in the fair value of the contingent consideration are recognized in the income statement. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled.

Any excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed is considered goodwill and is recognized as a separate asset on the balance sheet, initially measured at cost. If the fair value of the net assets of the subsidiary acquired exceeds the aggregate of the consideration transferred and the amount recognized for non-controlling interests, the difference is recognized in the income statement on the acquisition date.

4) Associates and jointly controlled entities

Investments in entities in which UBS has significant influence, but not control, over the financial and operating policies of the entity are classified as *investments in associates* and accounted for under the equity method of accounting. Normally, significant influence is indicated when UBS owns between 20% and 50% of a company's voting rights. Investments in associates are initially recorded at cost, and the carrying amount is increased or decreased after the date of acquisition to recognize the Group's share of the investee's net profit or loss (including net profit or loss recognized directly in equity). Interests in jointly controlled entities also are accounted for under the equity method of accounting. A jointly controlled entity is subject to a contractual agreement between UBS and one or more third parties, which establishes joint control over its economic activities. Interests in jointly controlled entities are classified as *investments in associates* on the balance sheet and for disclosure purposes.

If the reporting date of an associate or joint venture is different to UBS's reporting date, the most recently available financial statements of the associate or joint venture are used to apply the equity method. Adjustments are made for effects of significant transactions or events that may occur between that date and the UBS reporting date.

Investments in associates and interests in jointly controlled entities are classified as "held for sale" if their carrying amount will be recovered principally through a sale transaction rather than through continuing use – refer to item 29.

5) Recognition and derecognition of financial instruments

UBS recognizes financial instruments on its balance sheet when the Group becomes a party to the contractual provisions of the instruments. UBS acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Unless the recognition criteria for the assets are satisfied, these assets and the related income are excluded from UBS's financial statements, as they are not assets of UBS.

Financial assets

UBS enters into certain transactions where it transfers financial assets recognized on its balance sheet but retains either all or a portion of the risks and rewards of the transferred financial assets. If all or substantially all risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transactions where transfers of financial assets result in UBS retaining all or substantially all risks and rewards include securities lending and repurchase transactions described under items 13) and 14). They also include transactions where financial assets are sold to a third party together with a total return swap that results in UBS retaining all or substantially all risks and rewards of the transferred assets. These types of transactions are accounted for as secured financing transactions.

In transactions where substantially all of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS derecognizes the financial asset if control over the asset is surrendered. The rights and obligations retained in the transfer are recognized separately as assets and liabilities, respectively. In transfers where control over the financial asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Examples of such transactions include written put options, acquired call options, or other instruments linked to the performance of the asset.

For the purposes of the Group's disclosures of transferred financial assets, a financial asset is typically considered to have been transferred when the Group a) transfers the contractual rights to receive the cash flows of the financial asset or b) retains the contractual rights to receive the cash flows of that asset, but assumes a contractual obligation to pay the cash flows.

Where financial assets have been pledged as collateral or in similar arrangements, they are considered to have been transferred if the counterparty has received the contractual right to the cash flows of the pledged assets, as may be evidenced, for example by the counterparty's right to sell or re-pledge the assets. Where the counterparty to the pledged financial assets has not received the contractual right to the cash flows, the assets are considered pledged, but not transferred.

Financial liabilities

UBS derecognizes a financial liability from its balance sheet when it is extinguished, i.e., when the obligation specified in the contract is discharged, cancelled or expired. When an existing financial liability is exchanged for a new one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability with any difference in the respective carrying amounts being recognized in the income statement.

6) Determination of fair value

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Determination of fair value is considered a critical accounting policy for the Group and further details are disclosed in Note 27.

7) Trading portfolio assets and liabilities

Non-derivative financial assets and liabilities are classified at acquisition as held for trading and presented in the trading portfolio if they are a) acquired or incurred principally for the purpose of selling or repurchasing in the near term; or b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The trading portfolio includes non-derivative financial instruments (including those with embedded derivatives) and commodities. Financial instruments which are considered derivatives in their entirety generally are presented on the balance sheet as *Positive replacement values* or *Negative replacement values* (refer to item 15)). The trading portfolio includes recognized assets and liabilities relating to proprietary-, hedging- and client-related business (refer to Note 12 for more details).

Trading portfolio assets include debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans); equity instruments, assets held under unit-linked contracts and precious metals and other commodities owned by the Group ("long" positions). Trading portfolio liabilities include obligations to deliver financial instruments such as debt and equity instruments which the Group has sold to third parties, but does not own ("short" positions).

Assets and liabilities in the trading portfolio are measured at fair value. Gains and losses realized on disposal or redemption of these assets and liabilities and unrealized gains and losses from changes in the fair value of these assets and liabilities are reported as Net trading income. Interest and dividend income and expense on these assets and liabilities are included in *Interest and dividend income* or *Interest and dividend expense.*

The Group uses settlement date accounting when recognizing assets and liabilities in the trading portfolio. From the date a purchase transaction is entered into (trade date) until settlement date, UBS recognizes any unrealized profits and losses arising from remeasuring the transaction to fair value in *Net trading income.* The corresponding receivable or payable is presented on

Note 1 Summary of significant accounting policies (continued)

the balance sheet as a *Positive replacement value* or *Negative replacement value,* respectively. On settlement date, the resulting financial asset is recognized on the balance sheet at the fair value of the consideration given or received plus or minus the change in fair value of the contract since the trade date. From the trade date of a sales transaction, unrealized profits and losses are no longer recognized and, on settlement date, the asset is derecognized.

Trading portfolio assets transferred to external parties that do not qualify for derecognition (refer to item 5)) and where the transferee has obtained the right to sell or re-pledge the assets are classified on the UBS balance sheet as *Trading portfolio assets* and identified as *Trading portfolio assets pledged as collateral.* Such assets continue to be measured at fair value.

8) Financial assets and Financial liabilities designated at fair value through profit or loss ("Fair Value Option")

A financial instrument may be designated at fair value through profit or loss only at inception and this designation cannot be changed subsequently. Financial assets (refer to Note 13) and financial liabilities (refer to Note 20) designated at fair value are presented on separate lines on the face of the balance sheet. There are restrictions as to when the fair value option can be applied. The conditions for applying the fair value option are met when:
- the financial instrument is a hybrid instrument which includes an embedded derivative; or
- the financial instrument is part of a portfolio which is risk managed on a fair value basis and reported to senior management on that basis; or
- the application of the fair value option eliminates or significantly reduces an accounting mismatch that would otherwise arise.

UBS has used the fair value option to designate most of its issued hybrid debt instruments as *Financial liabilities designated at fair value* through profit or loss, on the basis that such financial instruments include embedded derivatives or are managed on a fair value basis. Such hybrid debt instruments predominantly include the following:
- *Credit-linked bonds or notes:* linked to the performance (coupon and/or redemption amount) of single names (such as a company or a country) or a basket of reference entities
- *Equity-linked bonds or notes:* linked to a single stock, a basket of stocks or an equity index
- *Rates-linked bonds or notes:* linked to a reference interest rate, interest rate spread or formula

The fair value option is applied to certain loans and loan commitments, otherwise accounted for at amortized cost, which are hedged predominantly with credit derivatives. The application of the fair value option to the loans and loan commitments reduces an accounting mismatch, as the credit derivatives are accounted for as derivative instruments at fair value through profit or loss.

In order to reduce an accounting mismatch, UBS has applied the fair value option to certain structured loans and reverse repurchase and securities borrowing agreements which are part of portfolios managed on a fair value basis.

Similarly, the fair value option is applied to assets held to hedge deferred cash-settled employee compensation awards, in order to reduce an accounting mismatch that would arise due to the liability being measured on a fair value basis.

Fair value changes related to financial instruments designated at fair value through profit or loss are recognized in *Net trading income.* Interest income and interest expense on financial assets and liabilities designated at fair value through profit or loss are recognized in *Interest income on financial assets designated at fair value* or *Interest expense on financial liabilities designated at fair value, respectively* (refer to Note 3).

UBS applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments in the trading portfolio (refer to items 5) and 7)).

9) Financial investments available-for-sale

Financial investments available-for-sale are non-derivative financial assets that are not classified as held for trading, designated at fair value through profit or loss, or loans and receivables. They are recognized on a settlement date basis.

Financial investments available-for-sale include debt securities held as part of the liquidity reserve (mainly issued by government and government-controlled institutions); strategic equity investments; certain investments in real estate funds; certain equity instruments, including private equity investments; and debt instruments and non-performing loans acquired in the secondary market.

Financial investments available-for-sale are recognized initially at fair value less direct transaction costs and are measured subsequently at fair value. Unrealized gains and losses are reported in *Equity*, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. Unrealized gains before tax are presented separately from unrealized losses before tax in Note 14.

For monetary instruments (such as debt securities), foreign exchange translation gains and losses determined by reference to the instrument's amortized cost basis are recognized in *Net trading income.* Foreign exchange translation gains and losses related to other changes in fair value are recognized in *Other comprehensive income.* Foreign exchange translation gains and losses associated with non-monetary instruments (such as equity securities) are part of the overall fair value change of the instruments and are recognized directly in *Other comprehensive income*.

Interest and dividend income on financial investments available-for-sale are included *in Interest and dividend income from financial investments available-for-sale;* interest income is determined by reference to the instrument's amortized cost basis using the effective interest rate (EIR).

On disposal of an investment, any related accumulated unrealized gains or losses included in Equity are transferred to the Income statement and reported in *Other income;* gains or losses on disposal are determined using the average cost method.

At each balance sheet date, UBS assesses whether there are indicators of impairment of an available-for-sale investment. An available-for-sale investment is impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the investment, the estimated future cash flows from the investment have decreased. A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its original cost is considered objective evidence of an impairment. In the event of a significant decline in fair value below its original cost (20%) or a prolonged decline (six months), an impairment is recorded unless facts and circumstances clearly indicate that this information, on its own, is not evidence of an impairment.

For debt investments, objective evidence of impairment includes significant financial difficulty for the issuer or counterparty; default or delinquency in interest or principal payments; or probability that the borrower will enter bankruptcy or financial reorganization. If a financial investment available-for-sale is determined to be impaired, the related cumulative net unrealized loss previously recognized in Equity is included in the income statement within *Other income.* For equity instruments, any further loss is recognized directly in the income statement, whereas for debt instruments, any further loss is recognized in the income statement only if there is additional objective evidence of impairment. After the recognition of an impairment on a financial investment available-for-sale, increases in the fair value of equity instruments are reported in *Equity* and increases in the fair value of debt instruments up to amortized cost in original currency are recognized in *Other income,* provided that the fair value increase is related to an event occurring after the impairment loss was recorded.

UBS applies the same recognition and derecognition principles to financial assets available-for-sale as to financial instruments in the trading portfolio (refer to items 5) and 7)), except that unrealized gains and losses between trade date and settlement date are recognized in Equity rather than in the income statement.

10) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not classified as held-for-trading, not designated as at fair value through profit and loss or available-for-sale, and are not assets for which the Group may not recover substantially all of its initial net investment, other than because of a credit deterioration. Financial assets classified as loans and receivables include:

- originated loans where funding is provided directly to the borrower; participation in a loan from another lender and purchased loans;
- securities which are classified as loans and receivables at acquisition date, such as auction rate securities;
- securities previously in the trading portfolio and reclassified to loans and receivables (refer to Note 29b);
- loans such as leverage finance loans previously in the trading portfolio and reclassified to loans and receivables (refer to Note 29b).

For an overview of the accounting for financial assets classified as loans and receivables, refer to the measurement category Financial assets at amortized cost presented in Note 29.

Loans and receivables are recognized when UBS becomes a party to the contractual provisions of the instrument, which is when funding is advanced to borrowers. They are recorded initially at fair value, based on the amount provided to originate or purchase the loan or receivable, together with any transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost using the EIR method, less allowances for impairment (refer to item 11)).

Interest on loans and receivables is included in *Interest earned on loans and advances* and is recognized on an accrual basis. Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments are generally deferred and amortized to *Interest earned on loans and advances* over the life of the loan using the EIR method. Where no loan is expected to be advanced, any fees are recognized as follows:

- For loan commitments that are not expected to result in a loan being advanced, the fees are recognized in *Commission income* over the commitment period.
- For loan syndication fees where UBS does not retain a portion of the syndicated loan, or where UBS does retain a portion of the syndicated loan at the same effective yield for comparable risk as other participants, fees are credited to *Commission income* when the services have been provided.

Presentation of receivables from central banks

Deposits with central banks which are available on demand are presented on the balance sheet as *Cash and balances with central banks.* All longer dated receivables with central banks are presented under *Due from banks.*

Financial assets reclassified to loans and receivables

When a financial asset is reclassified from held for trading to loans and receivables, the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss recognized in the income statement before reclassification is not reversed. The fair value of a financial asset on the date of reclassification becomes its cost basis going forward. In 2008 and 2009, UBS determined that certain financial assets classified as held for trading were no longer held for the purpose of selling or repurchasing in the near term and that the Group had the intention and ability to hold these assets for the foreseeable future, considered to be a period

Note 1 Summary of significant accounting policies (continued)

of approximately twelve months from the reclassification. Therefore, these assets were reclassified from held for trading to loans and receivables. (Refer to Notes 12 and 29b).

Renegotiated loans

A renegotiated loan is defined as a loan that has been subject to restructuring, or for which additional collateral has been requested that was not contemplated in the original contract.

Typical key features of terms and conditions granted through renegotiation to avoid default include the provision of special interest rates, postponement of interest or amortization payments, modification of the schedule of repayments or amendment of loan maturity. There is no change in the EIR following a renegotiation.

If a loan is renegotiated with concessionary conditions (i.e. new terms and conditions are agreed which do not meet the normal market criteria for the quality of the obligor and the type of loan) the position is still classified as non-performing and is rated as being in counterparty default. It will remain so until the loan is collected or written off and will be assessed for impairment on an individual basis.

If a loan is renegotiated on a non-concessionary basis (e.g. additional collateral is provided by the client, or new terms and conditions are agreed which meet the normal market criteria, for the quality of the obligor and the type of loan), the loan will be rerated using the Group's regular rating scale. In these circumstances, the loan is removed from impaired status and therefore included in our collective assessment of loan loss allowances. For the purposes of measuring credit losses, within the collective loan loss assessment these loans are not segregated from other loans which have not been renegotiated. Management regularly reviews all loans to ensure that all criteria according to the loan agreement continue to be met and that future payments are likely to occur.

A restructuring of a loan could lead to a fundamental change in the terms and conditions of a loan resulting in the original loan being derecognized and a new loan being recognized. A change is considered fundamental if the present value of the contractual cash flows (as a proportion of notional) have been changed by 10% or more, or there has been a significant change in the risk profile of the instrument.

If a loan is derecognized in these circumstances, the new loan is measured at fair value at initial recognition. Any allowance taken to date against the original loan is eliminated and is not attributed to the new loan. Consequently, the new loan is not considered impaired and is included within the general collective loan assessment for the purpose of measuring credit losses.

11) Allowances and provisions for credit losses

An allowance or provision for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due (or the equivalent value thereof) on a claim based on the original contractual terms (refer to Note 9b). A "claim" means a loan or receivable carried at amortized cost, or a commitment such as a letter of credit, a guarantee, or another similar instrument. Objective evidence of impairment includes significant financial difficulty for the issuer or counterparty; default or delinquency in interest or principal payments; or probability that the borrower will enter bankruptcy or financial reorganization.

An allowance for credit losses is reported as a reduction of the carrying value of a claim on the balance sheet. For an off-balance-sheet item, such as a commitment, a provision for credit loss is reported in *Other liabilities*. Changes to allowances and provisions for credit losses are recognized as a *Credit loss expense*.

Allowances and provisions for credit losses are evaluated at both a counterparty-specific level and collectively based on the following principles:

Counterparty-specific: A loan is considered impaired when management determines that it is probable that the Group will not be able to collect all amounts due (or the equivalent value thereof) based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realizable value of any collateral. The estimated recoverable amount is the present value, using the claim's original EIR, of expected future cash flows including amounts that may result from restructuring or the liquidation of collateral. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. Impairment is measured and allowances for credit losses are established based on the difference between the carrying amount and the estimated recoverable amount. Upon impairment, the accrual of interest income based on the original terms of the loan is discontinued. The increase of the present value of the impaired loan due to the passage of time is reported as *Interest income*.

All impaired loans are reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared with prior estimates result in a change in the allowance for credit losses and are charged or credited to *Credit loss expense / recovery*. An allowance for impairment is reversed only when the credit quality has improved to such an extent that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim, or the equivalent value thereof. A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs reduce the principal amount of a claim and are charged against previously established allowances for credit losses or, if no allowance has been established previously, directly to *Credit loss expense / recovery*. Recoveries, in part or in full, of amounts previously written off are credited to *Credit loss expense / recovery*.

A loan is classified as non-performing when the payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that it will be made good by later payments or the liquidation of collateral; when insolvency proceedings have commenced against the firm; or when obligations have been restructured on concessionary terms. Loans are evaluated individually for impairment when amounts have been overdue by more than 90 days, or sooner if other objective evidence indicates that a loan may be impaired.

Collectively: All loans for which no impairment is identified at a counterparty-specific level are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors, to collectively assess whether impairment exists within a portfolio. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions of the group of financial assets on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently in the portfolio. Estimates of changes in future cash flows for the group of financial assets reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows for the group of financial assets are reviewed regularly to reduce any differences between loss estimated and actual loss experience. Allowances from collective assessment of impairment are recognized as *Credit loss expense / recovery* and result in an offset to the aggregated loan position. As the allowance cannot be allocated to individual loans, the loans are not considered to be impaired and interest is accrued on each loan according to its contractual terms. If objective evidence becomes available that indicates that an individual financial asset is impaired, it is removed from the group of financial assets assessed for impairment on a collective basis and is assessed separately as a counterparty-specific claim.

Reclassified securities and acquired securities carried at amortized cost: Estimated cash flows associated with financial assets reclassified from the held for trading category to loans and receivables in accordance with the requirements in item 10) above and other similar assets acquired subsequently, are revised periodically. Adverse revisions in cash flow estimates related to credit events are recognized in the income statement as *Credit loss expense*. For reclassified securities, increases in estimated future cash receipts as a result of increased recoverability are recognized as an adjustment to the EIR on the loan from the date of change (refer to Notes 12 and 29b).

12) Securitization structures set up by UBS

UBS securitizes certain financial assets, mostly in the form of sales of these assets to special purpose entities which issue securities to investors. UBS applies the policies set out in item 3) in determining whether the respective special purpose entity must be consolidated and those set out in item 5) in determining whether derecognition of transferred financial assets is appropriate. The following statements mainly apply to transfers of financial assets which qualify for derecognition.

Gains or losses related to the sale of financial assets involving a securitization are generally recognized when the derecognition criteria are satisfied and the gain or loss is classified in *Net trading income*.

Interests in the securitized financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests are primarily recorded in *Trading portfolio assets* and are carried at fair value. Synthetic securitization structures typically involve derivative financial instruments for which the principles set out in item 15) apply.

UBS acts as structurer and placement agent in various mortgage-backed securities (MBS) and other asset-backed securities (ABS) securitizations. In such capacity, UBS may purchase collateral on its own behalf or on behalf of clients during the period prior to securitization. UBS then typically sells the collateral into designated trusts upon closing of the securitization. In other securitizations, UBS may only provide financing to a designated trust in order to fund the purchase of collateral by the trust prior to securitization. UBS underwrites the offerings to investors, earning fees for its placement and structuring services. Consistent with the valuation of similar inventory, fair value of retained tranches is initially and subsequently determined using market price quotations where available or internal pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. Where possible, assumptions based on observable transactions are used to determine the fair value of retained interests, but for some interests substantially no observable information is available.

13) Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralized basis. In such transactions, UBS typically borrows or lends equity and debt securities in exchange for securities or cash collateral. Additionally, UBS borrows securities from its clients' custody accounts in exchange for a fee. The transactions are normally conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors on a daily basis the market value of the securities received or delivered and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

Cash collateral received is recognized with a corresponding obligation to return it *(Cash collateral on securities lent)* and cash collateral delivered is derecognized and a corresponding receivable reflecting UBS's right to receive it back is recorded *(Cash collateral on securities borrowed).* The securities which have been transferred

Note 1 Summary of significant accounting policies (continued)

are not recognized on or derecognized from the balance sheet unless the risks and rewards of ownership are also transferred (refer to item 5)). In those transactions where UBS transfers owned securities and where the borrower is granted the right to sell or re-pledge the transferred securities, the securities are presented on the balance sheet as *Trading portfolio assets, of which: assets pledged as collateral.* Securities received in a borrowing transaction are disclosed as off-balance-sheet items if UBS has the right to resell or re-pledge them, with additional disclosure for securities that UBS has actually re-sold or re-pledged (refer to Note 28). The sale of securities which is settled by delivering securities received in a borrowing or lending transaction generally triggers the recognition of a trading liability (short sale). Where securities are either received or paid in lieu of cash ("securities for securities" transactions), neither the securities received (paid) nor the obligation to return (right to receive) the securities are recognized on the balance sheet.

Interest receivable or payable for financing transactions is recognized in the income statement on an accrual basis and is *recorded as Interest income or Interest expense.*

14) Repurchase and reverse repurchase transactions

Securities purchased under agreements to resell *(Reverse repurchase agreements)* and securities sold under agreements to repurchase *(Repurchase agreements)* are treated as collateralized financing transactions. Nearly all reverse repurchase and repurchase agreements involve debt instruments, such as bonds, notes or money market paper. The transactions are normally conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors on a daily basis the market value of the securities received or delivered and requests or provides additional collateral or returns or recalls surplus collateral in accordance with the underlying agreements.

In a reverse repurchase agreement, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded in the balance sheet line *Reverse repurchase agreements,* recognizing UBS's right to receive the cash back. In a repurchase agreement, the cash received is recognized and a corresponding obligation, including accrued interest, is recorded in the balance sheet line *Repurchase agreements.* Securities received under *reverse repurchase agreements* and securities delivered under repurchase agreements are not recognized on or derecognized from the balance sheet, unless the risks and rewards of ownership are transferred. In repurchase agreements where UBS transfers owned securities and where the recipient is granted the right to resell or re-pledge them, the securities are presented on the balance sheet as *Trading portfolio assets, of which: assets pledged as collateral.* Securities received in reverse repurchase agreements are disclosed as off-balance-sheet items if UBS has the right to resell or re-pledge them, with additional disclosure for securities that UBS has actually resold or re-pledged (refer to Note 28). Additionally, the sale of securities which is settled by delivering securities received in reverse repurchase transactions generally triggers the recognition of a trading liability (short sale).

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

The Group offsets reverse repurchase agreements and repurchase agreements with the same counterparty, maturity, currency and Central Securities Depository (CSD) in accordance with the relevant accounting requirements.

15) Derivative instruments and hedge accounting

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are remeasured subsequently to fair value. The method of recognizing fair value gains or losses depends on whether derivatives are held for trading or are designated and effective as hedging instruments. If designated as hedging instruments, the method of recognizing gains or losses depends on the nature of the risk being hedged.

Derivative instruments are generally reported on the balance sheet as *Positive replacement values* or *Negative replacement values.* Derivative instruments that trade on an exchange or through a clearing house are generally classified as *Cash collateral receivables on derivative instruments or Cash collateral payables on derivative instruments.* They are not classified within replacement values because the change in fair value of these instruments is settled each day through the cash payment of variation margin. Products that receive this treatment are futures contracts, 100% daily margined exchange traded options, interest rate swaps transacted with the London Clearing House and certain credit derivative contracts. Changes in the fair values of derivatives are recorded in *Net trading income*, unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships.

Hedge accounting

The Group uses derivative instruments as part of its asset and liability management activities to manage exposures particularly to interest rate and foreign currency risks, including exposures arising from forecast transactions. If derivative and non-derivative instruments meet certain criteria specified below, they may be designated as hedging instruments in hedges of the change in fair value of recognized assets or liabilities ("fair value hedges"); hedges of the variability in future cash flows attributable to a recognized asset or liability, or highly probable forecast transactions ("cash flow hedges"); or hedges of a net investment in a foreign operation ("net investment hedges").

At the time a financial instrument is designated in a hedge relationship, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction and the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instruments, primarily derivatives, have been "highly effective" in offsetting changes in the fair value or cash flows associated with the designated risk of the hedged items. A hedge is considered highly effective if the following criteria are met: a) at inception of the hedge and throughout its life, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and b) actual results of the hedge are within a range of 80% to 125%. In the case of hedging forecast transactions, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that could ultimately affect the reported net profit or loss. The Group discontinues hedge accounting voluntarily, or when the Group determines that a hedging instrument is not, or has ceased to be, highly effective as a hedge; when the derivative expires or is sold, terminated or exercised; when the hedged item matures, is sold or repaid; or when forecast transactions are no longer deemed highly probable.

Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item attributable to the hedged risk, or the amount by which changes in the present value of future cash flows of the hedging instrument exceed changes (or expected changes) in the present value of future cash flows of the hedged item. Such ineffectiveness is recorded in current period earnings in *Net trading income.* Interest income and expense on derivatives designated as hedging instruments in effective hedge relationships is included in *Net interest income.*

Fair value hedges

For qualifying fair value hedges, the change in the fair value of the hedging instrument is recognized in the income statement along with the change in the fair value of the hedged item that is attributable to the hedged risk. In fair value hedges of interest rate risk, the fair value change of the hedged item attributable to the hedged risk is reflected in the carrying value of the hedged item. If the hedge accounting relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortized fair value adjustment") is amortized to the income statement over the remaining term of the original hedge accounting relationship.

For a portfolio hedge of interest rate risk, the equivalent change in fair value is reflected within *Other assets* or *Other liabilities.* If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the amount included in *Other assets* or *Other liabilities* is amortized to the income statement over the remaining term to maturity of the hedged items.

Cash flow hedges

Fair value gains or losses associated with the effective portion of derivatives designated as cash flow hedges for cash flow repricing risk are recognized initially in *Equity*. When the hedged forecast cash flows affect profit or loss, the associated gains or losses on the hedging derivatives are reclassified from Equity to profit or loss.

If a cash flow hedge for forecasted transactions is deemed to be no longer effective, or if the hedge relationship is terminated, the cumulative gains or losses on the hedging derivatives previously reported in *Equity* remain there until the committed or forecasted transactions occur. If the forecasted transactions are no longer expected to occur, the deferred gains or losses are reclassified immediately to profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in *Equity* (and presented in the statement of changes in equity and statement of comprehensive income under *Foreign currency translation),* while any gains or losses relating to the ineffective and/or undesignated portion (for example, the interest element of a forward contract) are recognized in the income statement. On loss of control of the foreign operation, the cumulative value of any such gains or losses associated with the entity and recognized directly in *Equity,* is reclassified to the income statement.

Economic hedges which do not qualify for hedge accounting

Derivative instruments which are transacted as economic hedges but do not qualify for hedge accounting are treated in the same way as derivative instruments used for trading purposes (i.e. realized and unrealized gains and losses are recognized in *Net trading income),* except for the forward points on short duration foreign exchange contracts, which are reported in *Net interest income.* Refer to Note 25 for more information on "economic hedges".

Embedded derivatives

Derivatives may be embedded in other financial instruments ("host contracts"); for instance, the conversion feature embedded in a convertible bond. Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. An embedded derivative is generally required to be separated from the host contract and accounted for as a standalone derivative instrument at fair value through profit or loss, if a) the host contract is not carried at fair value with changes in fair value reported in the income statement, b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and c) the terms of the embedded derivative would meet the definition of a stand-alone derivative were they contained in a separate contract. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract, and are shown in Note 28 in the "Held for trading" category, reflecting the measurement and recognition principles applied.

Note 1 Summary of significant accounting policies (continued)

Typically, UBS applies the fair value option to hybrid instruments (refer to item 8), in which case bifurcation of an embedded derivative component is not required.

16) Loan commitments

Loan commitments are defined amounts (unutilized credit lines or undrawn portions of credit lines) against which clients can borrow money under defined terms and conditions.

Loan commitments that can be cancelled by UBS at any time (without giving a reason) according to their general terms and conditions, are not recognized on the balance sheet and are not included in the off-balance-sheet disclosures. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with *Loans and receivables* (refer to item 10)).

Irrevocable loan commitments (where UBS has no right to withdraw the loan commitment once communicated to the beneficiary, or which are revocable only due to automatic cancellation upon deterioration in a borrower's creditworthiness) are classified into the following categories:

– Derivative loan commitments, being loan commitments that can be settled net in cash or by delivering or issuing another financial instrument, or loan commitments for which there is evidence of selling loans resulting from similar loan commitments before or shortly after origination (refer to item 15)).
– Loan commitments designated at fair value through profit and loss ("Fair value option") (refer to item 8)).
– All other loan commitments. These are not recorded in the balance sheet, but a provision is recognized if it is probable that a loss has been incurred and a reliable estimate of the amount of the obligation can be made. Other loan commitments include irrevocable forward starting reverse repurchase and irrevocable securities borrowing agreements. Any change in the liability relating to these other loan commitments is recorded in the income statement in *Credit loss expense/recovery.* (Refer to items 11) and 27))

17) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for an incurred loss because a specified debtor fails to make payments when due in accordance with the terms of a specified debt instrument. UBS issues such financial guarantees to banks, financial institutions and other parties on behalf of clients to secure loans, overdrafts and other banking facilities.

Certain written financial guarantees that are managed on a fair value basis are designated at fair value through profit or loss (refer to item 8)). Financial guarantees that are not managed on a fair value basis are initially recognized in the financial statements at fair value. Subsequent to initial recognition, these financial guarantees are measured at the higher of the amount initially recognized less cumulative amortization, and to the extent a payment under the guarantee has become probable, the present value of the expected payment. Any change in the liability relating to probable expected payments resulting from guarantees is recorded in the income statement in *Credit loss expense/recovery.*

18) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with an original maturity of three months or less including cash, money market paper and balances with central and other banks.

19) Physical commodities

Physical commodities (precious metals, base metals, energy and other commodities) held by UBS as a result of its broker-trader activities are accounted for at fair value less costs to sell and recognized within *Trading portfolio assets.* Changes in fair value less costs to sell are recorded in *Net trading income.*

20) Property and equipment

Property and equipment includes own-used properties, investment properties, leasehold improvements, IT hardware, externally purchased and internally developed software and communication and other similar equipment. With the exception of investment properties, *Property and equipment* is carried at cost, less accumulated depreciation and impairment losses, and is reviewed periodically for impairment.

Classification of own-used property

Own-used property is defined as property held by the Group for use in the supply of services or for administrative purposes, whereas investment property is defined as property held to earn rental income and/or for capital appreciation. Where a property of the Group includes an own-used portion and an investment portion which can be sold separately, they are separately accounted for as own-used property and investment property. If the portions cannot be sold separately, the whole property is classified as own-used unless the portion used by the Group is minor. The classification of property is reviewed on a regular basis. When the use of a property changes from own-used to investment property, the property is remeasured to fair value and reclassified as investment property. Any gain arising on remeasurement is recognized in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognized in other comprehensive income and presented in the revaluation reserve in equity. Any loss is recognized immediately in profit or loss. When an investment property is reclassified as own-used property, its fair value at the date of reclassification becomes its cost basis for subsequent measurement purposes.

Investment property

Investment property is carried at fair value with changes in fair value recognized in the income statement in *Other income* in the period of change. UBS uses internal or external real estate experts to determine the fair value of investment property by applying recognized valuation techniques. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions.

Leasehold improvements
Leasehold improvements are investments made to customize buildings and offices occupied under operating lease contracts to make them suitable for their intended purpose. The present value of estimated reinstatement costs required to bring a leased property back into its original condition at the end of the lease is capitalized as part of total leasehold improvements with a corresponding liability recognized to reflect the obligation incurred. Reinstatement costs are recognized in profit and loss through depreciation of the capitalized leasehold improvements over their estimated useful lives and the liability is relieved as cash payments are applied.

Property held for sale
Where UBS has decided to sell non-current assets such as property or equipment and the sale of these assets is highly probable to happen within twelve months, these assets are classified as non-current assets held for sale and are reclassified to *Other assets*. Upon classification as held for sale, they are no longer depreciated and are carried at the lower of book value or fair value less cost to sell.

Software
Software development costs are recognized only when the costs can be measured reliably and it is probable that future economic benefits will arise. Internally generated software that meets these criteria is classified within IT hardware, software and communication assets, together with purchased software.

Estimated useful life of property and equipment
Property and equipment is depreciated on a straight-line basis over its estimated useful life as follows:

Properties, excluding land	Not exceeding 67 years
Leasehold improvements	Residual lease term
Other machines and equipment	Not exceeding 10 years
IT hardware, software and communication equipment	Not exceeding 5 years

21) Goodwill and intangible assets
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition. Goodwill is not amortized; it is tested annually for impairment and, additionally, when an indication of impairment exists at the end of each reporting period. For goodwill impairment testing purposes, UBS considers the segments reported in Note 2a as separate cash-generating units, since this is the level at which the performance of investments is reviewed and assessed by management. The recoverable amount of a segment is determined on the basis of its value in use. Refer to Note 17 for details.

Intangible assets comprise separately identifiable intangible items arising from business combinations and certain purchased trademarks and similar items. Intangible assets are recognized at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortized. In nearly all cases, identified intangible assets have a definite useful life. At each balance sheet date, intangible assets are reviewed for indications of impairment. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

Intangible assets are classified into two categories: a) infrastructure, and b) customer relationships, contractual rights and other. Infrastructure consists of a branch network intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Client relationships, contractual rights and other includes mainly intangible assets for client relationships, non-compete agreements, favorable contracts, trademarks and trade names acquired in business combinations.

22) Income taxes
Income tax payable on profits is recognized as an expense based on the applicable tax laws in each jurisdiction in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognized as a deferred tax asset if it is probable that future taxable profit (based on profit forecast assumptions) will be available against which those losses can be utilized.

Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

Tax assets and liabilities of the same type (current or deferred) are offset when they arise from the same tax reporting group, they relate to the same tax authority, the legal right to offset exists, and they are intended to be settled net or realized simultaneously.

Note 1 Summary of significant accounting policies (continued)

Current and deferred taxes are recognized as income tax benefit or expense in the income statement except for current and deferred taxes recognized (i) upon the acquisition of a subsidiary, (ii) for unrealized gains or losses on financial investments available-for-sale, for changes in fair value of derivative instruments designated as cash flow hedges, for remeasurements of defined benefit plans, and for certain foreign currency translations of foreign operations, (iii) for certain tax benefits on deferred compensation awards, and (iv) for gains and losses on the sale of treasury shares. Deferred taxes recognized in a business combination (point (i)) are considered when determining goodwill. Amounts relating to points (ii), (iii) and (iv) are recorded in *Net income recognized directly in equity.*

23) Debt issued

Debt issued is carried at amortized cost. In cases where, as part of the Group's asset and liability management activity, fair value hedge accounting is applied to fixed-rate debt instruments carried at amortized cost, their carrying amount is adjusted for changes in fair value related to the hedged exposure – refer to item 15) for further details on hedge accounting. In most cases, structured notes issued are designated at fair value through profit or loss using the fair value option, on the basis that they are managed on a fair value basis and/or that the structured notes contain an embedded derivative – refer to item 8) for further details on the fair value option. The fair value option is not applied to certain structured notes that contain embedded derivatives that reference foreign exchange rates and precious metal prices. For these instruments, the embedded derivative component is measured on a fair value basis and the related underlying debt host component is measured on an amortized cost basis, with both components presented together within *Debt issued.*

Debt issued and subsequently repurchased in relation to market making or other activities is treated as redeemed. A gain or loss on redemption is recorded in *Other income* depending on whether the repurchase price of the bond is lower or higher than its carrying value. A subsequent sale of own bonds in the market is treated as a reissuance of debt. Interest expense on debt instruments measured at amortized cost is included in *Interest on debt issued*. Refer to Note 21 for further details on debt issued.

24) Pension and other post-employment benefit plans

UBS sponsors a number of post-employment benefit plans for its employees worldwide, which include defined benefit and defined contribution pension plans, and other post-employment benefits such as medical and life insurance benefits that are payable after the completion of employment.

Defined benefit pension plans

Defined benefit pension plans specify an amount of benefit that an employee will receive, which is usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit liability recognized in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets at the balance sheet date. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. UBS applies the projected unit credit method to determine the present value of its defined benefit obligations, the related current service cost and, where applicable, past service cost. These amounts, which take into account the specific features of each plan including risk sharing between the employee and employer, are calculated periodically by independent qualified actuaries. Further information on the plans and the principal actuarial assumptions used are set out in Note 30.

Defined contribution plans

A defined contribution plan is a pension plan under which UBS pays fixed contributions into a separate entity from which post-employment and other benefits are paid. UBS has no legal or constructive obligation to pay further contributions if the plan does not hold sufficient assets to pay employees the benefits relating to employee service in the current and prior periods. UBS's contributions are expensed when the employees have rendered services in exchange for such contributions; this is generally in the year of contribution. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Other post-retirement benefits

UBS also provides post-retirement medical and life insurance benefits to certain retirees in the US and the UK. The expected costs of these benefits are recognized over the period of employment using the same accounting methodology used for defined benefit pension plans.

25) Equity participation and other compensation plans

Equity participation plans

UBS has established several equity participation plans in the form of share plans, option plans and share-settled stock appreciation right (SAR) plans. UBS's equity participation plans include mandatory, discretionary, and voluntary plans. UBS recognizes the fair value of share, option and SAR awards, determined at the date of grant, as compensation expense over the period that the employee is required to provide services in order to earn the award.

Awards that do not require the employee to provide future service to become entitled to the award, such as those granted to retirement eligible employees, including those employees who meet full career retirement criteria, are considered vested at the grant date. Compensation expense is fully recognized on the grant date, or in a period prior to the grant date if it is attributable to past service, and the amount of the award can be reasonably and reliably estimated. Such awards remain forfeitable until the legal vesting date if certain conditions are not met. Where no future service is required, forfeiture events occurring after the grant date do not result in a reversal of compensation expense because the related services have been received.

Plans requiring future service have either a tiered vesting structure, which vest in increments over a specified period or a cliff vesting structure, which vest at the end of a specified period. Compensation expense is recognized over the service period on a tiered basis for awards that have a tiered vesting structure and on a straight-line basis for awards with a cliff vesting structure. Plans may contain provisions that shorten the required service period due to achievement of retirement eligibility or upon termination due to redundancy. In such instances, compensation expense is recognized over the period from grant date to the retirement eligibility or redundancy date. Forfeiture of these awards that occurs during the service period results in a reversal of compensation expense.

Awards settled in UBS shares or options are classified as equity instruments. The fair value of an equity-settled award is determined at the date of grant and is not subsequently remeasured, unless its terms are modified such that the fair value immediately after modification exceeds the fair value immediately prior to modification. Any increase in fair value resulting from a modification is recognized as compensation expense, either over the remaining service period or, for vested awards, immediately.

Cash-settled awards are classified as liabilities and are remeasured to fair value at each balance sheet date as long as the award is outstanding. Changes in fair value are reflected in compensation expense and, on a cumulative basis, no compensation expense is recognized for awards that expire worthless or remain unexercised.

Details of the determination of fair value for equity participation plans are disclosed in Note 31.

Other compensation plans

UBS has established other fixed and variable deferred compensation plans, the values of which are not linked to UBS's own equity. Deferred cash compensation plans are either mandatory or discretionary plans and include awards based on a notional cash amount, where ultimate payout is fixed or may vary based on achievement of performance conditions. Compensation expense is recognized over the period that the employee is required to provide services in order to earn the award. If the employee is not required to provide future services, such as for awards granted to employees who are retirement eligible, including those employees who meet full career retirement criteria, compensation expense is recognized on or prior to the grant date. The amount recognized during the service period is based on an estimate of the amount expected to be paid out under the plan, such that cumulative expense recognized ultimately equals the cash distributed to employees. For awards in the form of alternative investment vehicles or similar structures, which provide employees with a payout based on the value of specified underlying assets, the initial value is based on the fair value on the grant date of the underlying assets (e.g. money market funds, UBS and non-UBS mutual funds and other UBS-sponsored funds). This initial value is recognized over the period that the employee provides service to become entitled to the award. These awards are remeasured to fair value at each reporting date until the award is distributed. Changes in fair value, including increases and decreases in value, are recognized proportionate to the elapsed service period. Forfeiture of these awards results in the reversal of compensation expense.

➔ **Refer to "Note 31 Equity participation and other compensation plans" for more information**

26) Amounts due under unit-linked investment contracts

Financial liabilities from unit-linked investment contracts are presented as *Other liabilities* on the balance sheet (refer to Note 22). These contracts allow investors to invest in a pool of assets through issued investment units. The unit holders receive all rewards and bear all risks associated with the reference asset pool. The financial liability represents the amounts due to unit holders and is equal to the fair value of the reference asset pool. Assets held under unit-linked investment contracts are presented as *Trading portfolio assets* (refer to Note 12).

27) Provisions

Provisions are liabilities of uncertain timing or amount, and are recognized when UBS has a present obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The majority of UBS's provisions relate to litigation, regulatory and similar matters, restructuring costs, employee benefits, real estate and loan commitments and guarantees. Provisions that are similar in nature are aggregated to form a class, while the remaining provisions, including those of less significant amounts, are presented under *Other provisions*. Provisions are presented separately on the balance sheet and, when they are no longer considered uncertain in timing or amount, are reclassified to *Other liabilities-Other* (refer to Note 22).

The Group recognizes provisions for litigation, regulatory and similar matters when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated.

Restructuring provisions are recognized when a detailed and formal restructuring plan has been approved and a valid expectation has been raised that the restructuring will be carried out, either through commencement of the plan or announcements to affected employees.

Note 1 Summary of significant accounting policies (continued)

Provisions are recognized for lease contracts if the unavoidable costs of a contract exceed the benefits expected to be received under it (onerous lease contracts). For example, this may occur when a significant portion of leased property is expected to be vacant for an extended period.

Provisions for employee benefits are recognized mainly in respect of service anniversaries and sabbatical leave.

Provisions are recognized at the best estimate of the consideration required to settle the present obligation at the balance sheet date. Such estimates are based on all available information and are revised over time as more information becomes available. If the effect of the time value of money is material, provisions are discounted and measured at the present value of the expenditure expected to settle or discharge the obligation, using a rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

A provision is not recognized when UBS has a present obligation that has arisen from past events but it is not probable that an outflow of resources will be required to settle it, or a sufficiently reliable estimate of the amount of the obligation cannot be made. Instead, a contingent liability is disclosed. Contingent liabilities are also disclosed for possible obligations that arise from past events whose existence will be confirmed only by uncertain future events not wholly within the control of UBS (refer to Note 23).

28) Equity, treasury shares and contracts on UBS AG shares

Transaction costs related to share issuances

Incremental transaction costs directly attributable to the issue of new shares or contracts with mandatory gross physical settlement classified as equity instruments are recognized in and deducted from *Equity* as "Transaction costs related to share issuances, net of tax".

Non-controlling interests

Net profit and *Equity* are presented including non-controlling interests. *Net profit* is split into *Net profit attributable to UBS shareholders* and *Net profit attributable to non-controlling interests. Equity* is split into *Equity attributable to UBS shareholders* and *Equity attributable to non-controlling interests.*

UBS AG shares held ("treasury shares")

UBS AG shares held by the Group are presented in *Equity* as Treasury shares at their acquisition cost which includes transaction costs. Treasury shares are deducted from *Equity* until they are cancelled or reissued. The difference between the proceeds from sales of Treasury shares and their weighted average cost (net of tax, if any) is reported as *Share premium.*

Net cash settlement contracts

Contracts on UBS AG shares that require net cash settlement, or provide the counterparty or UBS with a settlement option which includes a choice of settling net in cash, are classified as held for trading, with changes in fair value reported in the income statement as *Net trading income.*

Contracts with mandatory gross physical settlement

UBS issues contracts with mandatory gross physical settlement in UBS AG shares where a fixed amount of shares is exchanged against a fixed amount of cash or another financial asset.

Written put options and forward share purchase contracts with gross physical settlement, including contracts where gross physical settlement is a settlement alternative, result in the recognition of a financial liability booked against *Equity.* The financial liability is subsequently accreted, using the EIR method, over the life of the contract to the nominal purchase obligation with the amount recognized in *Interest expense*. Upon settlement of the contract, the liability is derecognized against the consideration paid, and the amount of equity originally recognized as a liability is reclassified within *Equity* to *Treasury shares.* The premium received for writing such put options is recognized directly in *Share premium.* All other contracts with mandatory gross physical settlement in UBS AG shares are presented in *Equity* as *Share premium* and accounted for at cost, which is added to or deducted from *Equity* as appropriate. Upon settlement of such contracts, the difference between the proceeds received and their cost (net of tax, if any) is reported as *Share premium.*

Trust preferred securities issued

UBS has issued trust preferred securities through consolidated preferred funding trusts which hold debt or equity issued by UBS AG. UBS AG has fully and unconditionally guaranteed all contractual payments on these securities. UBS's obligations under these guarantees are subordinated to the full prior payment of the deposit liabilities of UBS and all other liabilities of UBS. The trust preferred securities represent equity instruments which are held by third parties and treated as non-controlling interests in UBS's consolidated financial statements. Once a coupon payment becomes mandatory, i.e., when it is triggered by a contractually defined event, the full dividend payment obligation on these trust preferred securities issued is reclassified from *Equity* to a corresponding liability. In the income statement the full dividend payment is reclassified from *Net profit attributable* to *UBS shareholders to Net profit attributable to non-controlling interests* at that time.

29) Discontinued operations and non-current assets held for sale

UBS presents discontinued operations in a separate line in the income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and a) represents a separate major line of business or geographical area of operations, b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale (e.g. certain private equity investments). Net profit from discontinued operations includes the net total of operating profit and loss before tax from discontinued operations (including net gain or loss on sale before tax or measurement to fair value less costs to sell) and discontinued operations tax expense. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of UBS's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, UBS restates prior periods in the income statement.

UBS classifies individual non-current assets and disposal groups as held for sale if such assets or disposal groups are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups and their sale is considered highly probable. For a sale to be highly probable, management must be committed to a plan to sell such assets and must be actively looking for a buyer. Furthermore, the assets must be actively marketed at a reasonable sales price in relation to their fair value and the sale must be expected to be completed within one year. These assets (and liabilities in the case of disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell and are presented in *Other assets* and *Other liabilities*. Non-current assets and liabilities of subsidiaries are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

30) Leasing

UBS enters into lease contracts, or contracts that include lease components, predominantly of premises and equipment, primarily as lessee. Leases that transfer substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. All other leases are classified as operating leases.

Assets leased pursuant to finance leases are recognized on the balance sheet in *Property and equipment* and are amortized over the lesser of the useful life of the asset or the lease term, with corresponding amounts payable included in *Due to banks/customers*. Finance charges payable are recognized in *Net interest income* over the period of the lease based on the interest rate implicit in the lease on the basis of a constant yield.

Lease contracts classified as operating leases where UBS is the lessee are disclosed in Note 26. These contracts include non-cancellable long-term leases of office buildings in most UBS locations. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences with control of the physical use of the property. Lease incentives are treated as a reduction of rental expense and are recognized on a consistent basis over the lease term.

Certain arrangements do not take the legal form of a lease but convey a right to use an asset in return for a payment or series of payments. For such arrangements, UBS determines at the inception of the arrangement whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and, if so, the arrangement is accounted for as a lease.

31) Fee income

UBS earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories: fees earned from services that are provided over a certain period of time (for example, investment fund fees, portfolio management and advisory fees) and fees earned from providing transaction-type services (for example, underwriting fees, corporate finance fees and brokerage fees). Fees earned from services that are provided over a certain period of time are recognized ratably over the service period, with the exception of performance-linked fees or fee components with specific performance criteria. Such fees are recognized when the performance criteria are fulfilled and when collectability is reasonably assured. Fees earned from providing transaction-type services are recognized when the service has been completed.

Loan commitment fees on lending arrangements, where there is an initial expectation that the facility will be drawn down, are deferred until the loan is drawn down and are then recognized as an adjustment to the effective yield over the life of the loan. If the commitment expires and the loan is not drawn down, the fees are recognized as revenue when the commitment expires. Where the initial expectation that the facility will be drawn down is remote, the loan commitment fees are recognized on a straight line basis over the commitment period. If, subsequently, the commitment is actually exercised, the unamortized component of the loan commitment fees are amortized as an adjustment to the effective yield over the life of the loan.

32) Foreign currency translation

Transactions denominated in foreign currency are translated into the functional currency of the reporting unit at the spot exchange rate on the date of the transaction. At the balance sheet date, all monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the closing exchange rate. Non-monetary items measured at historical cost are translated at the exchange rate on the date of the transaction. Foreign exchange differences on financial investments available-for-sale are recorded directly in *Equity* until the asset is sold or becomes impaired, with the exception of translation differences on the amortized cost of monetary financial investments available-for-sale which are reported in *Net trading income*, along with *all other foreign exchange differences on monetary assets and liabilities.*

Upon consolidation, assets and liabilities of foreign operations are translated into Swiss francs (CHF) – UBS's presentation currency – at the closing exchange rate on the balance sheet date, and income and expense items are translated at the average rate for the period. The resulting foreign exchange differences are recognized directly in *Foreign currency translation* within *Equity.*

Note 1 Summary of significant accounting policies (continued)

When a foreign operation is disposed of such that control, significant influence or joint control is lost, or the operation is liquidated, the cumulative amount in *Foreign currency translation* within *Equity* related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When UBS disposes of a portion of its interest in a subsidiary that includes a foreign operation but retains control, the related portion of the cumulative currency translation balance is reclassified to *Non-controlling interests.* When UBS disposes of a portion of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the related portion of the cumulative currency translation balance is reclassified to profit or loss.

33) Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated using the same method as for basic EPS and adjusting the net profit or loss for the period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding to reflect the potential dilution that could occur if options, warrants, convertible debt securities or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

34) Segment reporting

UBS's businesses are organized globally into five business divisions: Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate, supported by the Corporate Center. The five business divisions qualify as reportable segments for the purpose of segment reporting and, together with the Corporate Center and its components, reflect the management structure of the Group. Additionally, Legacy Portfolio and Core Functions are disclosed separately under the Corporate Center. Legacy Portfolio meets the definition of an operating segment and is disclosed as a reportable segment. Financial information about the five business divisions and the Corporate Center (with its components) is presented separately in internal management reports to the Group Executive Board, which is considered the "chief operating decision maker" within the context of IFRS 8 *Operating Segments.*

Fee arrangements between the Corporate Center – Core Functions and the reportable segments are adjusted on a periodic basis and differences may arise between actual costs incurred and amounts recharged. These differences, together with own credit gains and losses on financial liabilities designated at fair value which are excluded from the measurement of performance of the business divisions, are considered reconciling differences to UBS Group results and are reported collectively under Corporate Center – Core Functions. To increase transparency, the costs from Corporate Center – Core Functions are allocated to the direct cost lines of personnel expenses, general and administrative expenses and depreciation in the respective reportable segment income statements, based on internally determined allocation bases. UBS's internal accounting policies, which include management accounting policies and service level agreements, determine the revenues and expenses directly attributable to each reportable segment. Internal charges and transfer pricing adjustments are reflected in operating results of the reportable segments.

Revenue-sharing agreements are used to allocate external client revenues to reportable segments where several reportable segments are involved in the value-creation chain. Commissions are credited to the reportable segments based on the corresponding client relationship.

Net interest income is allocated to the reportable segments based on their balance sheet positions. Assets and liabilities of the reportable segments are funded through and invested with Group Treasury, and the net interest margin is reflected in the results of each reportable segment. Interest income earned from managing UBS's consolidated equity is allocated to the reportable segments based on average attributed equity.

In line with internal management reporting, segment assets are reported without intercompany balances on a third-party view basis. Refer to Note 2a for further details. For the purpose of segment reporting under IFRS 8, the non-current assets consist of investments in associates and joint ventures, goodwill, other intangible assets and plant, property and equipment.

35) Netting

UBS nets financial assets and liabilities on its balance sheet if it has a currently enforceable legal right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Netted positions include, for example, OTC interest rate swaps transacted with the London Clearing House, netted by currency and across maturity dates, repurchase and reverse repurchase transactions entered into with the both the London Clearing House and the Fixed Income Clearing Corporation, netted by counterparty, currency, central securities depository and maturity, as well as transactions with various other counterparties, exchanges and clearinghouses.

Effective in 2012

IAS 19 (revised) Employee Benefits

In June 2011, the IASB issued revisions to IAS 19 *Employee Benefits* ("IAS 19R" or "the revised standard"). During 2012, UBS adopted IAS 19R retrospectively in accordance with the transitional provisions set out in the standard. The revised standard introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. IAS 19R eliminates the "corridor method", under which the recognition of actuarial gains and losses was deferred. Instead, the full defined benefit obligation net of plan assets is now recorded on the balance sheet, with changes resulting from remeasurements recognized immediately in other comprehensive income. The measurement of the defined benefit obligation takes into account risk sharing features, such as those within our Swiss pension plan. In addition, IAS 19R requires net interest expense/income to be calculated as the product of the net defined benefit liability/asset and the discount rate as determined at the beginning of the year. The effect of this is to remove the previous concept of recognizing an expected return on plan assets. The revised standard also enhances the disclosure requirements for defined benefit plans, requiring more information about the characteristics of such plans and the risks to which entities are exposed through participation in those plans, as set out in Note 30.

The opening balance sheet as of 1 January 2010 and the comparative figures have been presented as if IAS 19R had always been applied. The effect of adoption on prior periods is shown in the tables below. Had UBS not adopted IAS 19R, total equity would have been higher by CHF 3,948 million as of 31 December 2012, the amounts in other comprehensive income would not have been recognized, and for the year ended 31 December 2012 profit before tax would have been CHF 320 million lower and basic and diluted earnings per share would have been CHF 0.08 lower.

Effect on total comprehensive income

	Effect on the income statement			Effect on other comprehensive income					
CHF million	Personnel expenses	Tax expense/(benefit)	**Net profit/(loss)**	Gains/(losses) on defined benefit plans, before tax	Income tax relating to gains/losses on defined benefit plans	Foreign currency translation movements, before tax	Income tax relating to foreign currency translation movements	**Other comprehensive income**	**Total comprehensive income**
Amount previously reported for the year 2010	16,920	(381)	7,838	0	0	(951)	121	(1,354)	6,484
Change in reported figures for the year	111	(29)	(82)	124	(3)	211	(33)	299	217
Restated amount for the year 2010	17,031	(409)	7,756	124	(3)	(740)	88	(1,055)	6,701
Amount previously reported for the year 2011	15,591	923	4,427	0	0	995	(6)	3,030	7,457
Change in reported figures for the year	43	(22)	(21)	(2,141)	321	(10)	26	(1,804)	(1,825)
Restated amount for the year 2011	15,634	901	4,406	(2,141)	321	985	20	1,226	5,632

Effect on earnings per share

	Basic earnings per share			Diluted earnings per share		
CHF	As originally reported	Effect on basic earnings per share	Restated basic earnings per share	As originally reported	Effect on diluted earnings per share	Restated diluted earnings per share
For the year ended 31 December 2010	1.99	(0.02)	1.97	1.96	(0.02)	1.94
For the year ended 31 December 2011	1.10	0.00	1.10	1.08	0.00	1.08

Note 1 Summary of significant accounting policies (continued)

Effect on the balance sheet

CHF million	Other assets	Deferred tax assets	Other liabilities [1]	Total equity
Balance previously reported as of 31 December 2009 / 1 January 2010	23,682	8,868	69,943	48,633
Cumulative effect for prior periods	(3,040)	741	1,010	(3,309)
Restated balance as of 31 December 2009 / 1 January 2010	**20,642**	**9,609**	**70,954**	**45,324**
Balance previously reported as of 31 December 2010	22,681	9,522	62,015	51,863
Cumulative effect for prior periods	(3,040)	741	1,010	(3,309)
Change in reported figures for the year	(134)	(1)	(352)	217
Restated balance as of 31 December 2010	**19,506**	**10,262**	**62,674**	**48,770**
Balance previously reported as of 31 December 2011	12,465	8,526	60,066	57,852
Cumulative effect for prior periods	(3,174)	740	658	(3,092)
Change in reported figures for the year	(126)	361	2,060	(1,825)
Restated balance as of 31 December 2011	**9,165**	**9,627**	**62,784**	**52,935**

1 "Balances previously reported" differ from those originally published in annual reports as provisions are now separately presented on the balance sheet and no longer as part of other liabilities.

Effect on personnel expense by business division and Corporate Center[1]

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center	UBS Group
Amount previously reported for the year 2010	3,153	4,225	6,623	1,096	1,625	197	16,920
Change in reported figures for the year	75	(9)	(18)	1	62	0	111
Restated amount for the year 2010	**3,228**	**4,216**	**6,605**	**1,097**	**1,687**	**197**	**17,031**
Amount previously reported for the year 2011	3,258	3,840	5,740	955	1,666	132	15,591
Change in reported figures for the year	43	(10)	(24)	(2)	35	0	43
Restated amount for the year 2011	**3,300**	**3,830**	**5,716**	**954**	**1,702**	**132**	**15,634**

1 "Amounts previously reported" differ from those originally published in annual reports (for example due to organizational changes) as provisions are now separately presented on the balance sheet and no longer as part of Other liabilities.

Amendments to IFRS 7 Financial instruments: Disclosures

In October 2010, the IASB issued revised IFRS 7 *Financial Instruments: Disclosures* to provide additional disclosures regarding transfers of financial assets, including those transfers in which an entity retains a continuing interest in the transferred asset(s) at the reporting date. The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The effective date for mandatory adoption is for annual periods beginning on or after July 2011, with early adoption permitted.

UBS adopted the revisions to IFRS 7 as of 1 January 2012 in accordance with the transitional provisions set out in the standard, and these disclosures are reflected in Note 28 of the financial statements. In conjunction with the implementation of the revised standard, the Group has refined its definition of the term "transfer" for disclosure purposes to exclude pledges and similar arrangements where the counterparty does not receive rights to sell or re-pledge the financial asset. As a result, the comparative 2011 figures have been restated for transferred financial assets in Note 28b from CHF 118.5 billion to CHF 39.9 billion.

In Notes 28a and 28d, we have modified our presentation of pledged assets in order to differentiate those which are executed in association with liabilities and contingent liabilities and those that are not. Additionally, financial assets held by the Group and reserved for purposes of securing liquidity facilities from central banks, but which are not associated with existing liabilities or contingent liabilities, have been excluded from pledged financial assets in Note 28a and 28d. As a result, the comparative figures presented in Note 28a have been restated downwards by CHF 31 billion and the comparative figures in Note 28d have been restated downwards by CHF 6 billion.

Annual Improvements to IFRSs 2009–2011

In May 2012, the IASB issued six amendments to five IFRS as part of its annual improvements project. Of these amendments, the amendment to IAS 1 clarifies the requirements for the presentation of comparative information when an entity presents an additional comparative period. The Group has adopted the amendment to IAS 1 in 2012, ahead of its mandatory effective date of 1 January 2013 in accordance with the transitional provisions of the standard. Accordingly, due to the adoption of IAS 19R on a retrospective basis, UBS has presented an additional comparative period for the balance sheet as at the beginning of 2011, but there is no information in the notes to the balance sheet for this additional comparative period.

The remaining amendments will be adopted as of 1 January 2013. These amendments are not expected to have a material effect on the financial statements.

Amendments to IAS 12 Income Taxes

In December 2010, the IASB issued amendments to IAS 12 *Income Taxes* which incorporate the principles of previous guidance in the now withdrawn SIC *Interpretation 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets*.

IAS 12 generally requires an entity to measure the deferred tax related to assets reflecting the tax consequences that would follow from the manner in which the entity expects to recover their carrying amount (e.g. sale or use). However, under the amendments, there is a rebuttable presumption that investment property will be recovered through sale. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model.

The amendments are effective for annual periods beginning on or after 1 January 2012, with early adoption permitted. UBS adopted the amendments effective 1 January 2012 in accordance with the transitional provisions of the standard. The adoption did not have a material impact on the financial statements.

Interests in non-consolidated funds

In 2012, UBS changed its accounting policy for the recognition of foreign currency translation gains and losses arising from certain financial investments available-for-sale. All investments in funds that are considered debt instruments under the requirements of IAS 32 are now treated as monetary items and foreign currency translation gains and losses on such investments are recorded in the income statement, rather than in other comprehensive income as would be the case for non-monetary items. This revised accounting policy is considered more relevant as it aligns the definition of debt instruments in IAS 32 with the definition of monetary items in IAS 21. The change in accounting policy was applied retrospectively and due to the prior application of fair value hedges of foreign currency risk, had no effect on prior period amounts.

Changes to reporting segments

Wealth Management & Swiss Bank

Wealth Management & Swiss Bank's two reportable segments – Wealth Management and Retail & Corporate – became separate business divisions at the start of 2012. As these new business divisions were already considered separate reportable segments, no adjustments were required to segmental results.

Investment Bank

On 30 December 2011, a portfolio of legacy positions was transferred from the Investment Bank to the Corporate Center. Commencing in the first quarter of 2012, this portfolio, together with the option to buy the equity of the SNB StabFund, has been considered a separate reportable segment within the Corporate Center and designated as the Legacy Portfolio. Prior periods have been restated.

In conjunction with the accelerated implementation of UBS's strategy announced in October 2012, the Asset Liability Management unit was transferred from the Investment Bank to Group Treasury within the Corporate Center in the fourth quarter of 2012. Prior periods have been restated to reflect this transfer, and profit and loss amounts associated with the ongoing business activities of Asset Liability Management have been fully allocated back to the Investment Bank.

Own credit

Effective 2012, the measurement of the performance of the business divisions excludes own credit gains and losses on financial liabilities designated at fair value. This reflects the fact that these gains and losses are not managed at a business division level and are not necessarily indicative of any business division's performance. In line with these internal reporting changes, own credit gains and losses are now reported as part of Corporate Center – Core Functions. Prior periods have been restated to conform to this presentation.

Group Treasury managed assets

In 2012, management changed the methodology used to allocate certain financial assets and their corresponding costs managed by Group Treasury. Prior periods were not restated for this change and the impact from the change in cost allocation methodology was not material to the reporting segment results.

Centralization of operations units in the Corporate Center

In 2012, operations units from the business divisions were centralized in the Corporate Center as part of UBS's ongoing efforts to improve our operational effectiveness and heighten our cost efficiency across the firm. Prior to this centralization, charges for operations support provided from one division to another were shown in the respective division's income statement as services to/from other business divisions without any allocation of the related headcount. With effect from 1 July 2012 on a prospective basis, charges from the centralized operations units have been allocated to the business divisions and shown in the respective expense lines of the reportable segments and the related headcount has been allocated to the business divisions. Prior to the transfer to the Corporate Center, Retail & Corporate operations

Note 1 Summary of significant accounting policies (continued)

staff provided significant support to other business divisions in Switzerland. Accordingly, the transfer had the effect of increasing personnel and non-personnel expenses as well as decreasing charges for services from other business divisions at Wealth Management, the Investment Bank and Global Asset Management, and of decreasing personnel and non-personnel expenses as well as income from services provided to other divisions at Retail & Corporate. As a result of the centralization, as of 1 July 2012, allocations of personnel increased by approximately 800 in Wealth Management, 250 in the Investment Bank and 50 in Global Asset Management, with a corresponding decrease of 1,100 in Retail & Corporate.

c) International Financial Reporting Standards and Interpretations to be adopted in 2013 and later

IFRS 9 Financial Instruments
In November 2009, the IASB issued IFRS 9 *Financial Instruments,* which includes revised guidance on the classification and measurement of financial assets. In October 2010, the IASB updated IFRS 9 to include guidance on financial liabilities and derecognition of financial instruments. The publication of IFRS 9 represented the completion of the first part of a multi-stage project to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

The standard requires all financial assets to be classified as fair value through profit or loss or at amortized cost on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. If a financial asset meets the criteria to be measured at amortized cost, it can be designated at fair value through profit or loss under the fair value option if doing so would significantly reduce or eliminate an accounting mismatch. Equity instruments that are not held for trading may be accounted for at fair value through other comprehensive income (OCI).

The accounting guidance for financial liabilities is unchanged with one exception: changes in fair value due to changes in an entity's own credit risk associated with financial liabilities designated at fair value through profit or loss are directly recognized in OCI instead of in profit and loss. There is no subsequent recycling of realized gains or losses from OCI to profit or loss.

In December 2011, the IASB issued amendments to IFRS 9 *Financial Instruments* that defer the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments also provide relief from the requirement to restate comparative information for the effect of applying IFRS 9. Early adoption of IFRS 9 is still permitted.

In 2012, the IASB issued additional exposure drafts, amending IFRS 9 for hedge accounting and proposing extensive changes to the classification and measurement model described including the introduction of a new measurement category for financial assets that are managed both in order to collect contractual cash flows and for sale. This new measurement category will require the asset to be measured at fair value, with fair value changes being recognized in OCI. Additionally, the amendments propose that entities may early adopt the own credit risk guidance discussed above.

UBS is currently assessing the impact of the new standard and the related proposed amendments on the financial statements.

IFRS 10 Consolidated Financial Statements
In May 2011, the IASB issued IFRS 10 *Consolidated Financial Statements*, which establishes a single control-based model for assessing whether one entity should consolidate another. IFRS 10 applies to all types of entities and will replace SIC-12 *Consolidation – Special Purpose Entities*, and portions of IAS 27 *Consolidated and Separate Financial Statements*. IFRS 10 is based on the existing principle that an entity should consolidate all other entities that it controls. The definition of control in IFRS 10 focuses on the presence of power, exposure to variable returns and the ability to utilize power to affect an entity's own returns. The determination of control is based on current facts and circumstances and is continuously assessed. IFRS 10 provides additional guidance to assist in the determination of control in circumstances in which this assessment is difficult to make. For example, IFRS 10 introduces guidance on assessing whether an entity with decision-making rights is a principal or an agent.

In October 2012, the IASB issued an amendment to IFRS 10, providing an exception to consolidation for certain "investment entities". Investment entities are those whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. As UBS Group does not itself meet the definition of an investment entity, the amendments will have no impact on UBS's consolidated financial statements.

UBS will adopt IFRS 10 on its mandatory effective date of 1 January 2013 on a limited retrospective basis, as permitted by the standard. At this time UBS will also early adopt the October 2012 amendments. Upon adoption, UBS will adjust its opening equity as of 1 January 2012 and the reported figures for 2012 will be presented as if IFRS 10 had always been applied. The reported figures for 2011 will not be adjusted and will continue to be presented in accordance with IAS 27 and SIC 12.

Under IFRS 10, UBS expects a change in consolidation status associated with certain entities. The Group will now consolidate certain investment funds where UBS's exposure to variability indicates that its power as fund manager is in a principal capacity. UBS will deconsolidate certain entities that were previously consolidated due to exposure to a majority of risk and rewards, but where UBS does not have power over the relevant activities. We will also deconsolidate certain entities where UBS's involvement does not expose it to variable returns from the entity. This includes entities associated with the issuance of trust preferred securities. As a result, we estimate that had UBS applied IFRS 10 to its 2012 financial report, total assets would have been higher by approximately CHF 0.6 billion, and total liabilities would have been higher by approximately CHF 1.8 billion. Total equity would have been lower by approximately CHF 1.2 billion. The effect on net profit is not expected to be material.

IFRS 11 Joint Arrangements
In May 2011, the IASB issued IFRS 11 *Joint arrangements*, which supersedes IAS 31 *Interests in Joint Ventures*, and SIC 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. The classification of a joint arrangement under IFRS 11 depends upon the rights and obligations of the arrangement, rather than its legal form. The standard addresses inconsistencies in the reporting of joint arrangements by eliminating the proportionate consolidation approach and requiring the equity method to account for interests in jointly controlled entities. UBS currently applies the equity method to account for it interests in joint ventures under IAS 31. As a result, the new standard will not have an impact on the financial statements. UBS will adopt IFRS 11 on its mandatory effective date of 1 January 2013.

IFRS 12 Disclosure of Interest in Other Entities
In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which provides new and comprehensive guidance on the annual disclosure requirements about entities with which a reporting entity is involved. This includes specific disclosures for investment entities. IFRS 12 replaces the disclosure requirements currently included in IAS 28 *Investment in Associates*. The standard requires entities to disclose information that helps users to evaluate the nature, risks and financial effects associated with a reporting entity's interests in subsidiaries, associates, joint arrangements and, in particular, unconsolidated structured entities. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted. UBS will provide disclosures under IFRS 12 in its 2013 Annual Report.

IFRS 13 Fair Value Measurement
In May 2011, the IASB issued IFRS 13 *Fair Value Measurement*, which establishes a single source of guidance for all fair value measurements under IFRS. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; i.e., an exit price. The standard emphasizes that fair value is a market-based measurement, not an entity-specific measurement. It clarifies that the unit of measurement is generally a particular asset or liability unless an entity manages and reports its net risk exposures on a portfolio basis, in which case it may elect to apply portfolio-level price adjustments under limited circumstances. It also introduces new disclosure requirements and enhancements to existing disclosures.

The effective date for mandatory adoption is 1 January 2013, with early adoption permitted. IFRS 13 is required to be applied prospectively from the effective date. UBS does not anticipate that adoption of the standard will have a material impact on its financial statements.

IAS 1 Presentation of Financial Statements
In June 2011, the IASB issued the revised IAS 1 *Presentation of Financial Statements*. The revised standard requires the grouping together for presentation purposes of items within other comprehensive income (OCI) into those that may be reclassified to profit or loss in subsequent periods and those that may not be. The revised standard reaffirms existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. Historically, all items in our OCI could be recycled to profit or loss, but this has changed with the adoption of IAS 19 (revised) *Employee Benefits* and will also be affected by IFRS 9 *Financial Instruments*, as both of these accounting standards will generate OCI items that will not be recycled to profit or loss in subsequent periods. UBS will adopt the revised standard on its mandatory effective date of 1 January 2013, resulting in revised presentation in the statement of comprehensive income.

IAS 32 Financial Instruments: Presentations and IFRS 7 Financial Instruments: Disclosures
In December 2011, the IASB amended the presentation guidelines and disclosures related to offsetting financial assets and financial liabilities by issuing amendments to IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial Instruments: Disclosures*.

The amendments to IAS 32 change current practice by requiring that, to achieve offsetting on the balance sheet, an arrangement must be unconditional and legally enforceable, both in the normal course of business and in the event of default, bankruptcy or insolvency of the entity and all counterparties. The amendments also provide incremental guidance for determining when gross settlement systems achieve the functional equivalent of net settlement.

The IASB simultaneously issued disclosure requirements intended to enable users to assess the effect (or potential effect) of offsetting arrangements on an entity's financial position. The amendments to IFRS 7 *Financial Instruments: Disclosures* require that entities disclose both gross and net amounts associated with master netting agreements and similar arrangements, including the effects of financial collateral, whether or not presented net on the face of the balance sheet.

UBS is currently assessing the impact of the revised standards on its financial statements. The amendments to IAS 32 are effective for annual periods beginning on or after 1 January 2014, with earlier adoption permitted. The amendments to IFRS 7 are effective from 1 January 2013. Both amendments are required to be adopted retrospectively.

Note 2a Segment reporting

UBS AG is the parent company of the UBS Group (Group). The operational structure of the Group comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate. The five business divisions qualify as reportable segments for the purpose of segment reporting and, together with the Corporate Center and its components, reflect the management structure of the Group. Additionally, Legacy Portfolio and Core Functions are disclosed separately under the Corporate Center. Legacy Portfolio meets the definition of an operating segment and is disclosed as a reportable segment.

Wealth Management

Wealth Management provides comprehensive financial services to wealthy private clients around the world – except those served by Wealth Management Americas. Its clients benefit from the entire spectrum of UBS resources, ranging from investment management to estate planning and corporate finance advice, in addition to specific wealth management products and services. An open product platform provides clients with access to a wide array of products from third-party providers that complement UBS's product lines.

Wealth Management Americas

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

Investment Bank

The Investment Bank provides a range of products and services in equities, fixed income, foreign exchange and commodities to corporate and institutional clients, sovereign and government bodies, financial intermediaries, alternative asset managers and UBS's wealth management clients. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities. It provides financial solutions to its clients, and offers advisory and analytics services in all major capital markets.

Global Asset Management

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

Retail & Corporate

Retail & Corporate provides comprehensive financial products and services to UBS's retail, corporate and institutional clients in Switzerland and maintains a leading position in these client segments. It constitutes a central building block of UBS's universal bank model in Switzerland, delivering growth to UBS's other businesses. It supports them by cross-selling products and services provided by UBS's asset-gathering and investment banking businesses, by referring clients to them and by transferring clients to Wealth Management due to increased client wealth.

Corporate Center

The Corporate Center provides control functions for the business divisions and the Group in such areas as risk control, legal and compliance as well as finance including treasury services, funding, balance sheet and capital management. The Corporate Center – Core Functions provides all logistics and support functions including information technology, human resources, corporate development, Group regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical and information security, offshoring as well as Group-wide operations. It allocates most of its treasury income, operating expenses and personnel associated with these activities to the businesses based on capital and service consumption levels. The Corporate Center also encompasses certain centrally managed positions, including the SNB StabFund option and the Legacy Portfolio.

Note 2a Segment reporting[1] (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center – Core Functions	Corporate Center – Legacy Portfolio	UBS
For the year ended 31 December 2012								
Net interest income	1,951	792	1,141	(21)	2,186	(171)	116	5,994
Non-interest income	5,089	5,319	7,422	1,905	1,569	(2,003)	265	19,567
Income[2, 3, 4]	7,040	6,110	8,564	1,884	3,756	(2,173)	381	25,561
Credit loss (expense) / recovery	1	(14)	34	0	(27)	0	(112)	(118)
Total operating income	7,041	6,097	8,598	1,884	3,728	(2,173)	268	25,443
Personnel expenses	2,865	4,252	5,141	885	1,287	240	68	14,737
General and administrative expenses	1,360	893	2,730	395	857	1,648[5]	771	8,653
Services (to) / from other business divisions	243	(15)	132	(10)	(370)	2	19	0
Depreciation and impairment of property and equipment	159	100	257	37	128	6	2	689
Impairment of goodwill[6]	0	0	3,030	0	0	0	0	3,030
Amortization and impairment of intangible assets[6]	7	51	41	8	0	0	0	106
Total operating expenses[7]	4,634	5,281	11,331	1,314	1,901	1,895	861	27,216
Performance before tax	**2,407**	**816**	**(2,734)**	**570**	**1,827**	**(4,068)**	**(592)**	**(1,774)**
Tax expense / (benefit)								461
Net profit / (loss)								**(2,235)**
Additional Information								
Total assets[8]	104,666	63,511	672,329	13,322	145,320	222,500	37,584	1,259,232
Additions to non-current assets	4	1	62	12	45	1,032	0	1,158

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information on the adoption of IAS 19R and changes to reporting segments. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2012 were as follows: Investment Bank CHF 56 million; Global Asset Management CHF 4 million; Corporate Center – Core Functions CHF 2 million; Corporate Center – Legacy Portfolio CHF 24 million. 3 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. 4 Refer to "Note 27 Fair value of financial instruments" for further information on own credit in Corporate Center – Core Functions. 5 Includes charges of approximately CHF 1.4 billion arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. Refer to "Note 23 Provisions and contingent liabilities" for more information. 6 Refer to "Note 17 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. 7 Refer to "Note 37 Changes in organization" for information on restructuring charges. 8 The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances. Certain assets managed centrally by the Corporate Center (including property and equipment and certain financial assets) are allocated to the segments on a basis different to which the corresponding costs are allocated. Specifically, certain assets are reported in the Corporate Center whereas the corresponding costs are entirely or partially allocated to the segments based on various internally determined allocations.

Note 2a Segment reporting[1] (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center – Core Functions	Corporate Center – Legacy Portfolio	UBS
For the year ended 31 December 2011								
Net interest income	1,968	729	1,460	(15)	2,328	(118)	474	6,826
Non-interest income	5,666	4,571	6,521	1,817	1,858	1,702	(1,090)	21,046
Income[2, 3, 4]	7,634	5,300	7,981	1,803	4,186	1,584	(616)	27,872
Credit loss (expense) / recovery	11	(6)	(13)	0	(101)	(1)	25	(84)
Total operating income	7,645	5,295	7,968	1,803	4,085	1,583	(591)	27,788
Personnel expenses	3,300	3,830	5,716	954	1,702	64	68	15,634
General and administrative expenses	1,192	783	2,490	375	834	137	148	5,959
Services (to) / from other business divisions	318	(9)	108	(1)	(470)	(1)	56	0
Depreciation and impairment of property and equipment	165	99	251	38	136	70	3	761
Amortization and impairment of intangible assets[5]	37	48	34	8	0	0	0	127
Total operating expenses[6]	5,012	4,750	8,599	1,373	2,201	271	276	22,482
Performance before tax	**2,633**	**544**	**(631)**	**430**	**1,884**	**1,313**	**(866)**	**5,307**
Tax expense / (benefit)								901
Net profit / (loss)								**4,406**
Additional Information								
Total assets[7]	100,352	53,870	896,160	15,239	147,117	148,129	56,096	1,416,962
Additions to non-current assets	5	25	109	18	22	1,013	1	1,192

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information on the adoption of IAS 19R and changes to reporting segments. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2011 were as follows: Wealth Management CHF 28 million; Investment Bank CHF 4 million; Corporate Center – Legacy Portfolio CHF 8 million. 3 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. 4 Refer to "Note 27 Fair value of financial instruments" for further information on own credit in Corporate Center – Core Functions. 5 Refer to "Note 17 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. 6 Refer to "Note 37 Changes in organization" for information on restructuring charges. 7 The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances.

Note 2a Segment reporting[1] (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center Core Functions	Corporate Center Legacy Portfolio	UBS
For the year ended 31 December 2010								
Net interest income	1,737	695	1,554	(17)	2,422	(858)	681	6,215
Non-interest income	5,608	4,870	10,393	2,075	1,524	700	675	25,845
Income[2, 3, 4]	7,345	5,565	11,947	2,058	3,946	(158)	1,356	32,060
Credit loss (expense) / recovery	11	(1)	155	0	(76)	0	(155)	(66)
Total operating income	7,356	5,564	12,102	2,058	3,870	(158)	1,201	31,994
Personnel expenses	3,228	4,216	6,605	1,097	1,687	78	119	17,031
General and administrative expenses	1,264	1,223	2,486	400	836	167	209	6,585
Services (to) / from other business divisions	449	(6)	(27)	(5)	(509)	8	91	0
Depreciation and impairment of property and equipment	163	198	273	43	146	89	5	918
Amortization and impairment of intangible assets[5]	19	55	34	8	0	0	0	117
Total operating expenses[6]	5,123	5,685	9,371	1,543	2,160	342	424	24,650
Performance from continuing operations before tax	**2,233**	**(121)**	**2,731**	**515**	**1,710**	**(500)**	**777**	**7,345**
Performance from discontinued operations before tax	0	0	0	0	0	2	0	2
Performance before tax	**2,233**	**(121)**	**2,731**	**515**	**1,710**	**(498)**	**777**	**7,346**
Tax expense / (benefit) on continuing operations								(409)
Tax expense / (benefit) on discontinued operations								0
Net profit / (loss)								**7,756**
Additional Information								
Total assets[7]	93,847	49,777	797,497	15,787	151,563	134,574	71,768	1,314,813
Additions to non-current assets	25	48	27	8	12	467	5	593

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information on the adoption of IAS 19R and changes to reporting segments. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2010 were as follows: Wealth Management CHF 44 million; Investment Bank CHF 1 million; Global Asset Management CHF 2 million; Corporate Center – Core Functions CHF (16) million; Corporate Center – Legacy Portfolio CHF 40 million. 3 The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. 4 Refer to "Note 27 Fair value of financial instruments" for further information on own credit in Corporate Center – Core Functions. 5 Refer to "Note 17 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. 6 Refer to "Note 37 Changes in organization" for information on restructuring charges. 7 The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances.

Note 2b Segment reporting by geographic location

The geographic analysis of operating income and non-current assets is based on the location of the entity in which the transactions and assets are recorded. The divisions of the Group are managed on an autonomous basis worldwide, with a focus on cross-divisional collaboration and the interest of our clients to yield the maximum possible profitability by product line for the Group. The geographic analysis of operating income and non-current assets is provided in order to comply with IFRS.

For the year ended 31 December 2012

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	9,668	38	6,171	46
of which: USA	*9,214*	*36*	*5,752*	*43*
Asia Pacific	3,094	12	367	3
Europe, Middle East and Africa	1,639	6	1,494	11
of which: United Kingdom	*118*	*0*	*647*	*5*
of which: Rest of Europe	*1,456*	*6*	*840*	*6*
of which: Middle East and Africa	*66*	*0*	*7*	*0*
Switzerland	11,041	43	5,292	40
Total	**25,443**	**100**	**13,324**	**100**

For the year ended 31 December 2011

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	9,491	34	9,038	56
of which: USA	*9,324*	*34*	*8,617*	*53*
Asia Pacific	3,689	13	407	3
Europe, Middle East and Africa	3,115	11	1,687	10
of which: United Kingdom	*1,385*	*5*	*653*	*4*
of which: Rest of Europe	*1,638*	*6*	*1,026*	*6*
of which: Middle East and Africa	*92*	*0*	*8*	*0*
Switzerland	11,494	41	5,045	31
Total	**27,788**	**100**	**16,177**	**100**

For the year ended 31 December 2010

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Americas	11,205	35	9,082	56
of which: USA	*10,752*	*34*	*8,673*	*54*
Asia Pacific	3,796	12	394	2
Europe, Middle East and Africa	4,323	14	1,682	10
of which: United Kingdom	*2,791*	*9*	*594*	*4*
of which: Rest of Europe	*1,514*	*5*	*1,078*	*7*
of which: Middle East and Africa	*17*	*0*	*10*	*0*
Switzerland	12,670	40	4,922	31
Total	**31,994**	**100**	**16,080**	**100**

Income statement notes

Note 3 Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Net interest and trading income				
Net interest income	**5,994**	6,826	6,215	(12)
Net trading income	**3,480**	4,343	7,471	(20)
Total net interest and trading income	**9,474**	11,169	13,686	(15)
Wealth Management	**2,728**	2,846	2,384	(4)
Wealth Management Americas	**1,265**	1,179	1,266	7
Investment Bank	**4,872**	4,010	6,847	21
of which: investment banking	***16***	*44*	*11*	*(64)*
of which: equities	***1,263***	*149*	*2,521*	*748*
of which: fixed income, currencies and commodities	***3,593***	*3,817*	*4,315*	*(6)*
Global Asset Management	**12**	8	22	50
Retail & Corporate	**2,467**	2,661	2,670	(7)
Corporate Center	**(1,870)**	465	497	
of which: own credit on financial liabilities designated at fair value[1]	***(2,202)***	*1,537*	*(548)*	
Total net interest and trading income	**9,474**	11,169	13,686	(15)
Net interest income				
Interest income				
Interest earned on loans and advances[2]	**9,323**	9,925	10,603	(6)
Interest earned on securities borrowed and reverse repurchase agreements	**1,413**	1,716	1,436	(18)
Interest and dividend income from trading portfolio	**4,482**	5,466	6,015	(18)
Interest income on financial assets designated at fair value	**369**	248	262	49
Interest and dividend income from financial investments available-for-sale	**381**	615	557	(38)
Total	**15,968**	17,969	18,872	(11)
Interest expense				
Interest on amounts due to banks and customers	**1,413**	2,040	1,984	(31)
Interest on securities lent and repurchase agreements	**1,206**	1,352	1,282	(11)
Interest expense from trading portfolio[3]	**2,391**	2,851	3,794	(16)
Interest on financial liabilities designated at fair value	**1,762**	1,993	2,392	(12)
Interest on debt issued	**3,202**	2,907	3,206	10
Total	**9,974**	11,143	12,657	(10)
Net interest income	**5,994**	6,826	6,215	(12)

1 For more information on own credit refer to "Note 27 Fair value of financial instruments". 2 Includes interest income on impaired loans and advances of CHF 16 million for 2012, CHF 20 million for 2011 and CHF 37 million for 2010. 3 Includes expense related to dividend payment obligations on trading liabilities.

Note 3 Net interest and trading income (continued)

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Net trading income				
Investment Bank investment banking	**69**	61	27	13
Investment Bank equities	**1,032**	173	2,556	497
Investment Bank fixed income, currencies and commodities	**2,629**	2,316	2,709	14
Other business divisions and Corporate Center	**(250)**	1,793	2,179	
Net trading income	**3,480**	4,343	7,471	(20)
of which: net gains / (losses) from financial assets designated at fair value	***420***	*419*	*465*	*0*
of which: net gains / (losses) from financial liabilities designated at fair value [1, 2]	***(6,492)***	*7,437*	*(1,001)*	

1 For more information on own credit refer to "Note 27 Fair value of financial instruments". 2 Fair value changes of hedges related to financial liabilities designated at fair value are also reported in Net trading income.

Net trading income in 2012 included a gain of CHF 526 million from the valuation of the option to acquire the SNB StabFund's equity, reflected on the line Other business divisions and Corporate Center, compared with a CHF 133 million loss in 2011.

➔ **Refer to the "Risk management and control" section of this report for more information on the valuation of the option to acquire the SNB StabFund's equity**

Net trading income in 2011 included a loss of CHF 1,849 million due to the unauthorized trading incident reflected in Investment Bank equities.

Note 4 Net fee and commission income

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Equity underwriting fees	**807**	626	1,157	29
Debt underwriting fees	**732**	554	755	32
Total underwriting fees	**1,539**	1,180	1,912	30
M&A and corporate finance fees	**679**	992	857	(32)
Brokerage fees	**3,836**	4,169	4,930	(8)
Investment fund fees	**3,626**	3,577	3,898	1
Portfolio management and advisory fees	**5,892**	5,551	5,959	6
Insurance-related and other fees	**451**	368	361	23
Total securities trading and investment activity fees	**16,023**	15,837	17,918	1
Credit-related fees and commissions	**414**	438	448	(5)
Commission income from other services	**833**	827	850	1
Total fee and commission income	**17,270**	17,102	19,216	1
Brokerage fees paid	**871**	933	1,093	(7)
Other	**994**	933	964	7
Total fee and commission expense	**1,865**	1,866	2,057	0
Net fee and commission income	**15,405**	15,236	17,160	1
of which: net brokerage fees	***2,965***	*3,236*	*3,837*	*(8)*

Note 5 Other income

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Associates and subsidiaries				
Net gains / (losses) from disposals of subsidiaries[1]	**(7)**	(18)	(7)	(61)
Net gains / (losses) from disposals of investments in associates	**0**	20	256	(100)
Share of net profits of associates	**88**	42	81	110
Total	**81**	44	331	84
Financial investments available-for-sale				
Net gains / (losses) from disposals	**414**	926	204	(55)
Impairment charges	**(85)**	(39)	(72)	118
Total	**329**	887	132	(63)
Net income from properties[2]	**35**	38	53	(8)
Net gains / (losses) from investment properties[3]	**4**	9	8	(56)
Other	**234**	490	690	(52)
Total other income	**682**	1,467	1,214	(54)

1 Includes foreign exchange gains / losses reclassified from other comprehensive income related to disposed or dormant subsidiaries. 2 Includes net rent received from third parties and net operating expenses. 3 Includes unrealized and realized gains / losses from investment properties at fair value and foreclosed assets.

Net gains from disposals of financial investments available-for-sale in 2012 includes gains of CHF 219 million in Wealth Management Americas' available-for-sale portfolio as well as a gain of CHF 88 million on the sale of an equity investment in the Investment Bank. 2011 included a gain of CHF 722 million from the sale of the strategic investment portfolio, of which CHF 433 million was allocated to Wealth Management and CHF 289 million to Retail & Corporate, as well as gains of CHF 81 million in Wealth Management Americas' available-for-sale portfolio.

The line Other included net losses of CHF 11 million on sales of loans and receivables in 2012, compared with net gains of CHF 344 million in 2011 and CHF 324 million in 2010. Additionally, it included gains on sales of real estate of CHF 112 million in 2012, CHF 78 million in 2011 and CHF 158 million in 2010.

Net gains from disposals of investments in associates in 2010 included a gain of CHF 180 million from the sale of investments in associates owning office space in New York.

Note 6 Personnel expenses

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Salaries	**6,814**	6,859	7,033	(1)
Variable compensation – performance awards[1, 2]	**3,000**	3,516	4,171	(15)
of which: guarantees for new hires[2]	***134***	*173*	*135*	*(23)*
Variable compensation – other[1, 2]	**367**	191	141	92
of which: replacement payments[3]	***109***	*121*	*107*	*(10)*
of which: forfeiture credits	***(174)***	*(215)*	*(167)*	*(19)*
of which: severance payments[2, 4]	***303***	*239*	*80*	*27*
of which: retention plan and other payments[2]	***128***	*46*	*121*	*178*
Contractors	**214**	217	232	(1)
Social security	**768**	743	826	3
Pension and other post-employment benefit plans[5]	**18**	831	834	(98)
Wealth Management Americas: Financial advisor compensation[1, 6]	**2,873**	2,518	2,667	14
Other personnel expenses	**682**	758	1,127	(10)
Total personnel expenses[7]	**14,737**	15,634	17,031	(6)

1 Refer to "Note 31 Equity participation and other compensation plans" for more information. 2 In 2012, costs related to guarantees for new hires were reclassified from Variable compensation – other to Variable compensation – performance awards. In addition, costs related to both supplemental severance and certain retention payments were reclassified from Variable compensation – performance awards to Variable compensation – other. Prior periods were adjusted for these changes. The combined impact of these changes resulted in a net increase to Variable compensation – performance awards of CHF 125 million and CHF 89 million for the year ended 31 December 2011 and for the year ended 31 December 2010, respectively, with a corresponding net decrease to Variable compensation – other. 3 Replacement payments are payments made to compensate employees for deferred awards forfeited as a result of joining UBS. 4 Includes legally obligated and standard severance payments, as well as supplemental severance payments. 5 Refer to "Note 30 Pension and other post-employment benefit plans" for more information. 6 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. 7 Includes net restructuring charges of CHF 358 million for the year ended 31 December 2012 and CHF 261 million for the year ended 31 December 2011, and includes net restructuring provisions releases of CHF 2 million for the year ended 31 December 2010. Refer to "Note 37 Changes in organization" for more information.

In 2012, IAS 19R was adopted. Prior period information for the expense line Pension and other post-employment benefit plans was restated accordingly. Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information.

In the first quarter of 2012, UBS announced certain changes to its Swiss pension plan. The main changes, being the reduction in the conversion rate on retirement and an increase to the regular retirement age, serve in part to offset the impact of the increased life expectancy reflected in the defined benefit obligation. These changes to the pension plan resulted in a credit of CHF 730 million to the expense line Pension and other post-employment benefit plans.

In the second quarter of 2012, UBS announced changes to its retiree medical and life insurance benefit plan in the US. These changes resulted in a credit of CHF 116 million to the expense line Pension and other post-employment benefit plans.

Note 7 General and administrative expenses

	For the year ended			% change from
CHF million	**31.12.12**	31.12.11	31.12.10	31.12.11
Occupancy	**1,074**	1,059	1,252	1
Rent and maintenance of IT and other equipment	**473**	429	555	10
Communication and market data services	**632**	616	664	3
Administration	**636**	621	669	2
Marketing and public relations	**528**	393	339	34
Travel and entertainment	**450**	470	466	(4)
Professional fees	**908**	822	754	10
Outsourcing of IT and other services	**1,357**	1,151	1,078	18
Provisions for litigation, regulatory and similar matters[1, 2]	**2,549**	276	631	824
Other[3]	**47**	122	175	(61)
Total general and administrative expenses	**8,653**	5,959	6,585	45

1 Reflects the net increase / release of provisions for litigation, regulatory and similar matters recognized in the income statement. In addition, it includes recoveries from third parties of CHF 12 million, CHF 33 million and CHF 2 million for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively. 2012 includes charges for provisions arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. A portion (CHF 45 million) of the net increase / release recognized in the income statement for provisions for certain litigation, regulatory and similar matters for 2012 as presented in "Note 23a Provisions" was recorded as negative other income rather than as general and administrative expenses. 2 Refer to "Note 23 Provisions and contingent liabilities" for more information. 3 Includes net real estate related restructuring charges of CHF 0 million, CHF 93 million and CHF 79 million for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, respectively. Refer to "Note 37 Changes in organization" for more information.

Note 8 Earnings per share (EPS) and shares outstanding

	As of or for the year ended			% change from
	31.12.12	31.12.11	31.12.10	31.12.11
Basic earnings (CHF million)				
Net profit attributable to UBS shareholders	**(2,511)**	4,138	7,452	
Diluted earnings (CHF million)				
Net profit attributable to UBS shareholders	**(2,511)**	4,138	7,452	
Less: (profit)/loss on UBS equity derivative contracts	**(1)**	(3)	(2)	(67)
Net profit attributable to UBS shareholders for diluted EPS	**(2,512)**	4,135	7,450	
Weighted average shares outstanding				
Weighted average shares outstanding for basic EPS	**3,754,112,403**	3,774,036,437	3,789,732,938	(1)
Effect of dilutive potential shares resulting from notional shares, in-the-money options and warrants outstanding	**126,261**	61,259,378	48,599,111	(100)
Weighted average shares outstanding for diluted EPS	**3,754,238,664**	3,835,295,815	3,838,332,049	(2)
Earnings per share (CHF)				
Basic	**(0.67)**	1.10	1.97	
Diluted	**(0.67)**	1.08	1.94	
Shares outstanding				
Shares issued	**3,835,250,233**	3,832,121,899	3,830,840,513	0
Treasury shares	**87,879,601**	84,955,551	38,892,031	3
Shares outstanding	**3,747,370,632**	3,747,166,348	3,791,948,482	0
Exchangeable shares	**418,526**	509,243	580,261	(18)
Shares outstanding for EPS	**3,747,789,158**	3,747,675,591	3,792,528,743	0

The table below outlines the potential shares which could potentially dilute basic earnings per share in the future, but were not dilutive for the periods presented:

Potentially dilutive instruments

Number of shares	31.12.12	31.12.11	31.12.10
Employee share-based compensation awards	**233,256,208**	219,744,203	189,567,472
Other equity derivative contracts	**15,386,605**	24,407,443	51,752,713
SNB warrants[1]	**100,000,000**	100,000,000	100,000,000
Total	**348,642,813**	344,151,646	341,320,185

1 These warrants relate to the SNB transaction. The SNB provided a loan to a fund owned and controlled by the SNB (the SNB StabFund), to which UBS transferred certain illiquid securities and other positions. As part of this arrangement, UBS granted warrants on shares to the SNB, which become exercisable if the SNB incurs a loss on its loan to the SNB StabFund.

Balance sheet notes: assets

Note 9 Due from banks and loans (held at amortized cost)

CHF million	31.12.12	31.12.11
By type of exposure		
Due from banks, gross	21,252	23,235
of which: due from central banks	*638*	*317*
Allowance for credit losses	(22)	(17)
Due from banks, net	21,230	23,218
Loans, gross		
Residential mortgages	132,033	125,775
Commercial mortgages	22,421	21,247
Lombard loans	77,579	68,083
Other loans[1,2]	40,407	40,804
Securities[3]	8,166	11,520
Subtotal	280,606	267,429
Allowance for credit losses	(706)	(825)
Loans, net	279,901	266,604
Total due from banks and loans, net[4]	301,130	289,822

1 1 Includes corporate loans. 2 Includes leveraged finance loans reclassified from held-for trading. Refer to "Note 1a) 10)" and "Note 29b Reclassification of financial assets" for more information. 3 Includes securities reclassified from held-for-trading. Refer to "Note 1a) 10)" and "Note 29b Reclassification of financial assets" for more information. 4 Refer to "Note 29c Maximum exposure to credit risk" for information on collateral and other credit enhancements.

Note 10 Cash collateral on securities borrowed and lent, reverse repurchase and repurchase agreements, and derivative instruments

The Group enters into collateralized reverse repurchase and repurchase agreements, securities borrowing and securities lending transactions and derivative transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Group manages credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

Balance sheet assets

CHF million	Cash collateral on securities borrowed 31.12.12	Reverse repurchase agreements 31.12.12	Cash collateral receivables on derivative instruments 31.12.12	Cash collateral on securities borrowed 31.12.11	Reverse repurchase agreements 31.12.11	Cash collateral receivables on derivative instruments 31.12.11
By counterparty						
Banks	15,977	56,775	12,393	17,236	133,010	22,341
Customers	21,396	74,165	18,021	41,527	80,491	18,980
Total	37,372	130,941	30,413	58,763	213,501	41,322

Balance sheet liabilities

CHF million	Cash collateral on securities lent 31.12.12	Repurchase agreements 31.12.12	Cash collateral payables on derivative instruments 31.12.12	Cash collateral on securities lent 31.12.11	Repurchase agreements 31.12.11	Cash collateral payables on derivative instruments 31.12.11
By counterparty						
Banks	8,572	13,727	46,101	7,601	16,986	38,890
Customers	630	23,912	25,047	536	85,443	28,224
Total	9,203	37,639	71,148	8,136	102,429	67,114

Note 11 Allowances and provisions for credit losses

CHF million

By movement	Specific allowances	Collective allowances	Total allowances	Provisions[1]	Total 31.12.12	Total 31.12.11
Balance at the beginning of the year	714	131	845	93	938	1,287
Write-offs / usage of provisions	(312)	(2)	(313)	0	(313)	(501)
Recoveries	63	0	63	0	63	51
Increase / (decrease) recognized in the income statement	149	(15)	134	(16)	118	84
Reclassifications	13	0	13	(13)	0	0
Foreign currency translation	(8)	0	(8)	0	(8)	(1)
Other	(3)	0	(3)	0	(3)	18
Balance at the end of the year	616	114	730	64	794	938

1 Represents provisions for loan commitments and guarantees, which are included in Other liabilities. Refer to "Note 23 Provisions and contingent liabilities" for more information. Refer to the "Financial and operating performance" section of this report for the maximum irrevocable amount of loan commitments and guarantees.

By balance sheet line	Specific allowances	Collective allowances	Total allowances	Provisions	Total 31.12.12	Total 31.12.11
Due from banks	22	0	22		22	17
Loans	591	114	706		706	825
Cash collateral on securities borrowed	2	0	2		2	3
Provisions[1]				64	64	93
Balance at the end of the year	616	114	730	64	794	938

1 Represents provisions for loan commitments and guarantees.

Note 12 Trading portfolio

CHF million	**31.12.12**	31.12.11
Trading portfolio assets by issuer type		
Debt instruments		
Government and government agencies	**37,594**	62,118
of which: Switzerland	***492***	*418*
of which: USA	***16,377***	*22,958*
of which: United Kingdom	***3,123***	*3,709*
of which: Australia	***2,249***	*3,540*
of which: Japan	***2,174***	*14,258*
of which: Germany	***1,930***	*3,547*
Banks	**8,547**	10,611
Corporates and other	**34,911**	38,420
Total debt instruments	**81,052**	111,149[1]
Equity instruments	**47,438**	35,296[1]
Financial assets for unit-linked investment contracts	**15,277**	16,376
Financial assets held for trading	**143,767**	162,821
Precious metals and other physical commodities	**17,093**	18,704
Total trading portfolio assets	**160,861**	181,525
Trading portfolio liabilities by issuer type		
Debt instruments		
Government and government agencies	**16,115**	18,913
of which: Switzerland	***280***	*261*
of which: USA	***7,387***	*5,634*
of which: United Kingdom	***979***	*1,946*
of which: Australia	***568***	*756*
of which: Japan	***2,059***	*3,894*
of which: Germany	***1,610***	*2,492*
Banks	**1,475**	1,913
Corporates and other	**2,943**	4,716
Total debt instruments	**20,533**	25,542
Equity instruments	**13,621**	13,937
Total trading portfolio liabilities	**34,154**	39,480

1 In 2012, we corrected the classification of certain investment fund units which were previously classified as equity instruments rather than debt instruments. As a result, equity instruments were reduced by CHF 2,104 million as of 31 December 2011, and debt instruments were increased by CHF 2,104 million as of 31 December 2011.

Note 12 Trading portfolio (continued)

	31.12.12[1]				31.12.11
	Level 1	Level 2	Level 3	Total	
Trading portfolio assets by product type					
Debt instruments					
Government bills / bonds	22,180	6,445	113	28,737	45,297
Corporate bonds, municipal bonds, including bonds issued by financial institutions	954	21,436	1,610	24,000	32,765
Loans	0	4,125	2,004	6,129	4,088
Investment fund units	2,970	10,585	75	13,629	11,963[2]
Asset-backed securities	3,637	3,427	1,493	8,556	17,035
of which: mortgage-backed securities	*3,637*	*2,320*	*803*	*6,760*	*13,868*
Total debt instruments	29,740	46,017	5,295	81,052	111,149[2]
Equity instruments	46,994	296	148	47,438	35,296[2]
Financial assets for unit-linked investment contracts	14,557	442	278	15,277	16,376
Financial assets held for trading	91,290	46,755	5,721	143,767	162,821
Precious metals and other physical commodities				17,093	18,704
Total trading portfolio assets				160,861	181,525
Trading portfolio liabilities by product type					
Debt instruments					
Government bills / bonds	14,093	648	0	14,741	17,026
Corporate bonds, municipal bonds, including bonds issued by financial institutions	789	4,459	137	5,386	7,122
Investment fund units	140	243	0	383	1,083
Asset-backed securities	14	4	4	22	312
of which: mortgage-backed securities	*14*	*4*	*3*	*22*	*287*
Total debt instruments	15,036	5,356	141	20,533	25,542
Equity instruments	13,518	93	11	13,621	13,937
Total trading portfolio liabilities	28,554	5,449	151	34,154	39,480

1 Refer to "Note 27 Fair value of financial instruments" for more information on the fair value hierarchy categorization. 2 In 2012, we corrected the classification of certain investment fund units which were previously classified as equity instruments rather than debt instruments. As a result, equity instruments were reduced by CHF 2,104 million as of 31 December 2011, and investment fund units within debt instruments were increased by CHF 2,104 million as of 31 December 2011.

Note 13 Financial assets designated at fair value

CHF million	**31.12.12**	31.12.11
Loans	**1,611**	2,358
Structured loans	**1,187**	960
Reverse repurchase and securities borrowing agreements	**5,466**	6,071
of which: banks	***2,500***	*3,514*
of which: customers	***2,966***	*2,557*
Investment funds	**608**	730
Other debt instruments	**234**	218
Total financial assets designated at fair value	**9,106**	10,336

The maximum exposure to credit risk from financial assets designated at fair value is equal to the fair value for Loans, Structured loans and reverse repurchase and securities borrowing agreements. The maximum exposure is mitigated by collateral, which mainly relates to structured loans and reverse repurchase and securities borrowing agreements of CHF 6,694 million and CHF 6,919 million for 31 December 2012 and 31 December 2011, respectively. These collateral values are capped at the maximum exposure to credit risk for which they serve as security.

Other debt instruments mainly reflect loan commitments and letters of credit designated at fair value which have a maximum exposure to credit risk of CHF 4,237 million and CHF 4,423 million as of 31 December 2012 and as of 31 December 2011, respectively. The maximum exposure to credit risk of these instruments is generally hedged through derivative transactions.

Investment fund units do not have a direct exposure to credit risk.

The maximum exposure to credit risk of loans, but not structured loans, is generally mitigated by credit derivatives or similar instruments. Information regarding these instruments and the exposure which they mitigate is provided in the table below on a notional basis.

Notional amounts of loans designated at fair value and related credit derivatives

CHF million	**31.12.12**	31.12.11
Loans – notional amount	**2,102**	2,595
Credit derivatives related to loans – notional amount[1]	**1,025**	1,404
Credit derivatives related to loans – fair value[1]	**2**	37

1 Credit derivatives contracts include credit default swaps, total return swaps and similar instruments.

The table below provides the impact to the fair values of loans from changes in credit risk for the periods presented and cumulatively since inception. Similarly, the change in fair value of credit derivatives and similar instruments which are used to hedge these loans is also provided.

Changes in fair value of loans and related credit derivatives attributable to changes in credit risk

	For the year ended		Cumulative from inception until the year ended	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Changes in fair value of loans designated at fair value, attributable to changes in credit risk[1]	**22**	(15)	**(10)**	(49)
Changes in fair value of credit derivatives and similar instruments which mitigate the maximum exposure to credit risk of loans designated at fair value[1]	**(18)**	35	**2**	37

1 Current and cumulative changes in the fair value of loans designated at fair value, attributable to changes in their credit risk are only calculated for those loans outstanding at balance sheet date. Current and cumulative changes in the fair value of credit derivatives hedging such loans include all the derivatives which have been used to mitigate credit risk of these loans since designation at fair value. For loans reported under the fair value option, changes in fair value due to changes in the credit standing of the borrower are calculated using counterparty credit information obtained from independent market sources.

Note 14 Financial investments available-for-sale

CHF million	**31.12.12**	31.12.11
Financial investments available-for-sale by issuer type		
Debt instruments		
Government and government agencies	**58,973**	47,144
of which: Switzerland	***156***	*357*
of which: USA	***31,740***	*25,677*
of which: Germany	***6,669***	*1,991*
of which: United Kingdom	***5,042***	*3,477*
of which: Japan	***4,221***	*8,854*
of which: France	***3,593***	*2,170*
Banks	**4,200**	4,271
Corporates and other	**2,486**	1,060
Total debt instruments	**65,659**	52,475
Equity instruments	**725**	699
Total financial investments available-for-sale	**66,383**	53,174
Unrealized gains – before tax	**447**	477
Unrealized (losses) – before tax	**(26)**	(55)
Net unrealized gains / (losses) – before tax	**421**	422
Net unrealized gains / (losses) – after tax	**270**	250

	31.12.12[1]				31.12.11
CHF million	**Level 1**	**Level 2**	**Level 3**	**Total**	
Financial investments available-for-sale by product type					
Debt instruments					
Government bills / bonds	**46,351**	**646**	**33**	**47,031**	34,899
Corporate bonds, municipal bonds, including bonds issued by financial institutions	**2,055**	**8,830**	**55**	**10,940**	8,590
Investment fund units	**35**	**114**	**225**	**375**	445
Asset-backed securities	**0**	**7,313**	**0**	**7,313**	8,541
of which: mortgage-backed securities	***0***	***7,313***	***0***	***7,313***	*8,541*
Total debt instruments	**48,442**	**16,903**	**314**	**65,659**	52,475
Equity instruments					
Shares	**102**	**35**	**410**	**547**	481
Private equity investments	**0**	**0**	**177**	**177**	218
Total equity instruments	**102**	**35**	**588**	**725**	699
Total financial investments available-for-sale	**48,543**	**16,939**	**901**	**66,383**	53,174

1 Refer to "Note 27 Fair value of financial instruments" for more information on the fair value hierarchy categorization.

Note 15 Investments in associates

CHF million	31.12.12	31.12.11
Carrying amount at the beginning of the year	795	790
Additions	4	1
Disposals	(3)	(4)
Share of net profits of associates	88	42
Share of other comprehensive income of associates	25	(27)
Dividends paid	(37)	(28)
Foreign currency translation	(12)	21
Carrying amount at the end of the year	**858**	**795**

Significant associated companies of the Group had the following balance sheet and income statement totals on an aggregated basis, not adjusted for the Group's proportionate interest. Refer to "Note 34 Significant subsidiaries and associates".

	As of or for the year ended	
CHF million	31.12.12	31.12.11
Assets	6,265	5,806
Liabilities	4,141	3,789
Revenues	1,361	1,356
Net profit	223	181

Note 16 Property and equipment

At historic cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improvements	IT hardware, software and communication	Other machines and equipment	Projects in progress	31.12.12	31.12.11
Historic cost							
Balance at the beginning of the year	8,679	2,674	4,049	736	545	16,683	16,364
Additions	75	56	194	51	735	1,111	1,129
Additions from acquired companies	0	0	0	0	0	0	2
Disposals / write-offs[1]	(215)	(203)	(413)	(28)	0	(859)	(791)
Reclassifications	(229)	192	27	42	(452)	(420)[5]	(40)
Foreign currency translation	(1)	(42)	(24)	(10)	(10)	(88)	19
Balance at the end of the year	8,307	2,677	3,833	792	819	16,428	16,683
Accumulated depreciation							
Balance at the beginning of the year	4,934	1,930	3,596	546	0	11,005	10,991
Depreciation and impairment[2]	202	208	216	63	0	689	761
Disposals / write-offs[1]	(215)	(195)	(412)	(27)	0	(850)	(752)
Reclassifications	(260)	5	0	0	0	(255)[5]	(12)
Foreign currency translation	0	(35)	(22)	(8)	0	(65)	16
Balance at the end of the year	4,660	1,912	3,378	574	0	10,524	11,005
Net book value at the end of the year[3, 4]	**3,647**	**765**	**456**	**218**	**819**	5,905	**5,678**

1 Includes write-offs of fully depreciated assets. 2 In 2012, amounts presented include a CHF 1 million net reversal of impairments of own used property (31 December 2011: CHF 22 million), CHF 27 million net impairments of leasehold improvements (31 December 2011: CHF 29 million), CHF 4 million impairments of IT, software and communication and CHF 5 million net impairments of other machines and equipment (31 December 2011: CHF 3 million). 3 Fire insurance value of property and equipment is CHF 12,865 million (2011: CHF 13,075 million), predominantly related to real estate. 4 As of 31 December 2012, contractual commitments to purchase property in the future amounted to approximately CHF 0.5 billion. 5 Mainly reflects reclassifications to Investment properties at fair value (CHF 75 million on a net basis) presented in the table below and to Properties held for sale (CHF 89 million on a net basis) reported within Other assets.

Investment properties at fair value

CHF million	31.12.12	31.12.11
Balance at the beginning of the year	10	94
Additions	6	0
Sales	0	(87)
Revaluations	9	4
Reclassifications	75	(1)
Foreign currency translation	0	(1)
Balance at the end of the year	99	10

Note 17 Goodwill and intangible assets

Introduction

UBS performs an impairment test on its goodwill assets on an annual basis, or when indicators of impairment exist. UBS considers the segments as reported in "Note 2 Segment reporting" as separate cash-generating units. The impairment test is performed for each segment to which goodwill is allocated by comparing the recoverable amount with the carrying amount of the respective segment. An impairment charge is recognized if the carrying amount exceeds the recoverable amount.

As of 31 December 2012, the following three segments carried goodwill: Wealth Management (CHF 1.3 billion), Wealth Management Americas (CHF 3.2 billion), and Global Asset Management (CHF 1.4 billion). Based on the impairment testing methodology described below, UBS concluded that the goodwill balances as of 31 December 2012 allocated to these segments remain recoverable.

Impairment of Investment Bank goodwill and other non-financial assets

An impairment test was performed as of 30 September 2012 with respect to the Investment Bank because indicators of impairment were present for that cash-generating unit. These indicators included negative variances from planned performance, preliminary discussions regarding changes in strategy for the Investment Bank and revised business plan information taking into account changes in market conditions and the global economic outlook. The impairment test was based on the business plan approved by the Board of Directors on 29 October 2012. As a result of this impairment test, losses were recognized in the income statement relating to a full impairment of CHF 3,030 million for goodwill in the third quarter of 2012. Additional assets were examined to determine whether their carrying values exceeded their recoverable amounts. Impairment losses of CHF 15 million were recognized in the income statement for other intangible assets and CHF 19 million for property and equipment, both in the third quarter of 2012. These impairment losses were recognized in the Investment Bank's 2012 operating results as Impairment of goodwill, Amortization and impairment of intangible assets, and Depreciation and impairment of property and equipment.

Methodology for goodwill impairment testing

The recoverable amount is determined using a discounted cash flow model, which uses inputs that consider features of the banking business and its regulatory environment. The recoverable amount of a segment is the sum of the discounted earnings attributable to shareholders from the first five forecasted years and the terminal value. The terminal value reflecting all periods beyond the fifth year is calculated on the basis of the forecast of fifth-year profit, the discount rate and the long-term growth rate.

The carrying amount for each segment is determined by reference to the Group's equity attribution framework. Within this framework, which is described in the "Capital Management" section of this report, the Board of Directors (BoD) attributes equity to the businesses after considering their risk exposure, pro-forma Basel III RWA usage, asset size (pro-forma Basel III Leverage Ratio denominator), goodwill and intangible assets. The framework is primarily used for purposes of measuring the performance of the businesses and includes certain management assumptions. Attributed equity equates to the capital that a segment requires to conduct its business and is considered an appropriate starting point from which to determine the carrying value of the segments. The attributed equity methodology is aligned with the business planning process, the inputs from which are used in calculating the recoverable amounts of the respective cash-generating units.

➔ **Refer to the "Capital Management" section of this report for more information on the equity attribution framework**

Assumptions

Valuation parameters used within the Group's impairment test model are linked to external market information where applicable. The model used to determine the recoverable amount is most sensitive to changes in the forecast earnings available to shareholders in years one to five, to changes in the discount rates, and to changes in the long-term growth rate. The applied long-term growth rate is based on long-term economic growth rates for different regions worldwide. Earnings available to shareholders are estimated based on forecast results, which are part of the business plan approved by the BoD. The discount rates are determined

Note 17 Goodwill and intangible assets (continued)

by applying a capital-asset-pricing-model-based approach, as well as considering quantitative and qualitative inputs from both internal and external analysts and the view of UBS's management.

Key assumptions used to determine the recoverable amounts of each segment are tested for sensitivity by applying a reasonably possible change to those assumptions. Forecast earnings available to shareholders were changed by 10%, the discount rates were changed by 1% and the long-term growth rates were changed by 0.5%. Under all scenarios, the recoverable amounts for each segment exceeded the respective carrying amount, such that the reasonably possible changes in key assumptions would not result in impairment.

If the estimated earnings and other assumptions in future periods deviate from the current outlook, the value of our goodwill may become impaired in the future, giving rise to losses in the income statement. Recognition of any impairment of goodwill would reduce IFRS equity attributable to UBS shareholders and net profit. It would not impact cash flows and, as goodwill is required to be deducted from capital under the Basel capital framework, no impact is expected on the Group capital ratios.

Discount and growth rates

	Discount rates		Growth rates	
In %	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Wealth Management	**10.0**	10.7	**1.7**	1.7
Wealth Management Americas	**10.0**	10.0	**2.4**	2.4
Investment Bank	**13.0**[1]	12.0	**2.4**	2.4
Global Asset Management	**10.0**	10.0	**2.4**	2.4

1 A discount rate of approximately 13% was used for the impairment test that was performed as of 30 September 2012 with respect to the Investment Bank. As the Investment Bank had no goodwill as of 31 December 2012, no impairment test was required at year end.

	Goodwill	Intangible assets				
CHF million	Total	Infrastructure	Customer relationships, contractual rights and other	Total	**31.12.12**	31.12.11
Historic cost						
Balance at the beginning of the year	9,074	713	854	1,567	**10,641**	10,634
Additions	3		8	8	**11**	40
Disposals			(1)	(1)	**(1)**	(2)
Write-offs	(3,030)		(79)	(79)	**(3,110)**	0
Foreign currency translation	(98)	(17)	(9)	(26)	**(124)**	(32)
Balance at the end of the year	5,949	696	773	1,469	**7,417**	10,641
Accumulated amortization and impairment						
Balance at the beginning of the year		399	547	946	**946**	812
Amortization		36	54	89	**89**	90
Impairment	3,030		17	17	**3,047**	37
Disposals				0	**0**	0
Write-offs	(3,030)		(79)	(79)	**(3,110)**	0
Foreign currency translation		(10)	(7)	(17)	**(17)**	8
Balance at the end of the year	0	424	532	956	**956**	946
Net book value at the end of the year	5,949	272	241	513	**6,461**	9,695

Note 17 Goodwill and intangible assets (continued)

The following table presents the disclosure of goodwill and intangible assets by business unit for the year ended 31 December 2012.

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Corporate Center	UBS
Goodwill						
Balance at the beginning of the year	1,319	3,293	3,019	1,442		9,074
Additions				3		3
Disposals						0
Impairment			(3,030)			(3,030)
Foreign currency translation	(15)	(80)	11	(13)		(98)
Balance at the end of the year	**1,304**	**3,213**	**0**	**1,432**		**5,949**
Intangible assets						
Balance at the beginning of the year	62	382	136	41		621
Additions					8	8
Disposals			(1)			(1)
Amortization	(4)	(51)	(25)	(8)	(2)	(89)
Impairment	(2)		(15)			(17)
Foreign currency translation		(8)	(1)	1		(9)
Balance at the end of the year	**55**	**323**	**94**	**34**	**6**	**513**

The estimated, aggregated amortization expenses for intangible assets are as follows:

CHF million	Intangible assets
Estimated, aggregated amortization expenses for:	
2013	75
2014	75
2015	74
2016	65
2017	57
2018 and thereafter	146
Not amortized due to indefinite useful life	20
Total	**513**

Note 18 Other assets

CHF million	31.12.12	31.12.11
Prime brokerage receivables	**8,072**	6,103
Settlement and clearing accounts	**589**	482
Properties and other non-current assets held for sale	**137**	183
VAT and other tax receivables	**214**	176
Other	**2,043**	2,222
Total other assets	**11,055**	9,165

Balance sheet notes: liabilities

Note 19 Due to banks and customers

CHF million	31.12.12	31.12.11
Due to banks	23,024	30,201
Due to customers in savings and investment accounts	134,255	114,079
Other amounts due to customers	237,637	228,330
Total due to customers	371,892	342,409
Total due to banks and customers	394,916	372,610

Note 20 Financial liabilities designated at fair value[1]

CHF million	31.12.12	31.12.11
Non-structured fixed rate bonds	4,967	4,114
Structured debt instruments issued:		
Equity linked	39,924	37,809
Credit linked	11,186	9,345
Rates linked[2]	18,606	19,853
Other	4,672	4,767
Structured over-the-counter debt instruments:		
Equity linked	3,536	5,556
Other	8,154	6,615
Repurchase agreements	1,672	477
Loan commitments[3]	161	445
Total	92,878	88,982
of which: own credit on financial liabilities designated at fair value	*292*	*(1,934)*

1 In 2012, presentational changes were made to the disclosure of Financial liabilities designated at fair value. Non-structured fixed-rate bonds are now reported separately. Previously, these instruments were reported as Structured debt instruments issued, Other. In addition, the classification within Structured debt instruments issued and Structured over-the-counter debt instruments was corrected for 31 December 2011. 2 Also includes non-structured rates-linked debt instruments issued. 3 Loan commitments recognized as "Financial liabilities designated at fair value" until drawn and recognized as loans. See Note 1a) 8) for additional information.

As of 31 December 2012, the contractual redemption amount at maturity of Financial liabilities designated at fair value through profit or loss was CHF 0.2 billion higher than the carrying value. As of 31 December 2011, the contractual redemption amount at maturity of such liabilities was CHF 6.1 billion higher than the carrying value.

As of 31 December 2012 and 31 December 2011, the Group had CHF 92,878 million and CHF 88,982 million, respectively, of financial liabilities designated at fair value, comprised of both CHF and non-CHF denominated fixed-rate and floating-rate debt.

The table on the following page shows the contractual maturity of the carrying value of financial liabilities designated at fair value, split between fixed-rate and floating-rate based on the contractual terms and ignoring any early redemption features. Interest rate ranges for future interest payments related to these financial liabilities designated at fair value have not been included in the table below as a majority of these liabilities are structured products, and therefore the future interest payments are highly dependent upon the embedded derivative and prevailing market conditions at the time each interest payment is made.

➔ **Refer to the "Maturity analysis of financial liabilities" table in the "Treasury management" section of this report for information on maturities on an undiscounted cash flow basis.**

Note 20 Financial liabilities designated at fair value (continued)

Contractual maturity of carrying value[1]

CHF million, except where indicated	2013	2014	2015	2016	2017	2018–2022	Thereafter	Total 31.12.12	Total 31.12.11
UBS AG (Parent Bank)									
Non-subordinated debt									
Fixed rate	6,299	3,017	2,620	1,201	2,933	2,182	3,052	**21,304**	18,935
Floating rate	19,281	7,725	7,739	3,939	5,504	4,922	8,878	**57,538**	58,862
Subtotal	25,579	10,742	10,359	5,140	7,987	7,104	11,930	**78,841**	77,797
Subsidiaries									
Non-subordinated debt									
Fixed rate	259	317	156	240	191	651	1,330	**3,145**	3,035
Floating rate	2,851	541	1,677	3,176	815	1,322	510	**10,891**	8,150
Subtotal	3,110	859	1,834	3,416	1,006	1,973	1,840	**14,036**	11,185
Total	28,689	11,601	12,193	8,557	8,992	9,076	13,769	**92,878**	88,982

1 In 2012, presentational changes were made to the contractual maturity table. Financial liabilities designated at fair value are presented separately from Debt issued held at amortized cost. In 2011, the contractual maturities of Financial liabilities designated at fair value and Debt issued held at amortized cost were presented on a combined basis. In addition, the classification between fixed rate and floating rate debt was corrected for 31 December 2011.

Note 21 Debt issued held at amortized cost

CHF million	31.12.12	31.12.11
Certificates of deposit	**11,153**	31,383
Commercial paper	**7,792**	22,133
Other short-term debt	**13,548**	17,861
Short-term debt	**32,493**	71,377
Non-structured fixed rate bonds	**31,197**	37,515
Covered bonds	**15,116**	9,788
Subordinated debt	**10,646**	7,035
Debt issued through the central bond institutions of the Swiss regional or cantonal banks	**7,585**	7,141
Medium-term notes	**1,341**	1,951
Other long-term debt	**6,278**	5,810
Long-term debt	**72,163**	69,240
Total debt issued held at amortized cost[1]	**104,656**	140,617

1 Net of bifurcated embedded derivatives with a net fair value of CHF 233 million as of 31 December 2012 (31 December 2011: CHF 955 million).

The Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt instruments held at amortized cost. In certain cases, the Group applies hedge accounting for interest rate risk as discussed in Note 1a) 15) and "Note 25 Derivative instruments and hedge accounting". As a result of applying hedge accounting, the carrying value of debt issued increased by CHF 2,608 million and by CHF 2,051 million as of 31 December 2012 and 31 December 2011, respectively, reflecting changes in fair value due to interest rate movements.

Subordinated debt are unsecured obligations of the Group that are subordinated in right of payment to all other present and future indebtedness and also to certain other obligations of the Group. As of 31 December 2012 and 31 December 2011, the Group had CHF 10,646 million and CHF 7,035 million, respectively, of subordinated debt, which included CHF 3,656 million and CHF 0 million of loss-absorbing capital notes as of 31 December 2012 and 31 December 2011, respectively. A majority of the subordinated debt outstanding as of 31 December 2012 were fixed rate issuances, with the remainder paying floating rate interest based on three-month or six-month London Interbank Offered Rate (LIBOR). Both the fixed and floating rate instruments provide for a single principal payment upon maturity.

As of 31 December 2012 and 31 December 2011, the Group had CHF 94,009 million and CHF 133,581 million, respectively, of non-subordinated debt issued held at amortized cost, comprised of both CHF and non-CHF denominated fixed rate and floating rate debt.

Note 21 Debt issued held at amortized cost (continued)

The following table shows the contractual maturity of the carrying value of debt issued, split between fixed rate and floating rate based on the contractual terms and ignoring any early redemption features. The Group uses interest rate swaps to hedge the majority of fixed-rate debt issued, which changes their re-pricing characteristics into those similar to floating rate debt.

➔ **Refer to the "Maturity analysis of financial liabilities" table in the "Treasury management" section of this report for information on maturities on an undiscounted cash flow basis.**

Contractual maturity of carrying value[1]

CHF million, except where indicated	2013	2014	2015	2016	2017	2018–2022	Thereafter	**Total 31.12.12**	Total 31.12.11
UBS AG (Parent Bank)									
Non-subordinated debt									
Fixed rate	33,841	7,414	7,178	4,974	8,631	13,875	1,504	**77,417**	99,818
Interest rates (range in %)	0–6.3	0–5.6	0–3.9	0–6.4	0–5.9	0–6.6	0–2.8		
Floating rate	4,832	1,614	18	0	0	0	2,733	**9,198**	13,739
Subordinated debt									
Fixed rate	3	398	1,059	1,379	673	5,432	1,010	**9,955**	6,350
Interest rates (range in %)	4.3–7.2	3.1	2.4–7.4	3.1–5.9	4.1–7.4	4.1–7.6	6.4–8.8		
Floating rate	0	0	0	0	0	692	0	**692**	685
Subtotal	38,676	9,427	8,255	6,353	9,305	19,998	5,248	**97,261**	120,593
Subsidiaries									
Non-subordinated debt									
Fixed rate	5,225	172	3	557	105	28	11	**6,100**	18,551
Interest rates (range in %)	0–0.8	0–7.6	0	0–8.3	0–8.1	0	0–6.2		
Floating rate	54	0	0	0	0	2	1,238	**1,294**	1,473
Subtotal	5,278	172	3	557	105	30	1,249	**7,394**	20,024
Total	43,954	9,599	8,258	6,910	9,409	20,029	6,497	**104,656**	140,617

1 In 2012, presentational changes were made to the contractual maturity table. Debt issued held at amortized cost is presented separately from Financial liabilities designated at fair value. In 2011, the contractual maturities of Debt issued held at amortized cost and Financial liabilities designated at fair value were presented on a combined basis. In addition, the classification between fixed rate and floating rate debt was corrected for 31 December 2011.

Note 22 Other liabilities

CHF million	**31.12.12**	31.12.11
Prime brokerage payables	**35,620**	36,746
Amounts due under unit-linked investment contracts	**15,346**	16,481
Deferred compensation plans	**1,541**	1,578
Net defined benefit pension and post-employment liability[1, 2]	**1,284**	3,135
Third-party interest in consolidated limited partnerships	**1,138**	1,378
Settlement and clearing accounts	**991**	874
VAT and other tax payables	**606**	492
Current and deferred tax liabilities[3]	**586**	573
Other	**2,791**[4]	1,526
Total other liabilities	**59,902**	62,784

1 Refer to "Note 30 Pension and other post-employment benefit plans" for more information. 2 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS 19R. 3 Refer to "Note 24 Income taxes" for more information. 4 Includes liabilities of CHF 1.4 billion arising from fines and disgorgement resulting from regulatory investigations concerning LIBOR and other benchmark rates. Refer to "Note 23 Provisions and contingent liabilities" for more information.

Note 23 Provisions and contingent liabilities

a) Provisions

CHF million	Operational risks[1]	Litigation, regulatory and similar matters[2]	Restructuring	Loan commitments and guarantees	Real estate	Employee benefits	Other	**Total 31.12.12**	Total 31.12.11
Balance at the beginning of the year	58	482	467	93	220	227	79	**1,626**	1,704
Additions from acquired companies	0	0	0	0	0	0	0	**0**	2
Increase in provisions recognized in the income statement	41	2,686	438	4	4	145	32	**3,350**	947
Release of provisions recognized in the income statement	(9)	(81)	(86)	(20)	(6)	(67)[5]	(5)	**(273)**	(288)
Provisions used in conformity with designated purpose	(37)	(1,685)[6]	(276)	0	(37)	(59)	(9)	**(2,102)**	(716)
Capitalized reinstatement costs	0	0	0	0	(4)	0	0	**(4)**	(2)
Disposal of subsidiaries	0	0	0	0	0	0	0	**0**	(1)
Reclassifications	0	43	(36)[4]	(13)	3	0	(43)	**(47)**	(52)
Foreign currency translation / unwind of discount	(1)	(13)	3	0	0	(2)	(2)	**(14)**	32
Balance at the end of the year	53	1,432	511	64	178[3]	244	53	**2,536**	1,626

1 Includes provisions for litigation resulting from security risks and transaction processing risks. 2 Includes litigation resulting from legal, liability and compliance risks. 3 Includes reinstatement costs for leasehold improvements of CHF 97 million as of 31 December 2012 (31 December 2011: CHF 109 million) and provisions for onerous lease contracts of CHF 81 million as of 31 December 2012 (31 December 2011: CHF 111 million). 4 Reflects a reclassification to share premium of restructuring provisions related to share-based compensation. 5 Includes the release of provisions for Swiss long-service and sabbatical awards. 6 Represents amounts paid out for the intended purpose and amounts transferred to Other liabilities – Other, presented in "Note 22 Other liabilities" for liabilities, which are no longer uncertain in timing or amount.

Restructuring provisions primarily relate to onerous lease contracts and severance amounts. The utilization of onerous lease provisions is driven by the maturities of the underlying lease contracts, which cover a period of up to 11 years. Severance related provisions are utilized within a short time period, usually within six months, but potential changes in amount may be triggered when natural staff attrition reduces the number of people affected by a restructuring and therefore the estimated costs.

Information on provisions and contingent liabilities in respect of Litigation, regulatory and similar matters, as a class, is included in Note 23b. Further information on the nominal principal amount of Loan commitments and guarantees, representing our maximum exposure to credit risk, is disclosed in Note 29c. There are no material contingent liabilities associated with the other classes of provisions.

b) Litigation, regulatory and similar matters

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

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. If any of those conditions is not met, such matters result in contingent liabilities.

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

In the case of certain matters below, we state that we have established a provision, and for the other matters we make no such statement. When we make this statement and we expect disclosure of the amount of a provision to prejudice seriously our position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, we do not disclose that amount. In some cases we are subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which we do not state whether we have established a provision, either a) we have not established

Note 23 Provisions and contingent liabilities (continued)

a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard or b) we have established a provision but expect disclosure of that fact to prejudice seriously our position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 23a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants.

Provisions for litigation, regulatory and similar matters by segment

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Global Asset Management	Retail & Corporate	Corporate Center – Core Functions	Corporate Center – Legacy Portfolio	**Total 31.12.12**	Total 31.12.11
Balance at the beginning of the year	96	206	132	4	17	2	26	**482**	618
Increase in provisions recognized in the income statement	90	133	304	6	19	1,518	616	**2,686**	396
Release of provisions recognized in the income statement	(15)	(28)	(32)	(1)	(1)	(3)	0	**(81)**	(87)
Provisions used in conformity with designated purpose	(40)	(135)	(266)	(1)	(6)	(1,222)	(15)	**(1,685)**	(455)
Reclassifications	0	0	(95)	0	0	44	95	**43**	0
Foreign currency translation / unwind of discount	0	(6)	(2)	0	0	(2)	(3)	**(13)**	10
Balance at the end of the year	130	170	40	7	29	338	720	**1,432**	482

1. Municipal bonds

In 2011, UBS announced a USD 140.3 million settlement with the US Securities and Exchange Commission (SEC), the Antitrust Division of the US Department of Justice (DOJ), the Internal Revenue Service (IRS) and a group of state attorneys general relating to the investment of proceeds of municipal bond issuances and associated derivative transactions. The settlement resolves the investigations by those regulators which had commenced in November 2006. Several related putative class actions, which were filed in Federal District Courts against UBS and numerous other firms, remain pending. Approximately USD 63 million of the regulatory settlement was made available to potential claimants through a settlement fund, the majority of which has been claimed, thereby reducing the total monetary amount at issue in the class actions for UBS.

2. Auction rate securities

In 2008, UBS entered into settlements with the SEC, the New York Attorney General (NYAG) and the Massachusetts Securities Division whereby UBS agreed to offer to buy back Auction Rate Securities (ARS) from eligible customers, and to pay penalties of USD 150 million. UBS has since finalized settlements with all of the states. The settlements resolved investigations following the industry-wide disruption in the markets for ARS and related auction failures beginning in early 2008. The SEC continues to investigate individuals affiliated with UBS regarding the trading in ARS and disclosures. UBS was also named in (i) several putative class actions, which were thereafter dismissed by the court and/or settled; (ii) arbitration and litigation claims asserted by investors relating to ARS; and (iii) arbitration and litigation claims asserted by ARS issuers, including a pending litigation under state common law and a state racketeering statute seeking at least USD 40 million in compensatory damages, plus exemplary and treble damages, and several pending arbitration claims filed in 2012 and 2013 alleging violations of state and federal securities law that seek compensatory and punitive damages, among other relief. In November 2012, UBS settled a consequential damages claim brought by a former customer for USD 45 million.

3. Inquiries regarding cross-border wealth management businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. In France, a criminal investigation into allegations of illicit cross-border activity has been initiated with the appointment of a "Juge d'instruction". We have also received inquiries from German authorities concerning certain matters relating to our cross-border business. UBS is cooperating with these inquiries, requests and investigations within the limits of financial privacy obligations under Swiss and other applicable laws.

4. Matters related to the financial crisis

UBS is responding to a number of governmental inquiries and investigations and is involved in a number of litigations, arbitrations and disputes related to the financial crisis of 2007 to 2009 and in particular mortgage-related securities and other structured transactions and derivatives. In February 2013, the SEC advised UBS that it is terminating its investigation of UBS's valuation of super senior tranches of collateralized debt obligations (CDO) during the third quarter of 2007 without recommending any enforcement action. UBS is in discussions with the SEC concerning UBS's structuring and underwriting of one CDO in 2007. UBS has also communicated with and has responded to other inquiries by various governmental and regulatory authorities concerning various matters related to the financial crisis. These matters concern, among other things, UBS's (i) disclosures and writedowns, (ii) interactions with rating agencies, (iii) risk control, valuation, structuring and marketing of mortgage-related instruments, and (iv) role as underwriter in securities offerings for other issuers.

UBS is a defendant in several lawsuits filed by institutional purchasers of CDOs structured by UBS in which plaintiffs allege, under various legal theories, that UBS misrepresented the quality of the collateral underlying the CDOs. Plaintiffs in these suits collectively seek to recover several hundred million dollars in claimed losses, including one case in which plaintiffs claim losses of at least USD 331 million.

Our balance sheet at 31 December 2012 reflected a provision with respect to matters described in this item 4 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

5. Lehman principal protection notes

From March 2007 through September 2008, UBS Financial Services Inc. (UBSFS) sold approximately USD 1 billion face amount of structured notes issued by Lehman Brothers Holdings Inc. (Lehman), a majority of which were referred to as "principal protection notes," reflecting the fact that while the notes' return was in some manner linked to market indices or other measures, some or all of the investor's principal was an unconditional obligation of Lehman as issuer of the notes. Based on its role as an underwriter of Lehman structured notes, UBSFS has been named as a defendant in a putative class action asserting violations of disclosure provisions of the federal securities laws. In January 2013, plaintiffs' motion to certify the case as a class action, which UBS opposed, was granted with respect to certain claims. UBS is filing for an appeal of that decision with the Second Circuit. Firms that underwrote other non-structured Lehman securities have been named as defendants in the same purported class action, and those underwriters have entered into settlements. In 2011, UBSFS entered into a settlement with the Financial Industry Regulatory Authority (FINRA) related to the sale of these notes, pursuant to which UBSFS agreed to pay a USD 2.5 million fine and up to USD 8.25 million in restitution and interest to a limited number of investors in the US. UBSFS has also been named in numerous individual civil suits and customer arbitrations, which proceedings are at various stages. The individual customer claims, some of which have resulted in awards payable by UBSFS, relate primarily to whether UBSFS adequately disclosed the risks of these notes to its customers.

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

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

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

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

Securities Lawsuits Concerning Disclosures in RMBS Offering Documents: UBS has been named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits relating to approximately USD 44 billion in original face amount of RMBS underwritten or issued by UBS. Some of the lawsuits are in their early stages, and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the original face amount of RMBS at issue in these cases, approximately USD 11 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans (UBS-sponsored RMBS). The remaining USD 33 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter (third-party RMBS). In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights.

These lawsuits include actions brought by the Federal Housing Finance Agency (FHFA), as conservator for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac and collectively with Fannie Mae, the GSEs), in connection with the GSEs' investments in USD 4.5 billion in original face amount of UBS-sponsored RMBS and USD 1.8 billion in original face amount of third-party RMBS. These suits assert claims for damages and rescission under federal and state securities laws and state common law and allege losses of at

Note 23 Provisions and contingent liabilities (continued)

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

USD million	2006–2008	2009	2010	2011	2012	through 5 March 2013	Total
Actual or agreed loan repurchases / make whole payments by UBS	11.7	1.4	0.1				13.2
Demands resolved or expected to be resolved through enforcement of UBS's indemnification rights against third-party originators		77.4	1.8	45.0	**141.7**		265.9
Demands resolved in litigation	0.6	20.7					21.3
Demands in litigation			345.6	731.7	**1,041.1**		2,118.5
Demands rebutted by UBS but not yet rescinded by counterparty		3.2	1.8	290.0	**243.8**		538.7
Demands rescinded by counterparty	110.2	100.4	18.8	8.3			237.7
Demands in review by UBS		2.1	0.1	9.1	**11.7**	**1.8**	24.8
Total	122.5	205.1	368.2	1,084.1	**1,438.3**	**1.8**	3,220.1

1 Loans submitted by multiple counterparties are counted only once.

least USD 1.2 billion plus interest. The court denied UBS's motion to dismiss in May 2012, but we are awaiting a decision from the US Court of Appeals for the Second Circuit on an appeal with respect to two legal issues that were the subject of UBS's motion to dismiss. The FHFA also filed suits in 2011 against UBS and other financial institutions relating to their role as underwriters of third-party RMBS purchased by the GSEs asserting claims under various legal theories, including violations of the federal and state securities laws and state common law.

In July 2012 a federal court in New Jersey dismissed with prejudice on statute of limitations grounds a putative class action lawsuit that asserted violations of the federal securities laws against various UBS entities, among others, in connection with USD 2.6 billion in original face amount of UBS-sponsored RMBS. The named plaintiff's appeal of the dismissal is pending.

Loan repurchase demands related to sales of mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, we generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, we were in certain circumstances contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust. We have been notified by certain institutional purchasers and insurers of mortgage loans and RMBS, including Freddie Mac, of their contention that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. The table above summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through 5 March 2013. In the table, repurchase demands characterized as Demands resolved in litigation and Demands rescinded by counterparty are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, made additional loan repurchase demands totaling approximately USD 182 million in original principal balance in November and December 2012, and it is not clear when or to what extent additional demands may be made by Assured Guaranty, Freddie Mac or others.

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

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

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

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In February 2012, Assured

Guaranty filed suit against UBS RESI in New York State Court asserting claims for breach of contract and declaratory relief based on UBS RESI's alleged failure to repurchase allegedly defective mortgage loans with an original principal balance of at least USD 997 million that serve as collateral for UBS-sponsored RMBS insured in part by Assured Guaranty. Assured Guaranty also claims that UBS RESI breached representations and warranties concerning the mortgage loans and breached certain obligations under commitment letters. Assured Guaranty seeks unspecified damages that include payments on current and future claims made under Assured Guaranty insurance policies totaling approximately USD 308 million at the time of the filing of the complaint, as well as compensatory and consequential losses, fees, expenses and pre-judgment interest. The case was removed to federal court, and in August 2012, the Court granted UBS RESI's motion to dismiss Assured Guaranty's claims for breach of UBS RESI's contractual repurchase obligations, holding that only the trustee for the securitization trust has the contractual right to enforce those obligations. The Court also granted UBS RESI's motion to dismiss Assured Guaranty's claims for declaratory relief. The Court denied UBS RESI's motion to dismiss Assured Guaranty's claims for breach of representation and warranty and breach of the commitment letters. The case is now in discovery.

In October 2012, following the Court's holding that only the trustee may assert claims seeking to enforce UBS RESI's repurchase obligations, the RMBS trusts at issue in the Assured Guaranty litigation filed a related action in the Southern District of New York seeking to enforce UBS RESI's obligation to repurchase loans with an original principal balance of approximately USD 2 billion for which Assured Guaranty had previously demanded repurchase. UBS's motion to dismiss the suit filed by the trusts is pending. With respect to the portion of the loans subject to the suits filed by Assured Guaranty and the trusts that were originated by institutions still in existence, UBS is enforcing its indemnity rights against those institutions. At this time, UBS does not expect that it will be required to make payment for the majority of loan repurchase demands at issue in the suit brought by the RMBS trusts for at least the following reasons: (1) we reviewed the origination file and/or servicing records for the loan and concluded that the allegations of breach of representations and warranties are unfounded, or (2) a surviving originator is contractually liable for any breaches of representations and warranties with respect to loans that it originated. UBS has indemnification rights in connection with approximately half of the USD 2 billion in original principal balance of loans at issue in this suit (reflected in the "In litigation" category in the accompanying table). Additionally, in its motion to dismiss the suit filed by the trusts, UBS has asserted that, under governing transaction documents, UBS is not required to repurchase liquidated loans that were the subject of repurchase demands now at issue in this suit.

In April 2012, Freddie Mac filed a notice and summons in New York Supreme Court initiating suit against UBS RESI for breach of contract and declaratory relief arising from alleged breaches of representations and warranties in connection with certain mortgage loans and UBS RESI's alleged failure to repurchase such mortgage loans. The complaint for this suit was filed in September 2012. Freddie Mac seeks, among other relief, specific performance of UBS RESI's alleged loan repurchase obligations for at least USD 94 million in original principal balance of loans for which Freddie Mac had previously demanded repurchase; no damages are specified.

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

As reflected in the table below, our balance sheet as of 31 December 2012 included a provision of USD 658 million with respect to matters described in this item 6. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

7. Claims related to UBS disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with UBS's disclosures relating to UBS's positions and losses in mortgage-related securities, UBS's positions and losses in auction rate securities, and UBS's US cross-border business. In 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US, and, in September 2012, the court dismissed with prejudice the remaining claims based on purchases or sales of UBS ordinary

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

USD million	**31.12.12**
Balance at the beginning of the year	104
Increase in provision recognized in the income statement	554
Release of provision recognized in the income statement	0
Provision used in conformity with designated purpose	0
Balance at the end of the year	**658**

Note 23 Provisions and contingent liabilities (continued)

shares made in the US for failure to state a claim. Plaintiffs have appealed the court's decision. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement Income Security Act (ERISA) retirement plans in which there were purchases of UBS stock. In 2011, the court dismissed the ERISA complaint. In March 2012, the court denied plaintiffs' motion for leave to file an amended complaint. On appeal, the Second Circuit upheld the dismissal of all counts relating to one of the retirement plans. With respect to the second retirement plan, the Court upheld the dismissal of some of the counts, and vacated and remanded for further proceedings with regard to the counts alleging that defendants had violated their fiduciary duty to prudently manage the plan's investment options, as well as the claims derivative of that duty.

8. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC (BMIS) investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without however being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants, including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011 the District Court dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. The BMIS Trustee has appealed the District Court's decision. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds.

9. Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2009, the City of Milan filed civil proceedings against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007. In addition, in 2010 a criminal trial began against two current UBS employees and one former employee, together with employees from the three other banks, a former officer of Milan and a former adviser to Milan, for alleged fraud against a public entity in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. UBS Limited was also the subject (as were the three other banks) of an administrative charge, brought in the context of the criminal trial of the individuals, of failing to have in place a business organizational model to avoid the alleged misconduct by employees. In March 2012, UBS Limited and UBS Italia SIM Spa finalized a civil damages settlement agreement with Milan without any admission of liability. The settlement did not dispose of the ongoing criminal or administrative proceedings, nor did it dispose of a civil consumer group claim lodged in the criminal proceeding. In December 2012 the Milan criminal court found UBS Limited liable for the administrative offense and convicted the three UBS employees (two current and one former) of fraud against a public entity. The sanctions against UBS Limited, which are not effective until appeals are exhausted, are confiscation of the alleged level of profit flowing from the criminal findings (EUR 16.6 million), a fine in respect of the finding of the administrative offense (EUR 1 million) and payment of legal fees. UBS has previously provided for this potential exposure in the amount of EUR 18.5 million. Convictions have also been issued against six employees of the three other international banks, and the banks themselves were also found liable for the administrative offense.

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy and Lazio and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. Florence and Tuscany have also attempted to invoke Italian administrative law remedies which purport to allow a public entity to challenge its own decision to enter into the relevant contracts and avoid their obligations thereunder. In April 2012, UBS AG and UBS Limited settled the existing disputes with the Region of Tuscany without any admission of liability. In January 2013, the Tuscany criminal court dismissed without further consequence a related criminal investigation. In November 2012, UBS reached civil settlements with, respectively, the Regions of Lombardy and Lazio (the latter settlement is conditional upon Lazio making certain amendments to its pleading in ongoing litigation against third parties), again without any admission of liability. An in-principle agreement has also been reached with the City of Florence. Provisions have been booked in respect of these agreed or prospective settlements.

10. HSH Nordbank AG (HSH)

HSH has filed an action against UBS in New York State court relating to USD 500 million of notes acquired by HSH in a synthetic CDO transaction known as North Street Referenced Linked Notes, 2002-4 Limited (NS4). The notes were linked through a credit default swap between the NS4 issuer and UBS to a reference pool of corporate bonds and asset-backed securities. HSH alleges that UBS knowingly misrepresented the risk in the transaction, sold HSH notes with "embedded losses", and improperly profited at HSH's expense by misusing its right to substitute assets in the reference pool within specified parameters. HSH is seeking USD 500 million in compensatory damages plus pre-judgment interest. The case was initially filed in 2008. In March 2012, a New York state appellate court dismissed HSH's fraud claim and affirmed the trial court's dismissal of its negligent misrepresentation claim and punitive damages demand. As a result, the claims remaining in the case were for breach of contract and breach of the implied covenant of good faith and fair dealing. HSH has sought permission to appeal the appellate court's decision to the New York Court of Appeals. In March 2013, the parties settled the litigation. UBS had previously provided for this potential exposure in an amount equal to the settlement amount.

11. Kommunale Wasserwerke Leipzig GmbH (KWL)

In 2006 and 2007, KWL entered into a series of Credit Default Swap (CDS) transactions with bank swap counterparties, including UBS. UBS entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc (Depfa) and Landesbank Baden-Württemburg (LBBW), in relation to their respective swaps with KWL. Under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in 2010, a net sum of approximately USD 138 million has fallen due from KWL but not been paid. Earlier in 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS is valid, binding and enforceable as against KWL. The English court ruled in 2010 that it has jurisdiction and will hear the proceedings and UBS issued a further claim seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL. KWL withdrew its appeal from that decision and the civil dispute is now proceeding before the English court. UBS has added its monetary claim to the proceedings. KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited.

In 2010, KWL issued proceedings in Leipzig, Germany against UBS, Depfa and LBBW, claiming that the swap transactions are void and not binding on the basis of KWL's allegation that KWL did not have the capacity or the necessary internal authorization to enter into the transactions and that the banks knew this. Upon and as a consequence of KWL withdrawing its appeal on jurisdiction in England, KWL also withdrew its civil claims against UBS and Depfa in the German courts, and no civil claim will proceed against either of them in Germany. The proceedings brought by KWL against LBBW are now proceeding before the German courts. The Leipzig court has ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS in the Leipzig proceedings.

The back-to-back CDS transactions were terminated in 2010. In 2010, UBS and UBS Limited issued separate proceedings in the English High Court against Depfa and LBBW seeking declarations as to the parties' obligations under the back-to-back CDS transactions and monetary claims. UBS Limited contends that it is owed USD 83.3 million, plus interest, by Depfa. UBS contends that it is owed EUR 75.5 million, plus interest, by LBBW. Depfa and LBBW respectively are defending against the claims and have also issued counterclaims. Additionally Depfa has added a claim against KWL to the proceedings against it and KWL has served a defense.

The former managing director of KWL and two financial advisers were convicted on criminal charges of bribery, and are currently standing trial for related charges of embezzlement, in respect of certain KWL transactions, including swap transactions with UBS and other banks.

In 2011, the SEC commenced an inquiry regarding the KWL transactions and UBS is providing information to the SEC relating to those transactions.

Note 23 Provisions and contingent liabilities (continued)

12. Puerto Rico

In 2011, a purported shareholder derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS Financial Services Inc. of Puerto Rico (UBS PR) and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs allege that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008. Plaintiffs seek damages of over USD 800 million, which represents plaintiffs' estimate of the difference between the interest rate the System will pay on the bonds prior to their maturity between 2023 and 2058 and the return on the investments the System will make with the proceeds of the bond offerings before the proceeds are used to help the System meet a portion of its obligations to pensioners. UBS is named in connection with its underwriting and consulting services. Defendants, including UBS, have moved to dismiss and are awaiting a decision on that motion. The case is pending in the Commonwealth of Puerto Rico Court of First Instance. UBS is also cooperating with an SEC investigation into the bond offerings. Separately, in late 2012, an SEC administrative hearing on securities law violation charges against two UBS PR executives concluded, with a decision expected in late 2013. The charges stemmed from the SEC's investigation of UBS PR's sale of closed-end funds in 2008 and 2009, which UBS PR settled in April 2012.

13. LIBOR and other benchmark rates

Numerous government agencies, including the SEC, the US Commodity Futures Trading Commission (CFTC), the DOJ, the UK Financial Services Authority (FSA), the UK Serious Fraud Office (SFO), the Monetary Authority of Singapore (MAS), the Hong Kong Monetary Authority (HKMA), FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions are conducting investigations regarding submissions with respect to British Bankers' Association LIBOR (London Interbank Offered Rate) and other benchmark rates. These investigations focus on whether there were improper attempts by UBS (among others), either acting on our own or together with others, to manipulate LIBOR and other benchmark rates at certain times. The UK Parliament is conducting an inquiry into "transparency, conflicts of interest and the culture and professional standards of the financial services industry including the interaction with the criminal law", and a narrower review by the FSA that concerns the LIBOR process is also ongoing.

In December 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS will pay a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, and CHF 59 million in disgorgement to FINMA. Under a non-prosecution agreement (NPA) that UBS entered into with the DOJ, UBS has agreed to pay a fine of USD 500 million. Pursuant to a separate plea agreement between the DOJ and UBS Securities Japan Co. Ltd. (UBSSJ), UBSSJ has entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and the DOJ and UBSSJ have agreed to a sentence to be imposed on UBSSJ that would include a fine of USD 100 million, which is subject to the discretion of the sentencing court. The NPA requires UBS to pay the USD 500 million fine to DOJ within 10 days of the sentencing of UBSSJ, and provides that any criminal penalties imposed on UBSSJ at sentencing, which currently is scheduled for 15 March 2013, will be deducted from the USD 500 million fine. The conduct described in the various settlements and the FINMA order includes certain UBS personnel: engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions; colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions; and giving inappropriate directions to UBS submitters that were in part motivated by a desire to avoid unfair and negative market and media perceptions during the financial crisis. The benchmark interest rates encompassed by these resolutions include Yen LIBOR, GBP LIBOR, CHF LIBOR, Euro LIBOR, USD LIBOR, EURIBOR (Euro Interbank Offered Rate) and Euroyen TIBOR (Tokyo Interbank Offered Rate). We have ongoing obligations to cooperate with authorities with which we have reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions. Investigations by other government authorities remain ongoing notwithstanding these resolutions.

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

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

A number of putative class actions and other actions are pending in the federal courts in New York and other jurisdictions against UBS and numerous other banks on behalf of parties who transacted in LIBOR-based derivatives linked directly or indirectly to US dollar LIBOR, Yen LIBOR, Euroyen TIBOR and EURIBOR. Also pending are actions asserting losses related to various products whose interest rate was linked to US dollar LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest bearing instruments. There is a pending motion to dismiss consolidated amended complaints which were filed by certain parties. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including LIBOR, Euroyen TIBOR or EURIBOR rates and seek unspecified compensatory and other damages, including treble and punitive damages, under varying legal theories that include violations of the US Commodity Exchange Act, federal and state antitrust laws and the federal racketeering statute.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, our balance sheet at 31 December 2012 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

14. SinoTech Energy Limited

Since 2011, multiple putative class action complaints have been filed and consolidated in federal court in Manhattan, against SinoTech Energy Limited (SinoTech), its officers and directors, its auditor at the time of its initial public offering (IPO), and its underwriters, including UBS. The second amended complaint filed in June 2012 alleges, with respect to the underwriters, that the registration statement and prospectus filed in connection with SinoTech's 2010 USD 168 million IPO of American Depositary Shares, of which UBS underwrote 70%, contained materially misleading statements and omissions, including allegations regarding the authenticity and accuracy of certain asset purchase contracts purportedly entered into between SinoTech and its vendors. Plaintiff asserts violations of the US federal securities laws and seeks unspecified compensatory damages, among other relief. UBS and several other defendants have reached an agreement to settle the lawsuit, which is subject to court approval.

15. Swiss retrocessions

The Zurich High Court decided in January 2012, in a test case, that fees received by a bank for the distribution of financial products issued by third parties should be considered to be "retrocessions" unless they are received by the bank for genuine distribution services. Fees considered to be retrocessions would have to be disclosed to the affected clients and, absent specific client consent, surrendered to them. On appeal, the Swiss Supreme Court ruled in October 2012 that distribution fees paid to UBS for distributing third party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the bank, absent a valid waiver.

In November 2012, FINMA issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients in the context of the mailing of the year-end account statements.

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

Our balance sheet at 31 December 2012 reflected a provision with respect to matters described in this item 15 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess, particularly in view of the limited experience to date. Hence as in the case of other matters for which we have established provisions, the future outflow of resources in respect of

Note 23 Provisions and contingent liabilities (continued)

such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

16. Unauthorized trading incident

The trial in connection with the unauthorized trading incident that occurred in the Investment Bank and was announced in September 2011 concluded on 20 November 2012. The defendant was found guilty on two counts of fraud and not guilty on four counts of false accounting. On 26 November 2012, FINMA and the FSA announced the findings of their joint investigation. They also announced the actions they have taken, and the FSA imposed a fine of GBP 29.7 million on UBS.

In October 2012, a consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the unauthorized trading incident. The lawsuit was filed on behalf of parties who purchased publicly traded UBS securities on any US exchange, or where title passed within the US, during the period 17 November 2009 through 15 September 2011. The complaint alleges that UBS misrepresented, through its public statements and financial disclosures, that its risk controls and procedures were effective, and that the falsity of these representations became apparent when UBS disclosed the unauthorized trading incident in September 2011, a disclosure that purportedly caused UBS's stock price to drop 10% in one day. The plaintiff seeks unspecified damages and interest, among other relief. UBS's motion to dismiss the complaint is pending.

17. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (Pactual) by UBS to BTG Investments, LP (BTG), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately USD 1.1 billion, including interest and penalties. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being or will be challenged in administrative proceedings. In February 2013, the Brazilian tax authority issued a decision that reduced our potential exposure on an assessment relating to deductions taken for goodwill amortization in connection with the 2006 acquisition of Pactual. The remaining assessment, net of this deduction, is being appealed to the next level administrative court. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts.

18. Greater Southwestern Funding

In June 2010, UBS was named as a defendant in a putative class action complaint brought in federal court in Oklahoma relating to its role as underwriter and seller in a bond offering of USD 182 million in zero coupon bonds originally issued in 1984 by Greater Southwestern Funding Corporation (GSF). The complaint alleges that GSF breached its contractual obligation to make payments on the bonds and is liable for the principal and interest due on the bonds, and that UBS is liable for GSF's contract indebtedness under equitable theories, including a corporate "veil-piercing" claim. A class was certified in December 2011. UBS's motion for summary judgment seeking dismissal of all claims against UBS is pending. Trial is scheduled to begin as early as April 2013.

Additional information

Note 24 Income taxes

	For the year ended		
CHF million	**31.12.12**	31.12.11[1]	31.12.10[1]
Tax expense / (benefit) from continuing operations			
Swiss			
Current	**95**	23	(75)
Deferred	**23**	1,041	640
Foreign			
Current	**72**	83	300
Deferred	**271**	(246)	(1,273)
Total income tax expense / (benefit) from continuing operations	**461**	901	(409)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS19R.

The Swiss current tax expense of CHF 95 million relates to taxable profits, against which no losses were available to offset, earned by Swiss subsidiaries and also from the sale of real estate. The Swiss deferred tax expense of CHF 23 million relates to a decrease in recognized deferred tax assets, due to Swiss pre-tax profits earned during the year, offset by Swiss tax relief for the impairment of goodwill.

The foreign net current tax expense of CHF 72 million relates to a tax expense in respect of taxable profits earned by non-Swiss subsidiaries and branches, against which no losses were available to offset, partly offset by a tax benefit from the release of provisions in respect of tax positions which were previously uncertain. The foreign deferred tax expense of CHF 271 million mainly reflects a tax expense for the amortization of deferred tax assets, as tax losses were used against taxable profits.

The Group made net corporate income tax payments, including Swiss and foreign taxes, of CHF 261 million, CHF 349 million and CHF 498 million in 2012, 2011, and 2010 respectively.

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Swiss tax rate, are as follows:

	For the year ended		
CHF million	**31.12.12**	31.12.11[1]	31.12.10[1]
Operating profit / (loss) from continuing operations before tax	**(1,774)**	5,307	7,345
of which: Swiss	***4,040***	*4,652*	*5,842*
of which: Foreign	***(5,814)***	*654*	*1,503*
Income taxes at Swiss tax rate of 21% for 2012, and 21.5% for 2011 and 2010	**(373)**	1,141	1,579
Increase / (decrease) resulting from:			
Applicable tax rates differing from Swiss tax rate	**(684)**	98	(60)
Tax effects of losses not recognized	**184**	939	275
Previously unrecorded tax losses now utilized	**(1,342)**	(8)	(1,225)
Non-taxable and lower taxed income	**(417)**	(1,189)	(889)
Non-deductible expenses and additional taxable income	**2,205**	674	1,985
Adjustments related to prior years – current tax	**(216)**	(171)	(261)
Adjustments related to prior years – deferred tax	**1**	17	3
Change in deferred tax valuation allowances	**1,071**	(680)	(1,813)
Adjustments to deferred tax balances arising from changes in tax rates	**7**	42	11
Other items	**25**	39	(14)
Income tax expense / (benefit) from continuing operations	**461**	901	(409)

1 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS19R.

Note 24 Income taxes (continued)

Certain deferred tax asset and liability movements are recognized directly in equity. In 2012 these include tax charges of CHF 581 million recognized in other comprehensive income (2011: CHF 152 million) and CHF 457 million recognized in Share premium (2011: benefit of CHF 280 million), which mainly relate to the lower valuation of deferred tax assets for net Swiss tax losses arising in previous periods. These charges were more than offset by a tax credit of CHF 1,119 million recognized in other comprehensive income related to previous years due to the retrospective adoption of IAS 19R. In addition, there were net foreign currency translation losses related to the effects of exchange rate changes on tax assets and liabilities denominated in currencies other than Swiss francs.

In the table below, the valuation allowance represents amounts that are not expected to provide a future tax benefit due to insufficient projected future taxable profits.

UBS AG Switzerland and certain overseas branches and subsidiaries of the Group have deferred tax assets related to tax loss carry-forwards and other items as shown in the table below. For entities that incurred losses in either the current or preceding year, CHF 3,487 million was recognized as deferred tax assets as of 31 December 2012 (CHF 564 million as of 31 December 2011).

CHF million	31.12.12[1]			31.12.11[2]		
Deferred tax assets	**Gross**	**Valuation allowance**	**Recognized**	Gross	Valuation allowance	Recognized
Compensation and benefits	**1,698**	**(1,047)**	**651**	3,312	(1,995)	1,317
Tax loss carry-forwards	**29,022**	**(23,276)**	**5,746**	27,275	(19,226)	8,049
Trading assets	**1,067**	**(131)**	**936**	880	(813)	67
Other	**1,235**	**(425)**	**809**	1,641	(1,447)	194
Total deferred tax assets	**33,021**	**(24,879)**	**8,143**	33,108	(23,481)	9,627
Deferred tax liabilities						
Goodwill and intangible assets			**17**			37
Trading assets			**5**			1
Property and equipment			**2**			1
Financial investments			**2**			11
Investments in associates and other			**26**			17
Total deferred tax liabilities			**52**			68

1 The deferred tax assets recognized for compensation and benefits, trading assets and other temporary differences increased in the year by CHF 1.8 billion as a result of recognizing deferred tax assets for temporary differences in advance of those on tax losses for locations where there is partial recognition of deferred tax assets. This had no impact on the overall amount of deferred tax assets recognized, as there was a corresponding reduction in the amount of deferred tax assets recognized for tax loss carry-forwards. 2 Refer to "Note 1b Changes in accounting policies, comparability and other adjustments" for more information with regard to the adoption of IAS19R.

The deferred tax assets recognized as of 31 December 2012 in respect of tax loss carry-forwards were based on expected profitability using business plan assumptions, as adjusted to take into account the recognition criteria of IAS 12 *Income taxes*. If the business plan earnings and assumptions in future periods substantially deviate from the current assumptions, the amount of deferred tax assets may need to be adjusted in the future.

As of 31 December 2012, tax loss carry-forwards totaling CHF 68,125 million, which are not recognized as deferred tax assets, were available to be offset against future taxable profits. These tax losses expire as follows:

CHF million	31.12.12	31.12.11
Within 1 year	**0**	3
From 2 to 5 years	**7,912**	29
From 6 to 10 years	**461**	85
From 11 to 20 years	**43,866**	38,647
No expiry	**15,886**	13,309
Total	**68,125**	52,073

In general, Swiss tax losses can be carried forward for seven years, US federal tax losses for 20 years and UK and Jersey tax losses for an unlimited period.

The Group provides for deferred income tax on undistributed earnings of subsidiaries except to the extent that those earnings are indefinitely invested. As of 31 December 2012, no such earnings were considered indefinitely invested.

Note 25 Derivative instruments and hedge accounting

Derivatives: overview

A derivative is a financial instrument, the value of which is derived from the value of one or more variables ("underlyings"). Underlyings may be indices, exchanges or interest rates, or the value of shares, commodities, bonds, or other financial instruments. A derivative commonly requires little or no initial net investment by either counterparty to the trade.

The majority of derivative contracts are negotiated with respect to notional amounts, tenor, price and settlement mechanisms, as is customary with other financial instruments.

Over-the-counter (OTC) contracts are usually traded under a standardized International Swaps and Derivatives Association (ISDA) master trading agreement (MTA) between UBS and its counterparties. Terms are negotiated directly with counterparties and the contracts will have industry-standard settlement mechanisms prescribed by ISDA. Other derivative contracts are standardized in terms of their amounts and settlement dates, and are bought and sold on organized exchanges; these are commonly referred to as exchange-traded derivatives (ETD) contracts. Exchanges offer the benefits of pricing transparency, standardized daily settlement of changes in value, and consequently reduced credit risk. During 2012, the industry continued to promote the use of Central Counterparties (CCP) to clear OTC trades. The trend toward CCP clearing and settlement will generally facilitate the reduction of systemic credit exposures.

Derivative instruments are measured at fair value and generally classified as *Positive replacement values* and *Negative replacement values* on the face of the balance sheet. Derivative instruments that trade on an exchange or through a clearing house are generally classified as *Cash collateral receivable or payable on derivative instruments*. They are not classified within replacement values because the change in fair value of these instruments is economically settled each day through the cash payment of variation margin. Products that receive this treatment are futures contracts, 100% daily margined exchange traded options, interest rate swaps and forward rate agreements transacted with the London Clearing House and certain credit derivative contracts.

Additionally, for presentation purposes, the Group is subject to the IFRS netting provisions for derivative contracts, if all the following conditions exist: contracts are with the same legal counterparty; the Group has legally enforceable rights to set off amounts due; the contracts have common maturity dates; and the parties intend to settle net, which may be evidenced by current practice. Changes in the replacement values of derivatives are recorded in net trading income, unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships as described in Note 1a) 15).

Valuation principles and techniques applied in the measurement of derivative instruments are discussed in Note 27a. *Positive replacement values* represent the estimated amount the Group would receive if the derivative contract were settled in full on the balance sheet date. *Negative replacement values* indicate the value at which the Group would extinguish its obligations in respect of the underlying contract, were it required or entitled to do so on the balance sheet date.

Derivatives embedded in other financial instruments are not included in the table "Derivative instruments" within this Note. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract. In case where UBS applies the fair value option to hybrid instruments, bifurcation of an embedded derivative component is not required and as such, also not included in the table "Derivative instruments". Refer to "Note 13 Financial asset designated at fair value" and "Note 20 Financial liabilities designated at fair value" for more information.

Types of derivative instruments

The Group uses the following derivative financial instruments for both trading and hedging purposes. Through the use of the products listed below, the Group is engaged in extensive high volume market-making and client facilitation trading referred to as the flow business. Measurement techniques applied to determine the fair value of each product type are described in Note 27c.

The main types of derivative instruments used by the Group are:

- Options and warrants: options and warrants are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option), or to sell (put option) at, or before, a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded in the OTC market, or on a regulated exchange, and may be traded in the form of a security (warrant).
- Swaps: Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.
- Forwards and futures: Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardized contracts transacted on regulated exchanges.
- Cross-currency swaps: Cross-currency swaps involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start or end of the contract. Most cross-currency swaps are traded in the OTC market.

The main products and underlyings, that the Group uses are:

- Interest rate contracts: Interest rate products include interest rate swaps, forward rate agreements, swaptions and caps and floors.
- Credit derivatives: Credit default swaps (CDSs) are the most common form of a credit derivative, under which the party

Note 25 Derivative instruments and hedge accounting (continued)

buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following the occurrence of a contractually defined credit event with respect to a specified third-party credit entity. Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity, and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is generally terminated. More information on credit derivatives is included in a separate section below.
– Total return swaps (TRSs): TRSs are employed in both the Investment Bank's fixed income and equity trading businesses with underlyings which are generally equity or fixed income indices, loans or bonds. TRSs are structured with one party making payments based on a set rate, either fixed or variable, plus any negative changes in fair value of an underlying asset, and the other party making payments based on the return of the asset, which includes both income it generates and any positive changes in its fair value.
– Foreign exchange contracts: Foreign exchange contracts will include spot, forward and cross-currency swaps and options and warrants. Forward purchase and sale currency contracts are typically executed to meet client needs and for trading and hedging purposes.
– Equity/Index contracts: The Group uses equity derivatives linked to single names, indices and baskets of single names and indices. The indices used may be based on a standard market index, or may be defined by UBS. The product types traded include vanilla listed derivatives, both options and futures, total return swaps, forwards and exotic OTC contracts.
– Commodities contracts: The Group has an established commodity derivatives trading business, which includes the commodity index, the structured business and the flow business. The index and structured business are client facilitation businesses trading exchange traded funds, OTC swaps and options on commodity indices. The underlying indices cover third party and UBS defined indices such as the UBS Bloomberg Constant Maturity Commodity Index and the Dow Jones UBS Commodity indices. The flow business is investor led and incorporates both ETD and vanilla OTC products, for which the underlying covers the agriculture, base metals and energy sectors. All of the flow trading is cash settled with no physical delivery of the underlying.
– Precious metals: The Group has an established precious metals ability in both flow and non-vanilla OTC products incorporating both physical and non-physical trading. The flow business is investor led and products include ETD, vanilla OTCs and certain non-vanilla OTCs. The vanilla OTCs are in forwards, swaps and options. The non-vanilla OTC business relates to cash-settled forwards similar in nature to non-deliverable forwards, meaning there is no physical delivery of the underlying.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is predominantly managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in the audited portions of the "Market risk" section of this report.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in the audited portions of the "Credit risk" section of this report. It should be noted that, although the positive replacement values shown on the balance sheet can be an important component of the Group's credit exposure, the positive replacement values for a counterparty are rarely an adequate reflection of the Group's credit exposure in its derivatives business with that counterparty. This is, for example, because on one hand, replacement values can increase over time ("potential future exposure"), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with other counterparties. Both the exposure measures used by the Group internally to control credit risk and the capital requirements imposed by regulators reflect these additional factors.

The replacement values presented on UBS's balance sheet include netting in accordance with IFRS requirements (refer to Note 1a) 35), which is more restrictive than netting in accordance with Swiss Federal Banking law. Swiss Federal Banking law netting is generally based on close-out netting arrangements that are enforceable in case of insolvency. The positive and negative replacement values based on netting in accordance with Swiss Federal Banking law (factoring in cash collateral) are presented on the bottom of the table on the next pages.

The notional amount of a derivative is generally the quantity of the underlying instrument on which the derivative contract is based and is the reference against which changes in the value of the derivative are measured. Notional values, in themselves, are generally not a direct indication of the values which are exchanged between parties, and are therefore not a direct measure of risk or financial exposure, but are viewed as an indication of the scale of the different types of derivatives entered into by the Group.

Note 25 Derivative instruments and hedge accounting (continued)

Derivative instruments[1]

CHF billion	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]
	31.12.12					31.12.11				
Interest rate contracts										
Over-the-counter (OTC) contracts										
Forward contracts[6]	0.8	481.0	0.8	443.8	1,329.6	2.0	1,610.0	2.3	1,637.4	0.0
Swaps[7]	223.3	3,933.5	196.1	3,789.2	14,276.3	247.3	5,264.5	226.1	5,162.2	18,568.1
Options	43.6	1,210.5	44.6	1,200.2	0.0	46.7	1,173.2	48.0	1,185.2	0.0
Exchange-traded contracts[8]										
Futures					759.0					924.3
Options	0.0	3.0	0.0	0.0	725.5	0.0	124.0	0.0	127.8	526.2
Agency transactions[9]	0.0		0.0			0.1		0.1		
Total	267.8	5,628.0	241.5	5,433.2	17,090.4	296.1	8,171.7	276.4	8,112.6	20,018.6
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	36.3	1,090.8	33.9	1,043.3	238.9	66.6	1,292.2	62.9	1,238.0	172.4
Total rate of return swaps	0.4	2.4	0.4	3.3	0.0	0.6	2.4	0.5	2.0	0.0
Options and warrants	0.0	3.1	0.0	0.5	0.0	0.1	3.6	0.1	4.6	0.0
Total	36.7	1,096.3	34.3	1,047.1	238.9	67.3	1,298.1	63.5	1,244.6	172.4
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	11.6	690.3	12.4	689.6	0.0	15.7	648.3	14.9	610.5	0.0
Interest and currency swaps	76.9	2,382.0	80.9	2,193.2	0.0	75.7	2,177.4	85.5	2,165.5	0.0
Options	5.1	395.1	5.2	329.3	0.0	5.8	367.8	5.8	346.4	0.0
Exchange-traded contracts										
Futures					13.8					12.2
Options	0.0	0.6	0.0	0.6	0.0	0.0	0.1	0.0	0.6	0.0
Agency transactions[9]	0.0		0.0			0.0		0.0		
Total	93.5	3,467.9	98.5	3,212.7	13.8	97.2	3 193.7	106.3	3,123.0	12.2
Equity/index contracts										
Over-the-counter (OTC) contracts										
Forward contracts	2.7	41.7	3.3	47.0	0.0	2.8	38.3	3.0	39.0	0.0
Options	8.4	84.8	7.4	98.3	0.0	8.7	69.0	8.9	86.9	0.0
Exchange-traded contracts[8]										
Futures					16.6					10.6
Options	2.4	94.9	3.3	106.8	17.7	3.3	84.6	3.7	85.2	4.1
Agency transactions[9]	2.4		2.4			3.9		4.2		
Total	15.9	221.4	16.4	252.1	34.3	18.8	191.8	19.8	211.1	14.7

Table continues on the next page.

Note 25 Derivative instruments and hedge accounting (continued)

Derivative instruments[1] (continued)

Table continued from previous page.

	31.12.12					31.12.11				
CHF billion	Total PRV[2]	Notional values related to PRVs[3]	Total NRV[4]	Notional values related to NRVs[3]	Other notional values[3,5]	Total PRV[2]	Notional values related to PRVs[3]	Total NRV[4]	Notional values related to NRVs[3]	Other notional values[3,5]
Commodities contracts										
Over-the-counter (OTC) contracts										
Forward contracts	1.4	22.9	1.4	21.8	0.0	2.8	29.9	2.3	21.4	0.0
Options	1.0	35.2	1.2	41.7	0.0	1.6	30.4	2.1	28.1	0.0
Exchange-traded contracts[8]										
Futures					14.4					17.1
Forward contracts	0.4	23.3	0.4	21.2	0.0	0.1	36.7	0.2	35.0	0.0
Options	0.1	6.4	0.1	7.0	1.2	0.0	4.4	0.0	6.3	0.6
Agency transactions[9]	0.9		0.9			2.3		2.4		
Total	3.8	87.9	4.0	91.7	15.6	6.9	101.3	7.0	90.9	17.7
Unsettled purchases of non-derivative financial assets[10]	0.2	20.4	0.1	8.7	0.0	0.2	39.8	0.2	10.7	0.0
Unsettled sales of non-derivative financial assets[10]	0.1	8.9	0.2	19.0	0.0	0.1	17.9	0.2	30.2	0.0
Total derivative instruments, based on IFRS netting	418.0	10,530.9	395.1	10,064.4	17,392.9	486.6	13,014.3	473.4	12,823.1	20,235.6
Replacement value netting, based on capital adequacy rules	(327.3)		(327.3)			(383.3)		(383.3)		
Cash collateral netting, based on capital adequacy rules	(49.4)		(17.4)			(45.6)		(28.0)		
Total derivative instruments, based on capital adequacy netting[11]	41.3		50.4			57.7		62.1		

1 Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from the table; these derivatives amount to a PRV of CHF 0.4 billion (2011: CHF 1.1 billion) (related notional values of CHF 3.9 billion [2011: CHF 24.8 billion]) and an NRV of CHF 0.2 billion (2011: CHF 0.2 billion) (related notional values of CHF 13.6 billion [2011: CHF 9.3 billion]). 2 PRV: Positive replacement value. 3 In cases where replacement values are presented on a net basis on the balance sheet, the respective notional values of the netted replacement values are still presented on a gross basis. 4 NRV: Negative replacement value. 5 Receivables resulting from these derivatives are recognized on our balance sheet under Cash collateral receivables on derivative instruments totaling CHF 3.3 billion (2011: CHF 2.4 billion). Payables resulting from these derivatives are recognized on our balance sheet under Cash collateral payables on derivative instruments totaling CHF 4.0 billion (2011: CHF 2.7 billion). 6 Negative replacement values as of 31 December 2012 include CHF 0.1 billion related to derivative loan commitments (31 December 2011: 0.2 billion). No notional amounts related to these replacement values are included the table. The maximum irrevocable amount related to these commitments was CHF 6.3 billion as of 31 December 2012 (31 December 2011: CHF 6.1 billion). 7 In 2012, we corrected the allocation of notional values for 31 December 2011. Notional values related to positive replacement values for interest rate contracts (OTC swaps) were reduced by CHF 1,397 billion. Notional values related to negative replacement values for interest rate contracts (OTC swaps) were reduced by CHF 1,399 billion. Correspondingly, Other notional values were increased by CHF 2,796 billion. 8 In 2012, the presentation of notional values of exchange traded daily-margined options was changed. Notional values related to these instruments are now reported on the disclosure line options. Previously, notional values related to these instruments were reported on the disclosure line futures. The comparative period was restated for this change. As a result, other notional values for exchange traded interest rate contracts – options for 31 December 2011 were changed from CHF 0.0 billion to CHF 526.2 billion, with a corresponding decline to other notional values for exchange traded interest rate contracts – futures. Similarly, other notional values for exchange traded equity/index contracts – options for 31 December 2011 were changed from CHF 0.0 billion to CHF 4.1 billion, with a corresponding decline to other notional values for exchange traded equity index contracts – futures. Lastly, other notional values for exchange traded commodities contracts – options for 31 December 2011 were changed from CHF 0.0 billion to CHF 0.6 billion, with a corresponding decline to other notional values for exchange traded commodities contracts – futures. 9 Notional values of exchange-traded agency transactions are not disclosed due to their significantly different risk profile. 10 Changes in the fair value of purchased and sold non-derivative financial assets between trade date and settlement date are recognized as replacement values. 11 Includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking law.

The maturity profile of OTC interest rate contracts held as of 31 December 2012, based on notional values, is as follows: approximately 37% (2011: 42%, 2010: 45%) mature within one year, 38% (2011: 35%, 2010: 33%) within 1 to 5 years and 25% (2011: 23%, 2010: 22%) over 5 years. Notional values of interest rate contracts cleared with The London Clearing House are presented under "other notional values" and are categorized into maturity buckets on the basis of contractual maturities of the cleared underlying derivative contracts.

Derivatives transacted for trading purposes

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify, or reduce, current or expected risks. Trading activities include market making to directly support the facilitation and execution of client activity. Market making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume.

Credit derivatives

UBS is an active dealer in the fixed income market, including CDSs and related products, with respect to a large number of issuers' securities. The primary purpose of these activities is for the benefit of UBS's clients through market making activities and for the ongoing hedging of trading book exposures.

Market making activity consists of buying and selling single-name CDSs, index CDSs, loan CDSs and related referenced cash instruments to facilitate client trading activity. UBS also actively

Note 25 Derivative instruments and hedge accounting (continued)

utilizes CDSs to economically hedge specific counterparty credit risks in its accrual loan portfolio and off-balance sheet loan portfolio (including loan commitments) with the aim of reducing concentrations in individual names, sectors or specific portfolios.

➔ **Refer to "Note 13 Financial assets designated at fair value"**

➔ **Refer to "Note 20 Financial liabilities designated at fair value"**

➔ **Refer to "Note 29c Maximum exposure to credit risk"**

In addition, UBS actively utilizes CDSs to economically hedge specific counterparty credit risks in its OTC derivative portfolios including financial instruments which are designated at fair value through profit or loss. During the fourth quarter of 2012, UBS announced an Investment Bank strategy change which resulted in a focus on certain types of client facilitation business and resulted in reduced market making activity. As a result, CDS activity became increasingly used for economic hedging purposes.

The tables below provide further details on credit protection bought and sold, including replacement and notional value information by instrument type and counterparty type. The value of protection bought and sold is not, in isolation, a measure of UBS's credit risk. Counterparty relationships are viewed in terms of the total outstanding credit risk, which relates to other instruments in addition to CDSs, and in connection with collateral arrangements in place. On a notional value basis, credit protection bought and sold as of 31 December 2012 matures in a range of approximately 22% (2011: 18%) within one year, approximately 69% (2011: 69%) within 1 to 5 years and approximately 8% (2011: 13%) after 5 years.

Credit derivatives – by type of instrument

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Single name credit default swaps	14.7	11.0	813.8	11.1	13.1	781.7
Multi-name index linked credit default swaps	6.1	1.5	376.7	2.7	6.0	369.4
Multi-name other credit default swaps	0.8	1.2	17.7	1.0	1.2	13.7
Total rate of return swaps	0.4	0.3	4.2	0.0	0.1	1.5
Options and warrants	0.0	0.0	3.1	0.0	0.0	0.5
Total 31 December 2012	**21.9**	**13.9**	**1,215.5**	**14.8**	**20.4**	**1,166.7**
of which: credit derivatives related to economic hedges	*21.8*	*13.4*	*1,166.4*	*14.3*	*20.3*	*1,117.3*
of which: credit derivatives related to market making	*0.1*	*0.5*	*48.9*	*0.5*	*0.1*	*49.4*
Total 31 December 2011	63.2	2.9	1,392.6	4.0	60.5	1,322.5

Credit derivatives by counterparty

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Broker-dealers	5.1	3.0	255.4	3.1	5.5	254.7
Banks	12.8	10.1	752.3	10.8	13.8	741.3
Central clearing counterparties	0.0	0.0	132.6	0.0	0.0	106.3
Other	4.0	0.8	75.2	0.8	1.1	64.5
Total 31 December 2012	**21.9**	**13.9**	**1,215.5**	**14.8**	**20.4**	**1,166.7**
Total 31 December 2011	63.2	2.9	1,392.6	4.0	60.5	1,322.5

Note 25 Derivative instruments and hedge accounting (continued)

UBS's credit derivatives are usually traded as OTC contracts. Since 2009, in line with the broader derivatives industry, a number of initiatives have been launched in both the US and Europe to establish CCP solutions for OTC CDS contracts with the aim of reducing counterparty risk. UBS, along with other dealer members, has continued to participate in these initiatives during 2012.

A significant portion of UBS's credit derivatives are traded under an ISDA MTA between UBS and its counterparty. UBS's CDS trades are also documented using industry standard forms of documentation published by ISDA or equivalent terms documented in a bespoke (i.e. tailored) agreement. Those forms and agreements use standardized terms that form the basis for market conventions related to the types of credit events that would trigger performance (i.e. payment default, bankruptcy, etc. – see below) under a CDS. Those agreements and forms do not contain recourse provisions that would enable UBS to recover from third parties any amounts paid out by UBS (i.e. this is the case where a credit event occurs and UBS is required to make payment under a CDS).

The types of credit events that would require UBS to perform under a CDS contract are subject to agreement between the parties at the time of the transaction. However, nearly all transactions are traded using credit events that are applicable under certain market conventions based on the type of reference entity to which the transaction relates. Applicable credit events by market conventions include "bankruptcy", "failure to pay", "restructuring", "obligation acceleration" and "repudiation/moratorium".

Contingent collateral features of derivative liabilities

Certain derivative payables contain contingent collateral or termination features triggered upon a downgrade of the published credit rating of the Group in the normal course of business. Based on UBS's credit ratings as of 31 December 2012, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately CHF 2.9 billion, CHF 5.8 billion and CHF 6.0 billion would have been required in the event of a one-notch, two-notch and three-notch reduction, respectively, in UBS's long-term credit ratings, and a corresponding reduction in short-term ratings. In evaluating UBS's liquidity requirements, UBS considers additional collateral or termination payments that would be required in the event of a reduction in UBS's long-term credit ratings, and a corresponding reduction in short-term ratings.

Derivatives transacted for hedging purposes

Derivatives used for structural hedging

The Group enters into derivative transactions for the purposes of hedging risks inherent in assets, liabilities and forecast transactions. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies as such for accounting purposes.

Derivative transactions that qualify and are designated as hedges for accounting purposes are described under the corresponding headings in this note (fair value hedges, cash flow hedges and hedges of net investments in foreign operations). The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in Note 1a) 15), under which terms used in the following sections are explained.

The Group has also entered into various hedging strategies utilizing derivatives for which hedge accounting has not been applied. These include interest rate swaps and other interest rate derivatives (e.g. futures) for day-to-day economic interest rate risk management purposes. In addition, the Group has used equity futures, options and, to a lesser extent, swaps for economic hedging in a variety of equity trading strategies to offset underlying equity and equity volatility exposure. The Group has also entered into CDSs that provide economic hedges for credit risk exposures (refer to the credit derivatives section). Fair value changes of derivatives that are part of economic relationships, but do not qualify for hedge accounting treatment, are reported in Net trading income, except for forward points on short duration foreign exchange contracts which are reported in Net interest income.

Fair value hedges: interest rate risk related to debt issued

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments (e.g. long-term fixed-rate debt issued) due to movements in market interest rates. The fair values of outstanding interest rate derivatives designated as fair value hedges were assets of CHF 3,028 million as of 31 December 2012 and assets of CHF 2,422 million and liabilities of CHF 16 million as of 31 December 2011.

Fair value hedges of interest rate risk related to debt issued

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Gains / (losses) on hedging instruments	**537**	1,203	402
Gains / (losses) on hedged items attributable to the hedged risk	**(581)**	(1,172)	(383)
Net gains / (losses) representing ineffective portions of fair value hedges	**(44)**	31	19

Note 25 Derivative instruments and hedge accounting (continued)

Fair value hedges: portfolio interest rate risk related to loans

The Group also applies fair value hedge accounting to mortgage loan portfolio interest rate risk. The change in fair value of the hedged items is recorded separately from the hedged item and is included in Other assets on the balance sheet. The fair value of outstanding interest rate derivatives designated for these hedges as of 31 December 2012 were assets of CHF 1 million and liabilities of CHF 1,208 million (31 December 2011: liabilities of CHF 1,389 million).

Fair value hedge of portfolio of interest rate risk related to loans

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Gains / (losses) on hedging instruments	**139**	(461)	35
Gains / (losses) on hedged items attributable to the hedged risk	**(159)**	452	(60)
Net gains / (losses) representing ineffective portions of fair value hedges	**(20)**	(9)	(25)

Cash flow hedges of forecasted transactions

The Group is exposed to variability in future interest cash flows on non-trading financial assets, and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps, the maximum maturity of which is 16 years. The table below shows forecasted principal balances on which expected interest cash flows arise as of 31 December 2012. Amounts shown in the table below represent, by time bucket, average assets and liabilities subject to forecasted cash flows designated as hedged items in cash flow hedge accounting relationships.

As of 31 December 2012, the fair values of outstanding derivatives designated as cash flow hedges of forecasted transactions were CHF 7,764 million assets and CHF 3,046 million liabilities and as of 31 December 2011 the amounts were CHF 7,450 million assets and CHF 3,583 million liabilities. In 2012, a gain of CHF 158 million was recognized in Net trading income due to hedge ineffectiveness, compared with losses of CHF 38 million and CHF 22 million in 2011 and 2010, respectively.

At the end of 2012 and 2011, gains of CHF 3 million and CHF 7 million associated with de-designated interest rate swaps were deferred in OCI. They will be removed from OCI when the previously hedged forecasted cash flows affect net profit or loss, or when the forecasted cash flows are no longer expected to occur. Amounts reclassified from OCI to Net interest income relating to de-designated swaps was a CHF 4 million net gain in 2012, a CHF 11 million net gain in 2011 and a CHF 28 million net gain in 2010.

Principal balances subject to cash flow forecasts

CHF billion	< 1 year	1–3 years	3–5 years	5–10 years	over 10 years
Assets	80	173	54	28	2
Liabilities	26	62	14	6	0
Net balance	**54**	**111**	**41**	**22**	**2**

Note 25 Derivative instruments and hedge accounting (continued)

Hedges of net investments in foreign operations

With effect from fourth quarter 2011, the Group started to apply hedge accounting for certain net investments in foreign operations. As of 31 December 2012, the positive replacement values and negative replacement values of FX derivatives (mainly FX swaps) designated as hedging instruments in net investment hedge accounting relationships were CHF 103 million and CHF 45 million, respectively (31 December 2011: positive replacement values of CHF 10 million and negative replacement values of CHF 40 million). As of 31 December 2012, the underlying hedged structural exposures in several currencies amounted to CHF 4.8 billion (31 December 2011: CHF 4.8 billion). Hedges of structural FX exposures in currencies other than USD may be comprised of two jointly designated derivatives as the foreign currency risk may be hedged against USD first and then converted into Swiss francs, the presentation currency of the Group, as part of a separate FX derivative transaction. The aggregated notional amount of designated hedging derivatives as of 31 December 2012 was CHF 9.2 billion in total (31 December 2011: CHF 9.6 billion) including CHF 4.8 billion notional values related to USD versus CHF swaps and CHF 4.4 billion notional values related to derivatives hedging foreign currencies (other than USD) versus the USD. The effective portion of gains and losses of these FX swaps is transferred directly to OCI to offset foreign currency translation (FCT) gains and losses on the net investments in foreign branches and subsidiaries. As such, these FX swaps hedge the structural FX exposure resulting in the accumulation of FCT on the level of individual foreign branches and subsidiaries and hence on the total FCT OCI of the Group.

Also with effect from the fourth quarter 2011, UBS began to designate certain non-derivative foreign currency financial assets and liabilities of foreign branches or subsidiaries as hedging instruments in net investment hedge accounting arrangements. The FX translation difference recorded in FCT OCI of the non-derivative hedging instrument of one foreign entity offsets the structural FX exposure of another foreign entity. Therefore, the aggregated FCT OCI of the Group is unchanged from this hedge designation. As of 31 December 2012, the nominal amount of non-derivative financial assets and liabilities designated as hedging instruments in such net investment hedges was CHF 16.1 billion and CHF 16.1 billion, respectively (31 December 2011: CHF 16.9 billion non-derivative financial assets and CHF 16.9 billion non-derivative financial liabilities). No material ineffectiveness of hedges of net investments in foreign operations was recognized in the income statement in 2012 and 2011.

Undiscounted cash flows

The table below provides undiscounted cash flows of all derivative instruments designated in hedge accounting relationships. Interest rate swap cash flows include cash inflows and cash outflows of all interest rate swaps designated in hedge accounting relationships, which are either assets or liabilities of UBS as of 31 December 2012.

Derivatives designated in hedge accounting relationships (undiscounted cash flows)

CHF billion	On demand	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Interest rate swaps							
Cash inflows		0	0	3	10	3	17
Cash outflows		0	0	2	6	3	11
FX swaps / forwards							
Cash inflows		9					9
Cash outflows		9					9
Net cash flows	0	0	0	1	4	0	6

Note 26 Operating lease commitments

As of 31 December 2012, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions, as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options, nor do they impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The minimum commitments for non-cancellable leases of premises and equipment are presented as follows:

CHF million	**31.12.12**
Expenses for operating leases to be recognized in:	
2013	**808**
2014	**744**
2015	**664**
2016	**546**
2017	**539**
2018 and thereafter	**2,409**
Subtotal commitments for minimum payments under operating leases	**5,710**
Less: Sublease rental commitments under non-cancellable leases	**432**
Net commitments for minimum payments under operating leases	**5,278**

CHF million	**31.12.12**	31.12.11	31.12.10
Gross operating lease expense recognized in the income statement	**860**	837	1,057
Sublease rental income	**87**	84	97
Net operating lease expense recognized in the income statement	**773**	754	960

Note 27 Fair value of financial instruments

a) Valuation principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as held for trading or designated at fair value through profit or loss, and financial assets classified as available-for-sale are recognized in the financial statements at fair value. All derivatives are measured at fair value.

Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Fair value of a financial asset or financial liability in an active market is the current bid or offer price times the number of units of the instrument held. Where a trading portfolio contains both financial assets and financial liabilities with offsetting market risks, fair value is estimated by valuing the gross long and short positions at current mid-market prices, with an adjustment at the portfolio level to the net open long or short position to amend the valuation to bid or offer as appropriate.

Where the market for a financial instrument is not active, fair value is established using a valuation technique or pricing model. Valuation techniques and models involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model, liquidity and credit risks, which are not explicitly captured within the valuation technique or model, but are nevertheless a component of the market pricing for such products. Based on the established fair value and model governance policies and related controls and procedures applied, management believes that these valuation adjustments are a necessary and appropriate component of the valuation for financial instruments carried at fair value on the balance sheet.

When entering into a transaction where model inputs are not market observable, the financial instrument is initially recognized at the transaction price, which is generally the best indicator of fair value. This may differ from the value obtained from the valuation model. Refer to "Note 27d Deferred day 1 profit or loss" for more information. The timing of the recognition in profit and loss of this initial difference in fair value depends on the individual facts and circumstances of each transaction, but is never later than when the market data become observable.

Valuation techniques and pricing models

UBS uses widely recognized valuation techniques for determining fair values of less complex financial instruments. The most frequently applied valuation techniques and pricing models include discounted cash flow, relative value and option pricing models. Discounted cash flow models determine the value by estimating the expected future cash flows from assets or liabilities discounted to their present value. Relative value models determine the value based on the market prices of similar assets or liabilities. Option pricing models use probability-based techniques that include binomial and Monte Carlo pricing. For more complex instruments and instruments not traded in an active market, fair values may be estimated using a combination of observed transaction prices, consensus pricing services and relevant quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided from consensus pricing services. UBS also uses internally developed models, which are typically based on valuation methods and techniques generally recognized as standard within the industry.

Valuation models are used primarily to value derivatives transacted in the over-the-counter (OTC) market, unlisted equity and debt securities (including those with embedded derivatives), and other fair valued debt instruments for which markets were not active. Market-observable assumptions and inputs are used where available, and derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. Little, if any, weight is placed on transaction prices when calculating the fair value where the transactions are not orderly (i.e., distressed or forced). For positions where observable inputs are not available for some or all parameters, UBS determines these non-market-observable inputs to be used in its valuation models based on a combination of historical experience, derivation of parameter levels based upon similar products with observable price levels and knowledge of current market conditions and modeling approaches. Assumptions and inputs used in valuation techniques and models include benchmark interest rate curves, credit spreads and other premiums used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation.

The output of a model is always an estimate or approximation of a value that cannot be estimated with certainty. As a result, valuations are adjusted, where appropriate, to reflect close-out costs, credit exposure, model-driven-valuation adjustments, trading restrictions and other factors when such factors would be considered by market participants.

Interest rate curves

UBS uses various market-derived interest rate curves for valuing its financial instruments. The curves used for discounting cash flows in the valuation of the collateralized derivatives reflect the funding terms associated with the relevant collateral arrangement for the instrument in question. Financial liabilities designated at fair value are measured using UBS's funds transfer price curve. Financial assets designated at fair value are valued consistent with the curve used for the particular product. Uncollateralized credit exposure is evaluated under our credit risk control framework. For the valuation of uncollateralized derivative instruments, UBS generally employs a LIBOR flat curve.

Note 27 Fair value of financial instruments (continued)

Counterparty credit risk in the valuation of OTC derivative instruments, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments

In order to estimate fair value, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in OTC derivative instruments, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments. This amount represents the estimated market value of protection required to hedge counterparty credit risk from counterparties in UBS's OTC derivatives portfolio, derivatives embedded in funded assets designated at fair value and in traded debt instruments. CVA depends on expected future exposures, default probabilities and recovery rates, and also takes into consideration collateral or netting arrangements, break clauses and other contractual factors.

UBS's own credit risk in the valuations of OTC derivative instruments

The Group estimates debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives, predominately to align it with the CVA methodology as described in the preceding section. DVA represents the theoretical cost to counterparties of hedging their UBS credit risk exposure or the credit risk reserve that a counterparty could reasonably be expected to hold against their credit risk exposure to UBS. DVA takes into account collateral, netting agreements, expected future mark-to-market movements, and UBS's credit default spreads to determine the exposure from the perspective of the counterparty.

As of 31 December 2012 and 2011, respectively, CVA and DVA for derivative financial instruments (replacement values) were as follows:

CVA and DVA for derivative financial instruments

CHF billion	**31.12.12**	31.12.11
DVA		
Gain / (loss) for the year ended	**(0.4)**	0.2
Life-to-date gain / (loss)	**0.4**	0.8
CVA[1]		
Gain / (loss) for the year ended[2]	**1.1**	(0.8)
of which: Monoline credit protection – negative basis trades	***0.2***	*(0.3)*
of which: Monoline credit protection – other	***0.1***	*(0.1)*
of which: Other instruments	***0.8***	*(0.4)*
Life-to-date gain / (loss)	**(0.9)**	(2.9)
of which: Monoline credit protection – negative basis trades	***(0.3)***	*(1.3)*
of which: Monoline credit protection – other	***(0.1)***	*(0.2)*
of which: Other instruments	***(0.6)***	*(1.4)*

1 Amounts do not include reserves against defaulted counterparties. 2 Amounts do not include commutations.

Note 27 Fair value of financial instruments (continued)

UBS's own credit risk in the valuations of financial liabilities designated at fair value

The Group's own credit risk is reflected in the valuation of those financial liabilities designated at fair value, if the Group's own credit risk would be considered by market participants. Own credit effects are not reflected in the valuations of fully collateralized transactions and other instruments for which it is established market practice not to include them.

Own credit changes are calculated based on a funds transfer price (FTP) curve, which the Group uses to derive a single, market-based level of discounting for uncollateralized funded instruments. UBS senior debt curve spreads are discounted in order to arrive at the FTP curve, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS paper and the levels at which UBS medium-term notes (MTNs) are currently issued. The FTP curve is used by UBS to value uncollateralized funding transactions designated at fair value and is considered to be representative of UBS credit risk, reflecting the premium that market participants require to purchase UBS MTNs.

The effects of own credit adjustments related to *Financial liabilities designated at fair value* (predominantly issued structured products) as of 31 December 2012 and 2011, respectively, are summarized in the table below.

Own credit on financial liabilities designated at fair value

	As of or for the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Gain / (loss) for the year ended	**(2,202)**	1,537	(548)
of which: credit spread related only	***(2,338)***	*1,526*	*(471)*
Life-to-date gain / (loss)	**(292)**	1,934	237

Year-to-date amounts represent the change during the year and life-to-date amounts reflect the cumulative change since initial recognition. The change in own credit for the period can be analyzed in two components: (1) changes in fair value that are attributable to the change in UBS's credit spreads during the period, and (2) the effect of volume changes, which is the change in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay, changes in interest rates and changes in the value of referenced instruments issued by third parties. Own credit amounts are also impacted by foreign currency movements.

During 2012, we improved our own credit calculation methodology through system changes that enabled us to produce a more refined estimate of the impact of changes in our credit curve spread since issuance. The improved methodology compares the current valuation of the instrument using current market data with the valuation using the same current market data but the trade date FTP curve, either on a risk based or full revaluation basis. Previously, the current impact of the full FTP spread over LIBOR was compared with the unamortized impact of the full FTP spread at trade date. This methodology change resulted in an own credit gain on financial liabilities designated at fair value of CHF 217 million. Valuation methodologies and systems used across the market to estimate the own credit effects for both derivatives and financial liabilities designated at fair value continue to evolve. As such, we expect further enhancements to our own credit calculation going forward.

As of 31 December 2012, a 1 basis point increase in the UBS credit spread over LIBOR is expected to result in an own credit gain of approximately CHF 15.6 million.

Reflection of market liquidity risk in fair value estimates

Fair value estimates incorporate the effects of market liquidity risk in the relevant markets. Market liquidity risk is the risk that a loss is incurred in neutralizing the exposure to a position or of a portfolio by either liquidating the position or portfolio or establishing an offsetting market risk position. A liquidity adjustment is therefore made to provide for the expected cost of covering open market risk exposure within a portfolio or position. Liquidity adjustments are bid/offer adjustments taken where a net open risk position is retained and the model on which it is valued is calibrated to mid market. Valuations based on models incorporate liquidity or risk premiums either implicitly (e.g., by calibrating to market prices that incorporate such premiums) or explicitly.

Reflection of model uncertainty in fair value estimates

Uncertainties associated with the use of model-based valuations are incorporated into the estimate of fair value through the use of model reserves. These reserves reflect the amounts that UBS estimates are appropriate to deduct from the valuations produced directly by the models to reflect uncertainties in the relevant modeling assumptions, inputs used, calibration of the output, or choice of model. In arriving at these estimates, UBS considers a range of market practices and how it believes other market participants would assess these uncertainties. Model reserves are periodically reassessed in light of information from market transactions, consensus pricing services, and other relevant sources.

Valuation processes

UBS's fair value and model governance structure includes numerous controls and procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products must be reviewed and approved by all stakeholders relevant to risk and financial control. Responsibility for the ongoing measurement of financial instruments at fair value resides with the business, but is independently validated by risk and financial control functions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market information and to provide justification and rationale for their fair value estimates. Independent price verification of financial instruments measured at fair value is undertaken by the product control function, which is independent from the businesses. The objective of the independent-price-verification process is to independently corroborate the business's estimates of fair value against available market information. By benchmarking the business's fair value estimates with observable market prices or other independent sources, the degree of valuation uncertainty embedded in these measurements can be assessed and managed as required in the governance framework. A critical aspect of the independent-price-verification process is the evaluation of the accuracy of modeling approaches and input assumptions which yield fair value estimates derived from valuation models. The output of modeling approaches is compared to observed prices and market levels for the specific instrument being priced if possible and appropriate. This calibration analysis is performed to assess the ability of the model and its inputs (which are frequently based upon a combination of price levels of observable hedge instruments and difficult to observe parameters) to price a specific product in its own specific market. An independent model review group evaluates UBS's valuation models on a regular basis or if specific triggers occur and approves them for valuing specific products. As a result of the valuation controls employed, valuation adjustments may be made to the business's estimate of fair value to either align with independent market information or financial accounting standards.

Note 27 Fair value of financial instruments (continued)

b) Fair value hierarchy

All financial instruments at fair value are categorized into one of three fair value hierarchy levels at year-end, based upon the lowest level input that is significant to the product's fair value measurement in its entirety:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – valuation techniques for which all significant inputs are market observable, either directly or indirectly; and
- Level 3 – valuation techniques which include significant inputs that are not based on observable market data.

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

	31.12.12				31.12.11			
CHF billion	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading[2]	91.3	46.8	5.7	143.8	99.4	55.7	7.8	162.8
of which: assets pledged as collateral which may be sold or repledged by counterparties	*38.7*	*5.8*	*0.2*	*44.7*	*33.2*	*6.2*	*0.5*	*39.9*
Positive replacement values	2.9	407.0	8.1	418.0	3.4	469.2	13.9	486.6
of which:								
Interest rate contracts	*0.0*	*267.3*	*0.4*	*267.8*	*0.4*	*294.9*	*0.9*	*296.2*
Credit derivative contracts	*0.0*	*33.0*	*3.6*	*36.7*	0.0	*58.4*	*8.8*	*67.3*
Foreign exchange contracts	*0.3*	*92.0*	*1.2*	*93.5*	*0.4*	*94.8*	*2.0*	*97.2*
Equity/index contracts	*2.2*	*10.9*	*2.9*	*15.9*	*2.6*	*14.2*	*2.2*	*19.1*
Commodities contracts	*0.1*	*3.8*	*0.0*	*3.8*	*0.0*	*6.9*	*0.0*	*6.9*
Financial assets designated at fair value	0.1	4.1	4.9	9.1	0.7	6.9	2.7	10.3
Financial investments available-for-sale	48.5	16.9	0.9	66.4	34.8	17.7	0.6	53.2
Total assets	142.8	474.9	19.7	637.3	138.4	549.5	25.0	712.9
Trading portfolio liabilities	28.6	5.4	0.2	34.2	30.4	8.4	0.6	39.5
Negative replacement values	2.9	385.7	6.5	395.1	3.5	459.1	10.8	473.4
of which:								
Interest rate contracts	*0.0*	*241.1*	*0.4*	*241.5*	*0.4*	*275.7*	*0.3*	*276.5*
Credit derivative contracts	*0.0*	*31.0*	*3.3*	*34.3*	0.0	*56.3*	*7.1*	*63.4*
Foreign exchange contracts	*0.3*	*96.7*	*1.5*	*98.5*	*0.4*	*103.6*	*2.3*	*106.3*
Equity/index contracts	*2.2*	*12.9*	*1.3*	*16.4*	*2.7*	*16.5*	*0.9*	*20.1*
Commodities contracts	*0.1*	*3.9*	*0.0*	*4.0*	*0.0*	*6.9*	*0.1*	*7.0*
Financial liabilities designated at fair value	0.0	78.2	14.7	92.9	0.0	76.9	12.1	89.0
Other liabilities – amounts due under unit-linked investment contracts	0.0	15.3	0.0	15.3	0.0	16.4	0.0	16.4
Total liabilities	31.4	484.7	21.4	537.4	34.0	560.8	23.5	618.2

1 Bifurcated embedded derivatives, which are presented on the same balance sheet lines as their host contracts, are excluded from this table. As of 31 December 2012, net bifurcated embedded derivative assets held at fair value, totaling CHF 0.2 billion (of which CHF 0.4 billion were net level 3 assets and CHF 0.1 billion net level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 December 2011, net bifurcated embedded derivative assets held at fair value, totaling CHF 1.0 billion (of which CHF 0.8 billion were net level 3 assets and CHF 0.2 billion net level 2 assets), were recognized on our balance sheet within Debt issued. 2 Financial assets held for trading do not include precious metals and commodities.

Transfers between level 1 and level 2 in the fair value hierarchy

Trading assets and liabilities totaling approximately CHF 6.2 billion and CHF 4.1 billion, respectively, were transferred from level 2 to level 1 during 2012. These transfers mainly related to debt instruments and were largely driven by improvements in the Eurozone government debt markets.

Financial investments available-for-sale of approximately CHF 3.6 billion were transferred from level 2 to level 1 during 2012, also driven by improvements in the Eurozone government debt markets.

Trading assets of approximately CHF 4.7 billion and trading liabilities of approximately CHF 1.7 billion were transferred from level 1 to level 2 during 2012. These transfers mainly related to debt instruments where volumes and frequency of trades declined below the thresholds of an active market, as defined in UBS's valuation governance principles.

Note 27 Fair value of financial instruments (continued)

Movements of level 3 instruments

CHF billion	Financial assets held for trading[1]	Financial assets designated at fair value	Derivative instruments: Positive replacement values	Derivative instruments: Negative replacement values	Financial liabilities designated at fair value
Balance as of 31 December 2010	**10.8**	**0.5**	**12.4**	**10.4**	**14.0**
Total gains/losses included in the income statement	**(0.4)**	**0.0**	**1.9**	**0.7**	**(0.5)**
Net trading income	(0.6)	0.0	1.9	0.7	(0.5)
Other	0.2	0.0	0.0	0.0	0.1
Purchases, sales, issuances and settlements	**(2.2)**	**2.1**	**(1.1)**	**(0.5)**	**0.4**
Purchases	2.5	0.0	0.0	0.0	0.0
Sales	(4.7)	0.0	0.0	0.0	0.0
Issuances	0.0	2.3	3.3	1.7	5.2
Settlements	0.0	(0.2)	(4.4)	(2.2)	(4.8)
Transfers into or out of level 3	**(0.4)**	**0.1**	**0.6**	**0.1**	**(2.0)**
Transfers into level 3	1.0	0.1	1.7	1.3	1.8
Transfers out of level 3	(1.4)	0.0	(1.1)	(1.2)	(3.8)
Foreign currency translation	0.1	0.0	0.1	0.1	0.0
Balance as of 31 December 2011	**7.8**	**2.7**	**13.9**	**10.8**	**12.1**
Balance as of 31 December 2011	**7.8**	**2.7**	**13.9**	**10.8**	**12.1**
Total gains/losses included in the income statement	**(1.1)**	**0.1**	**(2.9)**	**(1.3)**	**1.4**
Net trading income	(1.1)	0.1	(2.9)	(1.3)	1.9
of which: related to level 3 instruments held at the end of the reporting period	*(0.3)*	*0.0*	*(1.2)*	*(0.3)*	*1.1*
Other	0.0	0.0	0.0	0.0	(0.4)
of which: related to level 3 instruments held at the end of the reporting period	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Purchases, sales, issuances and settlements	**(0.1)**	**1.7**	**(2.2)**	**(2.8)**	**0.0**
Purchases	1.0	0.0	0.0	0.0	0.0
Sales	(7.2)	0.0	0.0	0.0	0.0
Issuances	6.1	2.7	1.2	1.1	5.9
Settlements	0.0	(1.0)	(3.4)	(3.9)	(6.0)
Transfers into or out of level 3	**(0.5)**	**0.6**	**(0.1)**	**0.4**	**0.6**
Transfers into level 3	2.4	0.6	2.1	2.7	5.9
Transfers out of level 3	(3.0)	0.0	(2.3)	(2.3)	(5.3)
Foreign currency translation	(0.3)	(0.3)	(0.5)	(0.5)	0.6
Balance as of 31 December 2012	**5.7**	**4.9**	**8.1**	**6.5**	**14.7**

1 Includes assets pledged as collateral which may be sold or repledged by counterparties.

Note 27 Fair value of financial instruments (continued)

Material changes in level 3 instruments

As of 31 December 2012, financial instruments measured with valuation techniques using significant non-market observable inputs (level 3) mainly included the following:

- structured rates and credit positions, including bespoke collateralized debt obligations (CDO) and collateralized loan obligations (CLO);
- reference-linked notes (RLN);
- financial instruments linked to the US and European residential and US and non-US commercial real estate markets;
- corporate bonds and corporate credit default swaps (CDS); and
- lending-related products.

The significant movements in level 3 instruments during the year ended 31 December 2012 are described below.

Financial assets held for trading

Financial assets held for trading decreased from CHF 7.8 billion to CHF 5.7 billion during the year. Sales of CHF 7.2 billion, consisting mainly of commercial mortgage loans, commercial loans, corporate bonds, US subprime super senior CDO and non-US RLN, were partially offset by issuances of CHF 6.1 billion, which were primarily comprised of commercial mortgage loans and commercial loans, and purchases of CHF 1.0 billion, mainly corporate bonds. Total net losses included in the income statement were CHF 1.1 billion. Transfers into and out of level 3 during the period amounted to CHF 2.4 billion and CHF 3.0 billion, respectively. Transfers into level 3 were comprised primarily of corporate bonds and commercial loans due to the reduced observability of credit spread inputs. Transfers out of level 3 were comprised primarily of corporate bonds due to an improvement in the availability of observable credit spread data, equity related products as a reduction in instrument maturity moved volatility and dividend model inputs into tenors for which a hedge market was observable, and CMBS CDO as the availability of market-based price information improved confidence around discount margin and pricing inputs.

Financial assets designated at fair value

Financial assets designated at fair value increased from CHF 2.7 billion to CHF 4.9 billion, mainly due to the issuance of CHF 2.7 billion of structured financing trades and transfers into level 3 of CHF 0.6 billion. These increases were partially offset by settlements, which were comprised mainly of structured financing trades totaling CHF 1.0 billion.

Positive replacement values

Positive replacement values decreased from CHF 13.9 billion to CHF 8.1 billion during the year as issuances of CHF 1.2 billion, primarily comprised of structured credit positions, were more than offset by settlements of CHF 3.4 billion, which were comprised primarily of structured credit positions, corporate CDS and US subprime super senior CDO. Net trading losses included in the income statement were CHF 2.9 billion. Transfers into and out of level 3 were CHF 2.1 billion and CHF 2.3 billion, respectively, and were comprised primarily of corporate CDS, structured rates positions and structured credit bespoke CDO, resulting from changes in the availability of observable inputs for credit spread and rates volatility data and changes in the correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Negative replacement values

Negative replacement values decreased from CHF 10.8 billion to CHF 6.5 billion during the year primarily due to settlements of CHF 3.9 billion, which mainly included structured credit positions, corporate CDS and CMBS CDO, and net trading gains of CHF 1.3 billion. This decrease was partially offset by issuances of structured credit positions totaling CHF 1.1 billion. Transfers into and out of level 3 amounted to CHF 2.7 billion and CHF 2.3 billion, respectively, and were comprised primarily of structured credit bespoke CDO, corporate CDS, index tranche CDS, structured rates and structured credit positions, resulting from changes in the availability of observable inputs for credit spread and rates volatility data and changes in the correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Financial liabilities designated at fair value

Financial liabilities designated at fair value increased from CHF 12.1 billion to CHF 14.7 billion during the year due to issuances of CHF 5.9 billion, which were comprised primarily of structured financing trades, credit- and interest rate-linked notes, net losses of CHF 1.4 billion and foreign currency movements of CHF 0.6 billion. These increases were partially offset by settlements of CHF 6.0 billion, comprised primarily of structured financing trades and credit- and equity-linked notes. Transfers into and out of level 3 amounted to CHF 5.9 billion and CHF 5.3 billion, respectively. Transfers into level 3 consisted primarily of equity- and interest rate-linked notes as a reduction in observable volatility inputs impacted the embedded options in these structures. Transfers out of level 3 consisted primarily of credit-, equity- and interest rate-linked notes and were driven in part by a reduction over time of the maturity of the underlying notes such that volatility inputs became observable, and also by improved observability of credit spread, equity and rate volatility and equity dividend inputs.

Note 27 Fair value of financial instruments (continued)

Sensitivity information

Included in the fair value estimates of financial instruments carried at fair value on the balance sheet are financial instruments for which fair value is estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices, rates, or other inputs. Consequently, there may be uncertainty about a valuation which results from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or from other elements affecting the valuation technique or model.

To estimate the effect of changing the unobservable inputs to a reasonably possible alternative assumption, UBS performed a sensitivity analysis on its level 3 financial instruments, which are measured using valuation techniques, and for which significant inputs are unobservable in the markets in which the underlying products are transacted. The fair values of these financial instruments were adjusted by zero to 25 percent. These adjustments were determined by product type based on the professional judgment of control functions, which perform procedures to establish the reasonableness of UBS's valuation assertions as of the balance sheet date.

Cash instruments referred to in the below table relate to long and short inventory, if applicable, for the respective product type. For presentation purposes, derivative instruments in the table below include positive and negative replacement values, as well as issued notes with embedded equity- or interest-rate derivative features, which are presented on UBS's balance sheet as financial assets or liabilities designated at fair value. For all instruments, favorable changes are increases to asset values and decreases to liability values as a consequence of applying the relevant sensitivity percentage. Unfavorable changes are decreases in asset values and increases in liability values as a consequence of applying the relevant sensitivity percentage for the respective financial instruments.

Sensitivity of level 3 financial assets and liabilities

	31.12.12		31.12.11	
CHF billion	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Cash instruments				
Mortgage securities	0.1	(0.1)	0.3	(0.3)
Debt securities	0.2	(0.2)	0.2	(0.2)
Equity securities	0.1	(0.1)	0.0	0.0
Traded loans	0.2	(0.2)	0.1	(0.1)
Total cash instruments	0.6	(0.6)	0.6	(0.6)
Derivative instruments				
Equity derivatives [1]	0.3	(0.3)	0.3	(0.3)
Interest rate derivatives	0.1	(0.1)	0.3	(0.3)
Credit derivatives	0.2	(0.2)	0.5	(0.5)
Total derivative instruments	0.6	(0.6)	1.1	(1.1)

1 Includes UBS's option to acquire the equity of the SNB StabFund. In 2011, this option was presented in Derivative instruments – other. The prior period was restated for this change in presentation.

Note 27 Fair value of financial instruments (continued)

c) Valuation techniques by product

This section includes a description of main product categories and related valuation techniques employed by UBS.

Government and corporate bonds, bills and loans

Government bonds and bills are generally actively traded with quoted prices in liquid markets. Should market prices not be available, the securities are valued against yield curves implied from similar issuances.

Corporate bonds are priced at market levels, which are based on recent trades or broker and dealer quotes. In cases where no directly comparable price is available, the bonds are tested against yields derived from other securities by the same issuer or benchmarked against similar securities adjusting for seniority, maturity and liquidity. For illiquid securities, credit modeling may be used, which considers the features of the security and discounts cashflows using observable or implied credit spreads and prevailing interest rates.

Loans held at fair value are priced at market levels reflecting recent transactions or quoted dealer prices. For illiquid loans where no market price is available, alternative valuation techniques are used which may include relative value benchmarking using pricing derived from debt instruments for comparable entities or different products in the same entity.

The corporate lending portfolio is valued using either directly observed market prices typically from consensus providers or a credit-default-swap pricing model, which requires credit spreads, recovery and interest rate inputs.

Equity securities, hedge fund and investment fund units, convertible bonds and derivatives

The majority of the Group's equity securities are traded on public stock exchanges where quoted prices are readily and regularly available.

Hedge funds are measured at fair value based on their published net asset values (NAV), considering the availability of NAV from the funds or restrictions imposed upon the redemption of these funds.

Convertible bonds are mostly valued using observable pricing sources, which are generally available given the frequency of trading in the market.

Investment fund units are predominantly exchange traded, with quoted prices in liquid markets. Should market prices not be available, these instruments may be valued based on their NAV.

UBS has positions in both exchange-traded derivatives (ETD) and OTC derivatives. ETD derivatives generally have observable prices and UBS considers these market prices within the fair value assessment. OTC derivatives are measured using either industry standard models or internally developed proprietary models. Inputs to these models include equity prices, equity dividend and funding rates, equity volatilities, FX rates and correlations.

Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Asset-Backed Securities (ABS) and Collateralized Debt Obligations (CDO)

Values of RMBS, CMBS, ABS and CDOs are estimated by reference to traded prices and independently verified market data when available. In the absence of direct market data, values are derived from traded and quoted prices on one or more securities with similar characteristics or indices through benchmarking or triangulation.

Securities with plain vanilla features, but limited observable market data are valued using industry standard valuation models, while those with complex structures are valued using proprietary models and fundamental analysis. Key inputs to such models include management's quantitative and qualitative assessment of current and future economic conditions, the securities' projected performance under such conditions as well as liquidity in the market, among other factors.

Credit derivatives related to RMBS, CMBS, ABS and CDO

Credit derivatives include credit default swaps, total return swaps and balance guaranteed swaps either referencing an index, single-name securities or a basket of single-name securities. Single-name contracts are primarily priced using reliable market data or are derived from traded and quoted securities prices on similar exposures in order to estimate fair value. More illiquid and bespoke credit derivatives are valued using proprietary models and inputs to such models are derived from market data and calibration to similar transactions, reference indices and securities.

Credit derivatives

Single-name, index and portfolio credit default swaps, and any derivation or combination which can be classified as complex structured credit products are valued using market available credit spreads and recovery rates from either consensus pricing services or other market participants. This data is fed into industry-standard models in order to derive fair value.

Complex structured credit products are valued using proprietary models, which are calibrated to market-derived data. Inputs to these models include single-name credit spreads, recovery rates, implied correlations, credit volatilities, cash-synthetic basis spreads and quanto basis spreads.

Interest rate swaps and forwards

OTC swap products include interest rate swaps, basis swaps, cross currency swaps, inflation swaps and interest rate forwards, often referred to as forward rate agreements (FRA). All of these products are valued by estimating future interest cash flows (both fixed and future index levels) and then discounting these cash flows using an interest rate that reflects the appro-

Note 27 Fair value of financial instruments (continued)

priate funding rate for that portion of the portfolio. Interest rates and future index levels used in the respective calculations are generated from observing current market interest rates associated with typical interest rate derivatives (considering swap rates, basis swap spreads, futures prices and FRA rates) and converting these into rates specific to the portfolio using market standard yield curve models.

Interest rates options

Interest rate caps and floors, swaptions and other more complex non-linear interest-rate products are valued using market standard option models. These models use inputs that include (but are not limited to) interest rate yield curves, inflation curves, interest rates volatilities, FX rate volatilities, inflation volatilities and correlations (between different interest rates or between rates and FX or inflation). The models are calibrated to recover market-observed prices for standard option instruments trading within the market and the calibrated model is then used to revalue the portfolio.

FX options

OTC options on FX rates are valued using market standard option models. Inputs to these models include (but are not limited to) FX spot rates, FX forward points, FX volatilities, interest rate yield curves and correlations between FX rates and interest rates. The models are calibrated to recover market-observed prices for standard option instruments trading within the market and the calibrated model is then used to revalue the portfolio.

FX spot and forward

Open spot and settled FX positions are valued using the observed market FX spot rate. Forward FX positions are valued using the spot rate adjusted for forward pricing points observed from standard market sources.

➔ **Refer to the "Risk, treasury and capital management" section of this report for more information on certain financial instruments with significant valuation uncertainty (CVA on monolines, US and non-US reference-linked notes, and the option to acquire equity of the SNB StabFund)**

d) Deferred day-1 profit or loss

The table reflects the activity in deferred profit or loss for financial instruments for which fair value is estimated using valuation models when not all significant inputs are market observable. Such financial instruments are initially recognized at their transaction price, even if the values obtained from the relevant valuation model on day 1 differ. Day 1 reserves are released and gains or losses are recorded in *Net trading income* when product equivalent quotes become available or the underlying parameters become observable, the transaction is closed out or using an appropriate amortization methodology. The following table shows the aggregate difference yet to be recognized in the income statement at the beginning and end of the period and a reconciliation of changes during the period.

Deferred day 1 profit or loss

	For the year ended	
CHF million	**31.12.12**	31.12.11
Balance at the beginning of the year	**433**	565
Deferred profit / (loss) on new transactions	**424**	221
Recognized (profit) / loss in the income statement	**(367)**	(354)
Foreign currency translation	**(16)**	1
Balance at the end of the year	**474**	433

As of 31 December 2012, deferred day 1 profit of CHF 0.5 billion primarily consisted of CHF 0.2 billion related to OTC equity options (31 December 2011: CHF 0.3 billion), CHF 0.1 billion related to credit default swaps (31 December 2011: CHF 0.1 billion) and CHF 0.1 billion related to interest rate swaps (31 December 2011: CHF 0.1 billion).

Note 27 Fair value of financial instruments (continued)

e) Financial instruments accounted for at amortized cost

The following table reflects the estimated fair values for UBS's instruments accounted for at amortized cost. Refer to Note 29 for an overview of financial assets classified as "loans and receivables" and financial liabilities accounted for at amortized cost.

Financial instruments accounted for at amortized cost

	31.12.12		31.12.11	
CHF billion	**Carrying value**	**Fair value**	Carrying value	Fair value
Assets				
Cash and balances with central banks	**66.4**	**66.4**	40.6	40.6
Due from banks	**21.2**	**21.2**	23.2	23.2
Cash collateral on securities borrowed	**37.4**	**37.4**	58.8	58.8
Reverse repurchase agreements	**130.9**	**131.1**	213.5	213.3
Cash collateral receivables on derivative instruments	**30.4**	**30.4**	41.3	41.3
Loans	**279.9**	**282.9**	266.6	268.2
Accrued income, other assets	**12.1**	**12.1**	10.2	10.2
Liabilities				
Due to banks	**23.0**	**23.1**	30.2	30.2
Cash collateral on securities lent	**9.2**	**9.2**	8.1	8.1
Repurchase agreements	**37.6**	**37.6**	102.4	102.4
Cash collateral payables on derivative instruments	**71.1**	**71.1**	67.1	67.1
Due to customers	**371.9**	**371.9**	342.4	342.4
Debt issued	**104.9**	**107.8**	141.6	140.6
Accrued expenses, other liabilities	**45.0**	**45.0**	47.2	47.2
Guarantees / Loan commitments				
Guarantees[1]	**0.1**	**(0.1)**	0.1	0.1
Loan commitments[2]	**0.0**	**0.3**	0.0	0.7

1 The carrying value of guarantees represents a liability of CHF 0.1 billion as of 31 December 2012 and 31 December 2011, respectively. The estimated fair value of guarantees represents an asset of CHF 0.1 billion as of 31 December 2012 and a liability of CHF 0.1 billion as of 31 December 2011. 2 The carrying value of loan commitments represents a liability of CHF 0.0 billion as of 31 December 2012 and 31 December 2011, respectively. The estimated fair value of loan commitments represents a liability of CHF 0.3 billion as of 31 December 2012 and a liability of CHF 0.7 billion as of 31 December 2011.

Loans include Wealth Management and Retail & Corporate assets, mainly mortgage loans, where fair values exceeded related carrying values by CHF 3.8 billion as of 31 December 2012 (31 December 2011: CHF 3.4 billion), and Legacy Portfolio assets reported in Corporate Center where fair values were below related carrying values by CHF 0.6 billion as of 31 December 2012 (31 December 2011: CHF 1.5 billion).

The fair values included in the table above were calculated for disclosure purposes only. The fair value valuation techniques and assumptions described below relate only to fair value of UBS's financial instruments accounted for at amortized cost. Other institutions may use different methods and assumptions for their fair value estimation, therefore, such fair value disclosures cannot necessarily be compared from one financial institution to another. UBS applies significant judgments and assumptions to arrive at these fair values, which are more holistic and less sophisticated than UBS's established fair value and model governance policies and processes applied to financial instruments accounted for at fair value whose fair values impact UBS's balance sheet and net profit. The following principles were applied when determining fair value estimates for financial instruments accounted for at amortized cost:

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, if available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS's own credit.
- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value. The following financial instruments accounted for at amortized cost have remaining maturities of three months or less: 100% of cash and balances with central

Note 27 Fair value of financial instruments (continued)

banks; 82% of amounts due from banks; 98% of cash collateral on securities borrowed; 95% of reverse repurchase agreements; 100% of cash collateral receivables on derivatives; 51% of loans; 88% of amounts due to banks; 93% of cash collateral on securities lent; 93% of repurchase agreements; 100% of cash collateral payable on derivatives; 98% of amount due to customers; and 21% of debt issued.

– The fair value of variable interest-bearing financial instruments accounted for at amortized cost is assumed to be approximated by their carrying amounts, which are net of credit loss allowances, and does not reflect fair value changes in the credit quality of counterparties or UBS's own credit movements.
– The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments have not been included in the valuation due to the short-term nature of these instruments.
– The estimated fair values of off-balance sheet financial instruments are based on market prices for similar facilities and guarantees. Where this information is not available, fair value is estimated using discounted cash flow analysis.

Note 28 Pledged and transferred financial assets

This Note provides information about assets pledged as collateral for liabilities or contingent liabilities (Note 28a), transfers of financial assets (Note 28b and 28c), and financial assets which are received as collateral with the right to resell or re-pledge these assets (Note 28d).

a) Financial assets pledged as collateral

The Group pledges financial assets mainly in securities lending transactions, in repurchase transactions, against loans from Swiss mortgage institutions, in connection with derivative transactions, as security deposits for stock exchanges and clearinghouse memberships, and in connection with the issuance of covered bonds.

Financial assets pledged as collateral for liabilities or contingent liabilities

	Carrying amount	
CHF million	**31.12.12**	31.12.11[1]
Trading portfolio assets	**53,656**	56,162
of which: assets pledged as collateral which may be sold or repledged by counterparties	***44,698***	*39,936*
Loans	**34,005**	27,884
of which: mortgage loans[2]	***33,928***	*27,841*
Total financial assets pledged as collateral[3]	**87,661**	84,047

1 Comparative data has been restated due to a change in the definition of financial assets pledged as collateral. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" for more information. 2 These pledged mortgage loans serve as collateral for existing liabilities against Swiss central mortgage institutions and for existing covered bond issuances. Of these pledged mortgage loans, approximately CHF 7.5 billion for 31 December 2012 (31 December 2011: approximately CHF 5.7 billion) could be withdrawn or used for future liabilities or covered bond issuances without breaching existing collateral requirements. 3 Does not include assets placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes (31 December 2012: CHF 4.8 billion, 31 December 2011: CHF 3.6 billion).

Note 28 Pledged and transferred financial assets (continued)

b) Transferred financial assets that are not derecognized in their entirety

The following table presents information for financial assets, which have been transferred but are subject to continued recognition in full, as well as recognized liabilities associated with those transferred assets.

Transferred financial assets subject to continued recognition in full

CHF million	31.12.12		31.12.11[1, 2]
	Carrying value of transferred assets	**Carrying value of associated liabilities recognized on-balance sheet**	Carrying value of transferred assets
Trading portfolio assets transferred which may be sold or repledged by counterparties			
relating to repurchase agreements in exchange for cash received	*8,305*	*8,287*	*15,481*
relating to securities lending agreements in exchange for cash received	*15,268*	*14,063*	*12,309*
relating to securities lending agreements in exchange for securities received	*18,258*	*0*	*10,248*
relating to other financial asset transfers	*2,868*	*152*	*1,899*
Total financial assets transferred	**44,698**	**22,502**	39,936

1 Comparative data has been restated due to a change in the definition of transferred financial assets. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" for more information.
2 The relationship between the carrying value of transferred assets and the associated liabilities as of 31 December 2011 was substantially the same as that in 2012.

Transactions whereby financial assets are transferred, but continue to be recognized in their entirety on UBS' balance sheet include securities lending and repurchase agreements as well as other financial asset transfers. Repurchase agreements and securities lending agreements are discussed in Notes 1a) 13) and 1a) 14). Repurchase and securities lending arrangements are, for the most part, conducted under standard market agreements, and are undertaken with counterparties subject to UBS's normal credit risk control processes. Other financial asset transfers include securities transferred to collateralize derivative transactions.

Approximately half of the transferred financial assets are trading portfolio assets transferred in exchange for cash, in which case the associated recognized liability represents the amount to be repaid to counterparties. For securities lending and repurchase agreements, a haircut between 0% and 15% is generally applied to the collateral, which results in associated liabilities having a carrying value below the carrying value of the transferred assets. The counterparties to the associated liabilities presented in the table above have full recourse to UBS.

In securities lending arrangements entered into in exchange for the receipt of other securities as collateral, neither the securities received nor the obligation to return them are recognized on UBS's balance sheet as the risks and rewards of ownership are not transferred to UBS. In cases where such financial assets received are subsequently sold or re-pledged in another transaction, this is not considered to be a transfer of financial assets.

Transferred assets other than trading portfolio assets which may be sold or repledged by counterparties were not material in 2012 and 2011.

Transferred financial assets that are not subject to derecognition in full, but which remain on the balance sheet to the extent of the Group's continuing involvement, were not material in 2012 and 2011.

Note 28 Pledged and transferred financial assets (continued)

c) Transferred financial assets that are derecognized in their entirety with continuing involvement

Continuing involvement in a transferred and fully derecognized financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the counterparty or a third party entered into in connection with the transfer. Such transactions include purchased call options on transferred financial assets, certain lending arrangements as well as interests purchased and retained upon the transfer of assets into securitization structures and special purpose entities. The table below provides information on the Group's continuing involvement in transferred and fully derecognized financial assets.

Transferred financial assets that are derecognized in their entirety with continuing involvement

CHF million	31.12.12					
					Gain/(loss) from continuing involvement in transferred and derecognized financial assets	
	Balance sheet line item	Carrying amount of continuing involvement	Fair value of continuing involvement	Gain/(loss) recognized at the date of transfer of the financial assets	For the year ended 31.12.12	Life-to-date
Type of continuing involvement						
Purchased call option	Positive replacement values	2,103	2,103	(1,003)	526	(2,256)
Lending arrangements	Loans	3,342	3,271	0	61	651
Purchased and retained interests in securitization structures	Trading portfolio assets / Replacement values	205	205	0	0	(1,701)
Total		**5,650**	**5,579**	**(1,003)**	**587**	**(3,306)**

There are a limited number of specific transactions for which UBS has continuing involvement in derecognized financial assets, as detailed below.

Purchased call option: UBS's option to acquire the SNB StabFund's equity

In 2008 and 2009, UBS transferred assets to a fund owned and controlled by the Swiss National Bank (SNB StabFund). The price at which the SNB StabFund purchased the assets from UBS was CHF 1.0 billion below the fair value at which these assets were held by UBS. The SNB has financed the fund with a loan in the amount of 90% of the purchase price, secured by the assets of the fund. 10% of the purchase price was financed through an equity contribution by the SNB. The loan is non-recourse to UBS. The fund and loan facility terminates in eight years from inception, but the termination date may be extended to 10 or 12 years. UBS has purchased, for an amount equal to the SNB's equity contribution, an option to acquire the fund's equity once the loan has been fully repaid. This option to acquire the SNB StabFund's equity represents a continuing involvement in the assets transferred to the fund, which is reflected in the table above. The option exercise price is USD 1 billion plus 50% of the amount by which the fund's equity value exceeds USD 1 billion at the time of exercise. This option is carried on UBS's balance sheet at fair value, which is also the maximum exposure to loss. In the event of a change of control of UBS, the SNB has the right, but not the obligation, to require UBS to purchase the loan the SNB provided to the SNB StabFund at its outstanding principal amount plus accrued interest and the fund's equity at 50% of its value at the time. If, upon the fund's termination, the SNB incurs a loss on the loan it has made to the fund, the SNB will be entitled to receive 100 million UBS ordinary shares against payment of the par value of those shares.

➔ **Refer to the "Risk, treasury and capital management" section for more information on UBS's option to acquire the SNB StabFund's equity**

Lending arrangements: loan to BlackRock fund

In 2008, UBS sold a portfolio of US RMBSs for proceeds of USD 15 billion to the RMBS Opportunities Master Fund, LP (the "RMBS fund"), a special purpose entity managed by BlackRock, Inc. The USD 15 billion proceeds were approximately in line with the fair value of the assets at the date of the transfer of the assets. The RMBS fund was capitalized with approximately USD 3.75 billion in equity raised by BlackRock from third-party investors and an eight-year amortizing USD 11.25 billion senior secured loan provided by UBS, which represents a continuing involvement in the assets transferred to the fund and is reflected in the table above. The maximum exposure to loss is equal to the carrying amount of loan to the RMBS fund.

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

Note 28 Pledged and transferred financial assets (continued)

Purchased and retained interests in securitization structures

In securitization structures where UBS has transferred assets into a third-party special purpose entity and retained or purchased interests therein, UBS has a continuing involvement in those transferred assets. The majority of our retained securitization positions held in the trading portfolio are collateralized debt obligations, US commercial mortgage-backed securities and residential mortgage-backed securities. As a result of losses incurred in previous years, the majority of these positions have a carrying amount of zero as of 31 December 2012. The maximum exposure to loss was CHF 0.3 billion as of 31 December 2012. Life-to-date losses presented in the table on the previous page only relate to retained interests held as of 31 December 2012.

d) Off-balance-sheet securities received

The following table presents the amounts of securities received from third parties that are not recognized on the balance sheet, but that are held as collateral, including amounts that have been sold or repledged.

Off-balance sheet securities received

CHF million	**31.12.12**	31.12.11
Fair value of securities received which can be sold or repledged	**400,150**	551,590
received as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions	***398,496***	*550,023*
received in unsecured borrowings	***1,654***	*1,567*
thereof sold or repledged as collateral for liabilities or contingent liabilities[1, 2]	**284,599**	365,087
in connection with financing activities	***224,361***	*298,645*
to satisfy commitments under short sale transactions	***34,154***	*39,480*
in connection with derivative and other transactions	***26,084***	*26,962*

1 Comparative data has been restated due to a change in the definition of financial assets pledged as collateral. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" for more information 2 Does not include off-balance sheet securities (31 December 2012: CHF 29.4 billion, 31 December 2011: CHF 27.4 billion) placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes for which there are no associated liabilities or contingent liabilities.

Note 29 Measurement categories of financial assets and financial liabilities

a) Measurement categories of financial assets and financial liabilities

The following table provides information about the carrying amounts of individual classes of financial instruments within the measurement categories of financial assets and financial liabilities as defined in IAS 39 *Financial instruments: recognition and measurement.* Only those assets and liabilities which are financial instruments as defined in IAS 32 *Financial instruments: presentation* are included in the table below, which causes certain balances to differ from those presented on the balance sheet.

➔ **Refer to "Note 27 Fair value of financial instruments" for more information on how fair value of financial instruments is determined**

CHF million	31.12.12	31.12.11
Financial assets[1]		
Held for trading		
Trading portfolio assets	**143,767**	162,821
of which: assets pledged as collateral which may be sold or repledged by counterparties	***44,698***	*39,936*
Debt issued[2]	**405**	1,149
Positive replacement values	**418,029**	486,584
Total	**562,201**	650,554
Fair value through profit or loss		
Financial assets designated at fair value	**9,106**	10,336
Financial assets at amortized cost		
Cash and balances with central banks	**66,383**	40,638
Due from banks	**21,230**	23,218
Cash collateral on securities borrowed	**37,372**	58,763
Reverse repurchase agreements	**130,941**	213,501
Cash collateral receivables on derivative instruments	**30,413**	41,322
Loans	**279,901**	266,604
Accrued income	**1,514**	1,464
Other assets	**10,545**	8,757
Total	**578,299**	654,267
Available-for-sale		
Financial investments available-for-sale	**66,383**	53,174
Total financial assets	**1,215,989**	1,368,331
Financial liabilities		
Held for trading		
Trading portfolio liabilities	**34,154**	39,480
Debt issued[2]	**172**	194
Negative replacement values	**395,070**	473,400
Total	**429,396**	513,074
Fair value through profit or loss, other		
Financial liabilities designated at fair value	**92,878**	88,982
Amounts due under unit-linked contracts	**15,346**	16,481
Total	**108,223**	105,462
Financial liabilities at amortized cost		
Due to banks	**23,024**	30,201
Cash collateral on securities lent	**9,203**	8,136
Repurchase agreements	**37,639**	102,429
Cash collateral payables on derivative instruments	**71,148**	67,114
Due to customers	**371,892**	342,409
Accrued expenses	**4,548**	6,646
Debt issued	**104,889**	141,572
Other liabilities	**40,473**	40,512
Total	**662,816**	739,019
Total financial liabilities	**1,200,435**	1,357,555

1 As of 31 December 2012, CHF 113 billion of Loans, CHF 0 billion of Due from banks, CHF 1 billion of Reverse repurchase agreements, CHF 29 billion of Financial investments available-for-sale and CHF 7 billion of Financial assets designated at fair value are expected to be recovered or settled after twelve months. As of 31 December 2011, CHF 118 billion of Loans, CHF 1 billion of Due from banks, CHF 1 billion of Reverse repurchase agreements, CHF 20 billion of Financial investments available-for-sale and CHF 8 billion of Financial assets designated at fair value were expected to be recovered or settled after twelve months. 2 Represents the embedded derivative component of structured debt issued for which the fair value option has not been applied. The amounts shown here as positive and negative replacement values are presented within Debt issued on the balance sheet.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

b) Reclassification of financial assets

In the fourth quarter of 2008 and the first quarter of 2009, financial assets with fair values on their reclassification dates of CHF 26 billion and CHF 0.6 billion, respectively, were reclassified out of *Trading portfolio assets* to *Loans.*

The reclassification of financial assets reflected UBS's change in intent and ability to hold these financial assets for the foreseeable future rather than for trading in the near term. The foreseeable future is interpreted to mean a period of approximately 12 months following the date of reclassification. The financial assets were reclassified using their fair value on the date of the reclassification, which became their new cost basis at that date.

Held-for-trading assets reclassified to loans and receivables

CHF billion	**31.12.12**	31.12.11
Carrying value	3.2	5.3
Fair value	3.1	4.9
Pro-forma fair value gain / (loss)	(0.1)	(0.4)

The following table provides notional values, fair values and carrying values by product category for the remaining reclassified financial assets.

Held-for-trading assets reclassified to loans and receivables

	31.12.12			
CHF billion	**Notional value**	**Fair value**	**Carrying value**	**Ratio of carrying to notional value (%)**
US student loan and municipal auction rate securities	2.0	1.7	1.9	94
Monoline-protected assets	0.6	0.6	0.5	91
Leveraged finance	0.3	0.3	0.3	85
US reference-linked notes	0.1	0.1	0.1	73
Other assets	0.5	0.5	0.4	83
Total	3.6	3.1	3.2	90

In 2012, the carrying value of the remaining reclassified financial assets decreased by CHF 2.1 billion, mainly due to sales of CHF 1.9 billion, of which CHF 0.9 billion related to sales of US student loan auction rate securities and CHF 0.3 billion related to sales of monoline-protected assets. The overall impact on operating profit before tax from the financial assets for the year ended 31 December 2012 was a profit of CHF 49 million (see table below). If the financial assets had not been reclassified, the impact on operating profit before tax for the year ended 31 December 2012 would have been a profit of approximately CHF 0.3 billion (2011: CHF 0.2 billion).

Contribution of the reclassified assets to the income statement

	For the year ended	
CHF million	**31.12.12**	31.12.11
Net interest income	116	381
Credit loss (expense) / recovery	(73)	36
Other income[1]	7	306
Impact on operating profit before tax	49	723

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

Note 29 Measurement categories of financial assets and financial liabilities (continued)

c) Maximum exposure to credit risk and credit quality information

The table below represents the Group's maximum exposure to credit risk by class of financial instrument and the respective collateral and other credit enhancements mitigating credit risk for these classes of financial instruments. The maximum exposure to credit risk includes the carrying amounts of financial instruments recognized on the balance sheet subject to credit risk and the notional amounts for off-balance sheet arrangements.

Where information is available, collateral is presented at fair value; for other collateral such as real estate, a reasonable alternative value is used. Credit enhancements (credit derivative contracts/guarantees) are included at their notional amounts. Both are capped at the maximum exposure to credit risk for which they serve as security.

The section "Risk management and control" describes management's view of credit risk and the related exposures. These differ in certain respects to the requirements of the accounting standard.

Maximum exposure to credit risk

	31.12.12							
		Collateral				Credit enhancements		
CHF billion	Maximum exposure to credit risk	Cash collateral received	Collateral-ized by securities	Secured by real estate	Other collateral[1]	Netting	Credit derivative contracts	Guarantees
Financial assets measured at amortized cost on the balance sheet								
Balances with central banks	64.1							
Due from banks[2]	21.2		2.7		0.4			0.4
Loans[3]	279.9	13.1	65.9	155.8	18.3		0.9	2.5
Cash collateral on securities borrowed	37.4		37.2					
Reverse repurchase agreements	130.9		130.9					
Cash collateral receivables on derivative instruments[4]	30.4					17.4		
Accrued income, other assets	12.3		7.9					
Total financial assets measured at amortized cost	576.2	13.2	244.6	155.8	18.7	17.4	0.9	2.9
Financial assets measured at fair value on the balance sheet								
Positive replacement values[5]	418.0					376.7		
Trading portfolio assets – debt instruments[6, 7]	67.4							
Financial assets designated at fair value – debt instruments[8]	8.5		6.5		0.2		1.0	
Financial investments available-for-sale – debt instruments[9]	65.3							
Total financial assets measured at fair value	559.2	0.0	6.5	0.0	0.2	376.7	1.0	0.0
Total maximum exposure to credit risk reflected on the balance sheet	1,135.5	13.2	251.1	155.8	18.9	394.1	1.9	2.9
Guarantees	20.0	1.5	2.0	0.3	2.0		1.4	2.5
Loan commitments	59.8	0.2	2.1	1.7	9.2		16.9	1.5
Forward starting transactions, reverse repurchase and securities borrowing agreements	18.8		18.8					
Total maximum exposure to credit risk not reflected on the balance sheet	98.6	1.7	22.9	1.9	11.2	0.0	18.3	4.0
Total at the year-end	1,234.1	14.8	274.0	157.7	30.1	394.1	20.2	6.9

1 Includes but not limited to life insurance contracts, inventory, accounts receivable, patents, and copyrights. 2 Due from banks includes amounts held with 3rd party banks on behalf of clients. The credit risk associated to these balances may be borne by those clients. 3 Loans include a balance outstanding of USD 3.6 billion to the BlackRock fund. This loan is collateralized by a portfolio of US residential mortgage-backed securities included within "Other collateral". Refer to the "Risk, treasury and capital management" section of this report for more information. 4 Included within cash collateral receivables on derivative instruments are margin balances due from exchanges or clearing houses. The amount shown in the netting column represents the netting with related negative replacement values in accordance with Swiss Federal Banking Law. 5 The amount shown in the netting column represents the netting with related negative replacement values and cash collateral payables in accordance with Swiss Federal Banking Law. For the purpose of this disclosure, securities collateral was not considered. 6 These positions are generally managed under the market risk framework and are included in VaR. For the purpose of this disclosure, collateral and credit enhancements were not considered. 7 Does not include debt instruments held for unit-linked investment contracts and investment fund units. 8 Does not include investment fund units. 9 Does not include investment fund units.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

Maximum exposure to credit risk (continued)

	31.12.11							
		Collateral				Credit enhancements		
CHF billion	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Secured by real estate	Other collateral[1]	Netting	Credit derivative contracts	Guarantees
Financial assets measured at amortized cost on the balance sheet								
Balances with central banks	38.6							
Due from banks[2]	23.2	0.0	2.7		0.5			0.6
Loans[3, 4, 5]	266.6	11.4	53.9	148.2	18.9		0.6	2.6
Cash collateral on securities borrowed	58.8		58.8					
Reverse repurchase agreements	213.5		213.5					
Cash collateral receivables on derivative instruments[6]	41.3					28.0		
Accrued income, other assets	10.2		6.2					
Total financial assets measured at amortized cost	652.2	11.5	335.1	148.2	19.3	28.0	0.6	3.2
Financial assets measured at fair value on the balance sheet								
Positive replacement values[7]	486.6					428.9		
Trading portfolio assets – debt instruments[8, 9]	99.2							
Financial assets designated at fair value – debt instruments[10]	9.6		6.7		0.2		1.4	
Financial investments available-for-sale – debt instruments[11]	52.3							
Total financial assets measured at fair value	647.7	0.0	6.7	0.0	0.2	428.9	1.4	0.0
Total maximum exposure to credit risk reflected on the balance sheet	1,299.9	11.5	341.8	148.2	19.5	456.9	2.0	3.2
Guarantees	18.8	1.5	1.9	0.2	1.5		1.8	1.9
Loan commitments	58.2	0.3	0.4	1.1	8.8		18.1	3.0
Forward starting transactions, reverse repurchase and securities borrowing agreements	27.6		27.6					
Total maximum exposure to credit risk not reflected on the balance sheet	104.6	1.8	29.9	1.3	10.3		19.8	5.0
Total at the year-end	1,404.5	13.2	371.7	149.5	29.9	456.9	21.8	8.2

1 Includes but not limited to life insurance contracts, inventory, accounts receivable, patents, and copyrights. 2 Due from banks includes amounts held with 3rd party banks on behalf of clients. The credit risk associated to these balances may be borne by those clients. 3 Loans include a balance outstanding of USD 4.7 billion to the BlackRock fund. This loan is collateralized by a portfolio of US residential mortgage-backed securities included within "Other collateral". Refer to the "Risk, treasury and capital management" section of this report for more information. 4 Loans include monoline-protected assets which were reclassified from held-for-trading to loans and receivables in fourth quarter 2008. The remaining carrying value of these assets was CHF 0.8 billion as of 31 December 2011. The fair value of credit default swap protection after credit valuation adjustments related to these assets was CHF 0.2 billion, which is not included in the column "Credit derivative contracts". 5 In 2012, we corrected the classification of certain loans which were previously classified as unsecured loans to secured loans. As a result, total loans secured by Other collateral were increased by CHF 2.4 billion as of 31 December 2011. 6 Included within cash collateral receivables on derivative instruments are margin balances due from exchanges or clearing houses. The amount shown in the netting column represents the netting with related negative replacement values in accordance with Swiss Federal Banking Law. 7 The amount shown in the netting column represents the netting with related negative replacement values and cash collateral payables in accordance with Swiss Federal Banking Law. For the purpose of this disclosure, securities collateral received was not considered. 8 These positions are generally managed under the market risk framework and are included in VaR. For the purpose of this disclosure, collateral and credit enhancements were not considered. 9 Does not include debt instruments held for unit-linked investment contracts and investment fund units. 10 Does not include investment fund units. 11 Does not include investment fund units.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

Financial assets subject to credit risk by rating category

CHF billion				31.12.12			
Rating category[1]	0–1	2–3	4–5	6–8	9–13	defaulted	Total
Balances with central banks	46.2	17.9	0.0				64.1
Due from banks	0.9	14.0	4.5	1.6	0.1	0.0	21.2
Loans	4.6	84.2	121.3	57.2	11.5	1.1	279.9
Cash collateral on securities borrowed and reverse repurchase agreements	2.3	123.3	25.8	14.9	2.0	0.0	168.3
Positive replacement values	13.4	348.9	44.4	9.9	1.4	0.2	418.0
Cash collateral receivables on derivative instruments	6.3	17.1	4.0	2.9	0.1	0.0	30.4
Trading portfolio assets – debt instruments[2]	34.2	17.2	7.8	3.4	4.8	0.2	67.4
Financial investments available-for-sale – debt instruments	57.7	7.6	0.0	0.0	0.0		65.3
Other financial instruments	0.3	3.2	7.9	8.8	0.4	0.2	20.8
Financial instruments not recognized on the balance sheet							
Guarantees	2.3	9.7	3.7	3.3	0.9	0.0	20.0
Loan commitments	0.2	34.6	11.6	6.7	6.7	0.1	59.8
Forward starting reverse repurchase agreements	0.0	17.4	0.6	0.5			18.6
Forward starting securities borrowing agreements		0.2					0.2
Total	**168.2**	**695.4**	**231.5**	**109.2**	**28.0**	**1.8**	**1,234.1**

CHF billion				31.12.11			
Rating category[1]	0–1	2–3	4–5	6–8	9–13	defaulted	Total
Balances with central banks	27.3	11.2	0.0	0.0			38.6
Due from banks	0.4	16.0	3.5	3.0	0.2	0.0	23.2
Loans	6.9	78.6	110.6	57.4	11.9	1.1	266.6
Cash collateral on securities borrowed and reverse repurchase agreements	1.3	215.9	29.2	22.7	3.1	0.0	272.3
Positive replacement values	11.9	400.6	53.4	17.4	2.5	0.7	486.6
Cash collateral receivables on derivative instruments	7.0	25.8	3.8	4.6	0.1	0.0	41.3
Trading portfolio assets – debt instruments[2]	45.6	36.5	8.0	3.8	5.2	0.1	99.2
Financial investments available-for-sale – debt instruments	43.3	9.0	0.0	0.0	0.0		52.3
Other financial instruments	0.1	5.8	3.0	7.9	2.7	0.3	19.9
Financial instruments not recognized on the balance sheet							-
Guarantees	2.0	9.9	3.2	2.7	1.1		18.8
Loan commitments	0.3	31.7	13.2	5.8	7.1	0.1	58.2
Forward starting reverse repurchase agreements	0.1	26.1	0.6	0.4			27.1
Forward starting securities borrowing agreements		0.5					0.5
Total	**146.2**	**867.6**	**228.5**	**125.7**	**34.0**	**2.4**	**1,404.5**

1 Refer to the "UBS internal rating scale and mapping of external ratings" table in the "Risk, treasury and capital management" section of this report for more information on rating categories. 2 Does not include debt instruments held for unit-linked investment contracts and investment fund units.

Note 30 Pension and other post-employment benefit plans

During the fourth quarter of 2012, UBS adopted revisions to IAS19 *Employee Benefits* ("IAS 19R") retrospectively in accordance with the transitional provisions set out in IAS 19R and IAS 8 *Accounting Policies, Changes* in *Accounting Estimates and Errors.* IAS 19R introduces changes to the recognition, measurement, presentation and disclosure of post-employment benefits. Refer to "Note 1b Changes in accounting policies, comparability, and other adjustments" for more information.

The following table provides information relating to pension costs for defined benefit plans and defined contribution plans. These costs are part of Personnel expenses.

Income statement – pension and other post-employment benefit plans

CHF million	**31.12.12**	31.12.11	31.12.10
Net periodic pension cost for defined benefit plans	**(222)**	577	588
of which: related to major pension plans[1]	***(116)***	*519*	*542*
of which: Swiss plan	***(198)***	*453*	*457*
of which: International plans	***82***	*66*	*85*
of which: related to post-retirement medical and life insurance plans[2]	***(102)***	*(2)*	*20*
of which: related to remaining plans and other costs[3]	***(3)***	*60*	*25*
Pension cost for defined contribution plans[4]	**240**	254	246
Total pension and other post-employment benefit plans[5]	**18**	831	834

1 Refer to "Note 30a Defined benefit pension plans" for more information. 2 Refer to "Note 30b Post-retirement medical and life insurance plans" for more information. 3 Other costs include differences between actual and estimated performance award accruals and net accrued pension costs related to restructuring. 4 Refer to "Note 30c Defined contribution plans" for more information. 5 Refer to "Note 6 Personnel expenses".

The following table provides information relating to amounts recognized in other comprehensive income for defined benefit plans.

Other comprehensive income – gains / (losses) on pension and other post-employment benefit plans

CHF million	**31.12.12**	31.12.11	31.12.10
Major pension plans[1]	**1,053**	(2,120)	160
of which: Swiss plan	***1,095***	*(1,811)*	*117*
of which: International plans	***(42)***	*(309)*	*42*
Post-retirement medical and life insurance plans[2]	**(26)**	(19)	(36)
Remaining plans	**(5)**	0	0
Gains / (losses) recognized in other comprehensive income, before tax	**1,023**	(2,141)	124
Tax (expense) / benefit relating to defined benefit plans recognized in other comprehensive income	**(413)**	321	(3)
Gains / (losses) recognized in other comprehensive income, after tax[3]	**609**	(1,820)	120
Cumulative amount of gains / (losses) recognized in other comprehensive income, before tax	**(5,542)**	(6,565)	(4,424)
Cumulative tax (expense) / benefit relating to defined benefit plans recognized in other comprehensive income	**736**	1,149	828
Cumulative gains / (losses) recognized in other comprehensive income, after tax[4]	**(4,806)**	(5,415)	(3,596)

1 Refer to "Note 30a Defined benefit pension plans" for more information. 2 Refer to "Note 30b Post-retirement medical and life insurance plans" for more information. 3 Refer to the "Statement of comprehensive income". 4 Refer to the "Statement of changes in equity".

The following table provides information on UBS's liabilities with respect to pension and post-employment benefit plans. These are recognized on the balance sheet within Other liabilities. All major plans are currently in a net deficit situation.

Balance sheet – net defined benefit pension and post-employment liability

CHF million	**31.12.12**	31.12.11	31.12.10
Major pension plans[1]	**1,108**	2,897	831
of which: Swiss plan	***118***	*1,941*	*184*
of which: International plans	***990***	*956*	*647*
Post-retirement medical and life insurance plans[2]	**136**	219	209
Remaining plans	**39**	18	17
Total net defined benefit pension and post-employment liability[3]	**1,284**	3,135	1,056

1 Refer to "Note 30a Defined benefit pension plans" for more information. 2 Refer to "Note 30b Post-retirement medical and life insurance plans" for more information. 3 Refer to "Note 22 Other liabilities".

Note 30 Pension and other post-employment benefit plans (continued)

a) Defined benefit pension plans

UBS has established pension plans for its employees in various locations. The major plans are located in Switzerland, the UK, the US and Germany. Independent actuarial valuations for the plans in these countries are performed as required.

The overall investment policy and strategy for UBS's defined benefit pension plans is guided by the objective of achieving an investment return which, together with contributions, ensures that there will be sufficient assets to pay pension benefits as they fall due while also mitigating the various risks of the plans. For the plans with assets (i.e. funded plans), the investment strategies for the plans are generally managed under local laws and regulations in each jurisdiction. The actual asset allocation is determined by current and expected economic and market conditions and in consideration of specific asset class risk in the risk profile. Within this framework, UBS ensures that the fiduciaries consider how the asset investment strategy correlates with the maturity profile of the plan liabilities and the respective potential impact on the funded status of the plans, including potential short term liquidity requirements. Specific asset-liability matching strategies for each pension plan are independently determined by the responsible governance body in each country. The pension assets are invested in a diversified portfolio of assets across geographic regions to ensure diversified returns to the extent allowed under local pension laws.

Swiss pension plan

The Swiss pension plan covers nearly all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss pension law. Contributions to the pension plan are paid by the employees and the employer. The Swiss pension plan allows employees a choice with regard to the level of annual contributions paid by the employee. Employee contributions are calculated as a percentage of contributory salary and are deducted monthly. The percentages deducted from salary depend on age and vary between 1% and 13.5% of contributory base salary and between 0% and 9% of contributory variable compensation. Depending on the age of the employee, UBS pays a contribution that ranges between 6.5% and 27.5% of contributory base salary and between 3.6% and 9% of contributory variable compensation for retirement credits. UBS also pays risk contributions which are used to finance benefits paid out in the event of death and disability, as well as to finance the old age and survivors' bridging pensions. The benefits include retirement benefits and disability, death and survivor pensions. The pension plan provides a lifetime pension to members at the normal retirement age of 62 for 2012. From 2013 onwards, the normal retirement age is 64. Members can draw retirement benefits early from the age of 58. A portion of the benefit, up to the full amount under certain conditions, can be taken as a lump sum payment at retirement. The amount of pension payable is a result of the conversion rate applied on the accumulated balance of the individual plan participant's pension account at the retirement date. The accumulated balance on the pension account is based on the employee and employer contributions that have been made to the pension account of each individual plan participant, as well as the interest accrued on the accumulated balance. The interest rate accrued is defined annually by the Pension Foundation Board. Although the Swiss pension plan is a defined contribution plan under Swiss pension law, it is accounted for as a defined benefit plan under IAS 19R, primarily because of the need to accrue interest on the pension accounts and the payment of lifetime pensions. The Swiss pension plan is governed by the Pension Foundation Board as required by the Swiss pension law. The responsibilities of the Pension Foundation Board are defined by Swiss pension law and by the plan rules. According to Swiss pension law, a temporary limited underfunding is permitted. However, the Pension Foundation Board is required to take the necessary measures to ensure that full funding can be expected to be restored within a period up to a maximum of ten years. Under Swiss pension law, if the Swiss pension plan became significantly underfunded on a Swiss pension law basis, additional employer and employee contributions could be required. In these situations, the risk is shared between employer and employees, and the employer is not legally obliged to cover more than 50% of the additional contributions required. The Swiss pension plan has a technical funding ratio under Swiss pension law of 123.4% as of 31 December 2012 (as of 31 December 2011: 117.3%), and thus it is not expected that additional contributions will be required in the next year. The investment strategy of the Swiss plan is in line with Swiss pension law, including the rules and regulations relating to diversification of plan assets. The Pension Foundation Board strives for a medium- and long-term consistency and sustainability between assets and liabilities. Under IAS 19R, volatility arises in the Swiss pension plan net liability because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

There are ongoing discussions in the Swiss parliament on possible changes to Swiss pension law. The outcome of these discussions and the timing of any resulting changes are uncertain.

In the first quarter of 2012, UBS announced certain changes to its Swiss pension plan. The main changes were a reduction in conversion rate on retirement and an increase of the normal retirement age, which serve in part to offset the impact of the increased life expectancy reflected in the defined benefit obligation due to the adoption of the BVG 2010 generational table in 2011. This plan amendment reduced the defined benefit obligation by CHF 730 million resulting in a gain in the first quarter of 2012. The employer contributions expected to be made to the Swiss pension plan in 2013 are estimated to be CHF 480 million. The actuarial

Note 30 Pension and other post-employment benefit plans (continued)

assumptions used for the Swiss pension plan are based on the local economic environment and are disclosed below. Refer also to Note 1a) 24) for a description of the accounting policy for defined benefit pension plans.

International pension plans

The international locations of UBS operate various pension plans in accordance with local regulations and practices. The locations with significant defined benefit plans are the UK, the US and Germany. The remaining non-major plans are located mainly in Asia Pacific, Europe and the Americas. As these other plans are not significant, no further disclosure is given within this note. The amounts shown for the international plans reflect the net funded positions of the significant international plans. UBS's general principle is to ensure that the plans are appropriately funded under local pension regulations in each country and this is the primary driver for determining when additional contributions are required. Similar to the Swiss pension plan, volatility arises in the international pension plans' net liability because the fair value of the plan assets are not directly correlated to movements in the value of the plans' defined benefit obligation. The pension plans provide benefits in the event of retirement, death or disability. The level of benefits provided depends on the specific rate of benefit accrual and the level of employee compensation. The employer contributions expected to be made to these pension plans in 2013 are estimated to be CHF 136 million. The funding policy for these plans is consistent with local government regulations and tax requirements. The actuarial assumptions used for the international plans are based on the local economic environment and are disclosed below.

Refer also to Note 1a) 24) for a description of the accounting policy for defined benefit pension plans.

UK

The UK plan is a career average revalued earnings scheme; benefits increase automatically based on UK price inflation. Normal retirement age for the UK plan is 60. The plan is closed to new entrants, who instead can participate in a defined contribution arrangement. There is a UK Pension Trustee Board which is required under local pension laws. The responsibility for governance of the UK plan lies jointly with the Pension Trustee Board and UBS. The employer contributions to the pension fund are determined based on regular scheduled actuarial valuations. These actuarial valuations are required to be conducted on assumptions determined by the Trustees and agreed by UBS. In the event of an underfunding, UBS must agree a deficit recovery plan with the Pension Trustee Board within statutory deadlines. As the plan's obligation is to provide guaranteed lifetime pension benefits to plan participants upon retirement, increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant in the UK plan where inflationary increases result in higher sensitivity to changes in the life expectancy.

Based on the plan rules and due to local pension legislation there are caps on the level of inflationary increase applied to plan benefits. The plan assets are invested in a diversified class of assets and a portion of the plan assets are invested in inflation-indexed bonds, to provide a partial hedge against inflation. If inflation increases, the plan obligation will likely increase more significantly than any change in the fair value of plan assets; this would result in an increase in the net pension plan liability.

US

There are two distinct major pension plans in the US. Normal retirement age for the US plans is 65. The plans are closed to new entrants, who instead can participate in defined contribution plans. One plan is a contribution-based plan where each participant accrues a percentage of salary in a pension account. The pension account is credited annually with interest based on a rate which is linked to the yield on a US government bond. On retirement, the plan participant can elect to receive the retirement benefit as a lump sum or a lifetime pension. The other plan provides a lifetime pension which is based on the career average earnings of each individual plan participant. There are pension plan fiduciaries for both of the major pension plans as required under local state pension laws. The fiduciaries, jointly with UBS, are responsible for the governance of the plans. Actuarial valuations are regularly completed for the plans and UBS has historically elected to make contributions to the plans to at least maintain a funded ratio of 80% as valued under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year plus a rolling amortization of any prior underfunding. If the employer contributes more than the minimum or the plan has assets exceeding the liabilities, the excess can be used to offset minimum funding requirements.

Germany

There are two different pension plans in Germany and both are contribution-based plans. Normal retirement age for the German plans is 65. The major pension plan is funded entirely by UBS, and the contribution is based on the salary of the employee. On an annual basis the accumulated account balance of the plan participant is credited with guaranteed interest at a rate of 5%. The other plan is a deferred compensation plan. The deferred compensation plan has a guaranteed interest rate of 4% on contributions paid after 2009. The German plans are regulated under German pension law under which the responsibility to pay pension benefits when they are due is entirely the responsibility of UBS.

The following table provides an analysis of the movement in the net asset/(liability) recognized on the balance sheet for defined benefit pension plans between the beginning to the end of the year, as well as an analysis of amounts recognized in net profit and in other comprehensive income.

Note 30 Pension and other post-employment benefit plans (continued)

Defined benefit pension plans

CHF million	Swiss			International		
For the year ended	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Defined benefit obligation at the beginning of the year	**22,555**	20,873	20,684	**4,414**	4,053	4,353
Current service cost	**531**	435	407	**33**	33	41
Interest expense	**462**	557	643	**211**	210	237
Plan participant contributions	**205**	211	197	**0**	0	0
Remeasurement of defined benefit obligation	**29**	1,452	149	**258**	260	141
of which: actuarial (gains)/losses arising from changes in demographic assumptions	***0***	*838*	*(423)*	***(27)***	*87*	*28*
of which: actuarial (gains)/losses arising from changes in financial assumptions	***20[1]***	*614*	*825*	***269***	*219*	*95*
of which: experience (gains)/losses	***9***	*0*	*(253)*	***17***	*(47)*	*18*
Past service cost related to plan amendments	**(730)**	0	0	**0**	0	0
Curtailments	**(54)**	0	0	**0**	0	0
Benefit payments	**(1,139)**	(985)	(1,252)	**(164)**	(145)	(148)
Termination benefits	**43**	11	45	**0**	0	0
Foreign currency translation	**0**	0	0	**20**	3	(573)
Defined benefit obligation at the end of the year	**21,901**	22,555	20,873	**4,773**	4,414	4,053
of which: amounts owing to active members	***10,602***	*12,269*	*11,418*	***713***	*644*	*792*
of which: amounts owing to deferred members	***0***	*0*	*0*	***2,378***	*2,188*	*1,986*
of which: amounts owing to retirees	***11,299***	*10,286*	*9,455*	***1,682***	*1,582*	*1,275*
Fair value of plan assets at the beginning of the year	**20,614**	20,690	20,286	**3,458**	3,406	3,517
Return on plan assets excluding amounts included in interest income	**1,124**	(359)	266	**216**	(50)	184
Interest income	**460**	562	650	**167**	180	198
Employer contributions – excluding termination benefits	**486**	495	510	**84**	71	86
Employer contributions – termination benefits	**43**	11	45	**0**	0	0
Plan participant contributions	**205**	211	197	**0**	0	0
Benefit payments	**(1,139)**	(985)	(1,252)	**(164)**	(145)	(148)
Administration expenses, taxes and premiums paid	**(11)**	(11)	(12)	**(5)**	(3)	(5)
Foreign currency translation	**0**	0	0	**26**	(1)	(427)
Fair value of plan assets at the end of the year	**21,783**	20,614	20,690	**3,783**	3,458	3,406
Net defined benefit asset/(liability)	**(118)**	(1,941)	(184)	**(990)**	(956)	(647)

Movement in the net asset/(liability) recognized on the balance sheet

Net asset/(liability) recognized on the balance sheet at the beginning of the year	**(1,941)**	(184)	(398)	**(956)**	(647)	(836)
Net periodic pension cost	**198**	(453)	(457)	**(82)**	(66)	(85)
Amounts recognized in other comprehensive income	**1,095**	(1,811)	117	**(42)**	(309)	42
Employer contributions – excluding termination benefits	**486**	495	510	**84**	71	86
Employer contributions – termination benefits	**43**	11	45	**0**	0	0
Foreign currency translation	**0**	0	0	**5**	(5)	146
Net asset/(liability) recognized on the balance sheet at the end of the year	**(118)**	(1,941)	(184)	**(990)**	(956)	(647)

Funded and unfunded plans

Defined benefit obligation from funded plans	**21,901**	22,555	20,873	**4,472**	4,174	3,813
Defined benefit obligation from unfunded plans	**0**	0	0	**301**	240	240
Plan assets	**21,783**	20,614	20,690	**3,783**	3,458	3,406
Surplus/(deficit)	**(118)**	(1,941)	(184)	**(990)**	(956)	(647)

1 During 2012, UBS revised its approach for calculating past service cost for certain members of the Swiss pension plan to consider not only age but also the initial employee contributions transferred to, or withdrawn from, the plan. This affected the distribution between past and future service costs, resulting in a current period reduction in the defined benefit obligation of CHF 841 million. This amount is offset by other remeasurement changes relating to changes in financial assumptions.

Note 30 Pension and other post-employment benefit plans (continued)

Defined benefit pension plans (continued)

Analysis of amounts recognized in net profit

CHF million	Swiss			International		
For the year ended	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Current service cost	**531**	435	407	**33**	33	41
Interest expense related to defined benefit obligation	**462**	557	643	**211**	210	237
Interest income related to plan assets	**(460)**	(562)	(650)	**(167)**	(180)	(198)
Administration expenses, taxes and premiums paid	**11**	11	12	**5**	3	5
Past service cost related to plan amendments	**(730)**	0	0	**0**	0	0
Curtailments	**(54)**	0	0	**0**	0	0
Termination benefits	**43**	11	45	**0**	0	0
Net periodic pension cost	**(198)**	453	457	**82**	66	85

Analysis of gains / (losses) recognized in other comprehensive income

CHF million	Swiss			International		
For the year ended	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Remeasurement of defined benefit obligation	**(29)**	(1,452)	(149)	**(258)**	(260)	(141)
Return on plan assets excluding amounts included in interest income	**1,124**	(359)	266	**216**	(50)	184
Total gains / (losses) recognized in other comprehensive income	**1,095**	(1,811)	117	**(42)**	(309)	42

The following table provides information on the weighted average duration of the defined benefit pension obligations and the distribution of the timing of benefit payments.

	Swiss			International[1]		
	31.12.12	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Duration of the defined benefit obligation	**15.7**	15.8	15.1	**18.2**	19.1	18.1
Maturity analysis of benefits expected to be paid						
Benefits expected to be paid within 12 months	**1,036**	1,014	1,017	**150**	153	153
Benefits expected to be paid between 1 to 3 years	**2,051**	2,036	2,052	**310**	310	320
Benefits expected to be paid between 3 to 6 years	**3,022**	3,136	3,146	**538**	532	580
Benefits expected to be paid between 6 to 11 years	**5,527**	5,819	5,430	**1,157**	1,110	1,290
Benefits expected to be paid between 11 to 16 years	**5,783**	6,117	5,679	**1,471**	1,410	1,627
Benefits expected to be paid in more than 16 years	**28,828**	29,597	30,563	**9,264**	9,625	8,748

1 For international plans the duration is a weighted average duration.

Note 30 Pension and other post-employment benefit plans (continued)

The following tables show the principal actuarial assumptions used in calculating the defined benefit obligations.

	Swiss			International[1]		
	31.12.12	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Principal actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**1.9**	2.3	2.8	**4.3**	4.8	5.4
Rate of salary increase	**2.5**	2.5	2.5	**4.1**	4.1	4.9
Rate of pension increase	**0.0**	0.0	0.3	**2.1**	2.1	2.3
Rate of interest credit on retirement savings	**2.1**	2.5	3.0			

1 For the international plans the actuarial assumptions are weighted average assumptions.

Mortality tables and life expectancies for major plans

		Life expectancy at age 65 for a male member currently					
		aged 65			aged 45		
Country	**Mortality table**	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Switzerland	BVG 2010 G[1]	**21.2**	21.1	17.9	**23.0**	22.8	17.9
UK	S1NA_L CMI 2010 G, with projections[2]	**24.5**	24.3	23.0	**27.5**	27.3	25.9
Germany	Dr. K. Heubeck 2005 G	**19.6**	19.4	19.3	**22.3**	22.1	22.0
US	PPA mandated mortality table per IRC 1.430(h)(3)	**19.2**	19.1	19.0	**19.2**	19.1	19.0

		Life expectancy at age 65 for a female member currently					
		aged 65			aged 45		
Country	**Mortality table**	**31.12.12**	31.12.11	31.12.10	**31.12.12**	31.12.11	31.12.10
Switzerland	BVG 2010 G[1]	**23.7**	23.6	21.0	**25.4**	25.3	21.0
UK	S1NA_L CMI 2010 G, with projections[2]	**25.6**	25.5	24.7	**27.9**	27.8	26.6
Germany	Dr. K. Heubeck 2005 G	**23.7**	23.5	23.4	**26.2**	26.1	26.0
US	PPA mandated mortality table per IRC 1.430(h)(3)	**21.0**	21.0	20.9	**21.0**	21.0	20.9

1 In 2010 the mortality table BVG 2005 was used; the mortality tables are updated every five years. 2 In 2010 the mortality table PA 2000 G, medium cohort with adjustment was used.

Note 30 Pension and other post-employment benefit plans (continued)

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date. This sensitivity analysis applies to the defined benefit obligation only and not to the net defined benefit pension liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of plan assets.

Sensitivity analysis of significant actuarial assumptions[1]

	Swiss plan: increase / (decrease) in defined benefit obligation	International plans: increase / (decrease) in defined benefit obligation
CHF million	**31.12.12**	**31.12.12**
Discount rate		
Increase by 50 basis points	(1,438)	(410)
Decrease by 50 basis points	1,639	470
Rate of salary increase		
Increase by 50 basis points	163	2
Decrease by 50 basis points	(155)	(2)
Rate of pension increase		
Increase by 50 basis points	1,118	355
Decrease by 50 basis points	0[2]	(281)
Rate of interest credit on retirement savings		
Increase by 50 basis points	304	
Decrease by 50 basis points	(286)	
Life expectancy		
Increase in longevity by one additional year	613	125

1 The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. The methodology applied is consistent to that used to determine the recognized pension liability. 2 As the assumed rate of pension increase was 0% as of 31 December 2012, a downward change in assumption is not applicable.

Note 30 Pension and other post-employment benefit plans (continued)

The following table provides information on the composition and fair value of plan assets of the Swiss pension plan and the international pension plans.

Composition and fair value of plan assets

Swiss Plan

	31.12.12				31.12.11			31.12.10		
	Fair value			Plan asset allocation %	Fair value		Plan asset allocation %	Fair value		Plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other		Quoted in an active market	Other	
Cash and cash equivalents	602	0	602	3	436	0	2	122	0	1
Real estate / property										
Domestic	0	2,377	2,377	11	0	2,312	11	0	2,249	11
Investment funds										
Equity										
Domestic	597	0	597	3	477	0	2	432	0	2
Foreign	5,210	824	6,034	28	4,423	804	26	4,772	768	27
Bonds[1]										
Domestic, AAA to BBB–	3,492	0	3,492	16	2,543	0	12	1,019	0	5
Domestic, below BBB–	0	0	0	0	0	0	0	0	0	0
Foreign, AAA to BBB–	7,060	0	7,060	32	8,385	0	41	10,197	0	49
Foreign, below BBB–	615	0	615	3	0	0	0	0	0	0
Real estate										
Foreign	0	138	138	1	133	158	1	141	134	1
Other	593	259	853	4	649	274	4	521	313	4
Other investments	0	16	16	0	0	20	0	0	20	0
Total	18,169	3,614	21,783	100	17,047	3,567	100	17,205	3,485	100

	31.12.12	31.12.11	31.12.10
Total fair value of plan assets	21,783	20,614	20,690
of which:			
UBS debt instruments and bank accounts at UBS	*611*	*516*	*258*
UBS shares	*32*	*23*	*25*
Property occupied by UBS	*158*	*157*	*188*
Derivative financial instruments, counterparty UBS	*83*	*20*	*298*

1 The bond credit ratings are primarily based on Standard and Poor's credit ratings. Ratings AAA to BBB– and below BBB– represent investment grade and non-investment grade ratings, respectively. In cases where credit ratings from other rating agencies were used, these were converted to the equivalent rating in the Standard & Poor's rating classification.

Note 30 Pension and other post-employment benefit plans (continued)

Composition and fair value of plan assets (continued)

International Plans

	31.12.12				31.12.11			31.12.10		
	Fair value			Weighted average plan asset allocation %	Fair value		Weighted average plan asset allocation %	Fair value		Weighted average plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other		Quoted in an active market	Other	
Cash and cash equivalents	95	0	95	3	83	0	2	27	0	1
Bonds[1]										
Domestic, AAA to BBB–	121	0	121	3	118	0	3	129	0	4
Domestic, below BBB–	121	0	121	3	118		3	72	0	2
Foreign, AAA to BBB–	19	0	19	1	17	0	1	7	0	0
Foreign, below BBB–	23	0	23	1	21	0	1	14	0	0
Private equity	0	0	0	0	0	0	0	0	3	0
Investment funds										
Equity										
Domestic	624	4	628	16	543	3	16	708	3	21
Foreign	874	0	874	23	771	0	22	814	0	24
Bonds[1]										
Domestic, AAA to BBB–	1,082	0	1,082	29	1,152	0	33	964	0	28
Domestic, below BBB–	219	0	219	6	62	0	2	58	0	2
Foreign, AAA to BBB–	125	0	125	3	201	0	6	140	0	4
Foreign, below BBB–	132	0	132	4	59	0	2	99	0	3
Real estate										
Domestic	0	95	95	3	0	93	3	0	92	3
Foreign	0	0	0	0	0	0	0	0	0	0
Other	61	163	223	6	31	163	6	34	215	7
Insurance contracts	0	15	15	0	0	14	0	0	14	0
Other investments	8	4	11	0	10	0	0	14	0	0
Total	3,503	280	3,783	100	3,185	273	100	3,079	327	100
Total fair value of plan assets			3,783			3,458			3,046	

1 The bond credit ratings are primarily based on Standard and Poor's credit ratings. Ratings AAA to BBB– and below BBB– represent investment grade and non-investment grade ratings, respectively. In cases where credit ratings from other rating agencies were used, these were converted to the equivalent rating in the Standard & Poor's rating classification.

b) Post-retirement medical and life insurance plans

In the US and the UK, UBS offers retiree medical benefits that contribute to the health care coverage of certain employees and their beneficiaries after retirement. The UK medical plan is closed to new entrants. In the US, in addition to retiree medical benefits, UBS also provides retiree life insurance benefits to certain employees. The post-retirement medical benefits in the UK and the US cover all types of medical expenses including, but not limited to, cost of doctor visits, hospitalization, surgery and pharmaceuticals. The retirees contribute to the cost of the post-retirement medical benefits. These plans are not pre-funded plans; cost are incurred as amounts are paid.

In the second quarter of 2012, UBS announced changes to the retiree medical and life insurance benefit plans in the US. This change reduced the defined benefit obligation by CHF 116 million with a corresponding gain recognized in the income statement.

The employer contributions expected to be made to the post-retirement medical and life insurance plans in 2013 are estimated at CHF 7 million.

Note 30 Pension and other post-employment benefit plans (continued)

Pension and other post-employment benefit plans

The following table provides an analysis of the net asset / (liability) recognized on the balance sheet for post-retirement medical and life insurance plans between the beginning to the end of the year, as well as an analysis of amounts recognized in net profit and in other comprehensive income.

Post-retirement medical and life insurance plans

CHF million			
For the year ended	**31.12.12**	31.12.11	31.12.10
Defined benefit obligation at the beginning of the year	**219**	209	186
Current service cost	**6**	9	9
Interest expense	**9**	11	11
Plan participant contributions	**3**	2	2
Remeasurement of defined benefit obligation	**26**	19	36
of which: actuarial (gains) / losses arising from changes in demographic assumptions	***0***	*0*	*8*
of which: actuarial (gains) / losses arising from changes in financial assumptions	***10***	*19*	*21*
of which: experience (gains) / losses	***16***	*0*	*6*
Past service cost related to plan amendments	**(9)**	(9)	0
Curtailments	**(108)**	(13)	0
Benefit payments[1]	**(9)**	(9)	(10)
Foreign currency translation	**(1)**	1	(25)
Defined benefit obligation at the end of the year	**136**	219	209
of which: amounts owing to active members	***27***	*122*	*112*
of which: amounts owing to deferred members	***0***	*0*	*0*
of which: amounts owing to retirees	***109***	*97*	*97*
Fair value of plan assets at the end of the year	**0**	0	0
Net defined benefit asset / (liability)	**(136)**	(219)	(209)
Analysis of amounts recognized in net profit			
Current service cost	**6**	9	9
Interest expense related to defined benefit obligation	**9**	11	11
Past service cost related to plan amendments	**(9)**	(9)	0
Curtailments	**(108)**	(13)	0
Net periodic cost	**(102)**	(2)	20
Analysis of gains / (losses) recognized in other comprehensive income			
Remeasurement of defined benefit obligation	**(26)**	(19)	(36)
Total gains / (losses) recognized in other comprehensive income	**(26)**	(19)	(36)

1 Benefits payments are funded by employer contribution and plan participant contributions.

The post-retirement benefit obligation is determined by using the assumed average health care cost trend rate. On a country-by-country basis, the same discount rate is used for the calculation of the post-retirement benefit obligation from medical and life insurance plans as for the defined benefit obligations arising from pension plans.

The discount rate and the assumed average health care cost trend rates are presented in the following table. The calculation of the post-retirement benefit obligation also uses life expectancy rates, as disclosed in "Note 30a Defined benefit pension plans" above.

Principal weighted average actuarial assumptions used (%)[1]

Assumptions used to determine defined benefit obligations at the end of the year

CHF million			
For the year ended	**31.12.12**	31.12.11	31.12.10
Discount rate	**4.1**	5.0	5.5
Average health care cost trend rate – initial	**7.6**	7.9	8.1
Average health care cost trend rate – ultimate	**5.0**	5.0	5.0

1 The assumptions for life expectancies are provided within "Note 30a Defined benefit pension plans".

Note 30 Pension and other post-employment benefit plans (continued)

The following table presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would have been affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date.

Sensitivity analysis of significant actuarial assumptions[1]

CHF million	**Increase / (decrease) in defined benefit obligation 31.12.12**
Discount rate	
Increase by 50 basis points	**(8)**
Decrease by 50 basis points	**9**
Average health care cost trend rate	
Increase by 100 basis points	**12**
Decrease by 100 basis points	**(10)**
Life expectancy	
Increase in longevity by one additional year	**9**

1 The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. The methodology applied is consistent to that used to determine the recognized post-retirement benefit liability.

c) Defined contribution plans

UBS also sponsors a number of defined contribution plans in its international locations. The locations with significant defined contribution plans are the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from UBS. The employer contributions to these plans are recognized as an expense which, for the years ended 31 December 2012, 31 December 2011 and 31 December 2010, amounted to CHF 240 million, CHF 254 million and CHF 246 million, respectively.

d) Related party disclosure

UBS is the principal bank for the pension fund of UBS in Switzerland. In this function, UBS is engaged to execute most of the pension fund's banking activities. These activities can include, but are not limited to, trading and securities lending and borrowing. All transactions have been executed under arm's length conditions. The international UBS pension funds do not have a similar banking relationship with UBS.

In 2008, UBS sold certain bank-occupied properties to the Swiss pension fund. Simultaneously, UBS and the Swiss pension fund entered into lease-back arrangements for some of the properties with 25-year lease terms and two renewal options for ten years each. During 2009, UBS renegotiated one of the lease contracts which reduced UBS's remaining lease commitment. As of 31 December 2012, the minimum commitment towards the Swiss pension fund under the related leases is approximately CHF 11 million (31 December 2011: CHF 16 million).

The following amounts have been received or paid by UBS from and to the pension funds in respect of these banking activities and arrangements:

Related party disclosure

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Received by UBS			
Fees	**31**	24	21
Paid by UBS			
Rent	**9**	10	11
Interest	**1**	3	3

Note 30 Pension and other post-employment benefit plans (continued)

The transaction volumes in UBS shares and other UBS securities are as follows:

Transaction volumes – related parties

	For the year ended		
	31.12.12	31.12.11	31.12.10
Financial instruments bought by pension funds			
UBS shares (in thousands of shares)	**2,926**	2,713	2,684
UBS debt instruments (par values in CHF million)	**10**	7	40
Financial instruments sold by pension funds or matured			
UBS shares (in thousands of shares)	**3,645**	2,374	4,735
UBS debt instruments (par values in CHF million)	**81**	18	10

Details of the fair value of the plan assets of the defined pension plans are disclosed in "Note 30a Defined benefit pension plans". In addition, UBS defined contribution pension funds held 16,690,174 UBS shares with a fair value of CHF 240 million as of 31 December 2012 (31 December 2011: 17,628,845 UBS shares with a fair value of CHF 196 million; 31 December 2010: 17,665,621 UBS shares with a fair value of CHF 272 million).

Note 31 Equity participation and other compensation plans

a) Plans offered

UBS operates several equity participation and other compensation plans to align the interests of executives, managers and staff with the interests of shareholders. Some plans (e.g. Equity Plus and EOP) are granted to eligible employees in approximately 50 countries and are designed to meet the legal, tax and regulatory requirements of each country in which they are offered. Certain plans are used in specific countries, business areas (e.g. awards granted within Wealth Management Americas), or are offered to members of the Group Executive Board (GEB) only. UBS operates compensation plans on a mandatory, discretionary and voluntary basis. The explanations below provide a general description of the terms of the most significant plans which relate to the performance year 2012 (granted in 2013) and those from prior years that are partly expensed in 2012. Refer to Note 1a) 25) for a description of the accounting policy related to equity participation and other compensation plans.

Mandatory share-based compensation plans

Equity Ownership Plan (EOP): Selected employees receive a portion of their annual performance-related compensation above a certain threshold in the form of an EOP award of UBS shares, notional shares or UBS performance shares (i.e. notional shares which are subject to performance conditions). Since 2011 (for the performance year 2010), performance shares have been granted to EOP participants who are risk-takers, Group Managing Directors or employees whose incentive exceeds a certain threshold. In respect of an award granted in 2011 and 2012, these performance shares will only vest in full if certain performance targets are met, i.e. if the participant's business division is profitable (for Corporate Center participants, the Group as a whole needs to be profitable) in the financial year preceding the relevant vesting date. Adjustments to reported profitability may be made based on considerations relating to risk, quality and reliability of earnings, as well as achievement of specific targets. For performance shares granted in respect of the performance year 2012, the performance conditions are based on the Group return on tangible equity and the divisional return on attributed equity. Replacement awards (including sign-on payments) can be offered in deferred cash under the EOP plan rules.

Awards of UBS shares allow for voting and dividend rights during the vesting period, whereas notional and performance shares represent a promise to receive UBS shares at vesting and do not allow for voting rights or dividends during the vesting period. Awards granted in the form of UBS shares, notional shares and performance shares are settled by delivering UBS shares at vesting, except in countries where this is not permitted for legal reasons. EOP awards granted until 2012 generally vest in three equal increments over a three-year vesting period and awards granted since March 2013 generally vest in equal increments in years two and three. The awards are generally forfeitable upon, among other circumstances, voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee, on a tiered basis.

Senior Executive Equity Ownership Plan (SEEOP): GEB members receive a portion of their mandatory deferral in UBS shares or notional shares, which vest in one-fifth increments over a five-year vesting period and are forfeitable if certain conditions are not met. Awards granted since 2011 are subject to the same performance conditions as performance shares granted under the EOP, i.e. they will only vest in full if the participant's business division is profitable (for Corporate Center participants, the Group as a whole must be profitable) in the financial year preceding scheduled vesting. Awards granted under SEEOP are settled by delivering UBS shares at vesting. Compensation expense is recognized on the same basis as for share-settled EOP awards. No SEEOP awards are granted for the performance year 2012.

Incentive Performance Plan (IPP): In 2010, GEB members and certain other senior employees received part of their annual incentive in the form of performance shares granted under the IPP. Each performance share granted is a contingent right to receive between one and three UBS shares at vesting, depending on the achievement of share price targets. The IPP awards vest after five years in 2015 and are subject to continued employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee. IPP was a one-time plan granted in 2010 only.

Performance Equity Plan (PEP): From 2010 to 2012, GEB members received part of their annual incentive in the form of performance shares granted under the PEP. Each performance share is a contingent right to receive between zero and two UBS shares at vesting, depending on the achievement of Economic Profit (EP) and Total Shareholder Return (TSR) targets. PEP awards vest after three years. EP is a risk-adjusted profit measure that takes into account the cost of risk capital. TSR measures the total return to UBS shareholders (in the form of share price appreciation and dividends) as compared to the constituents of a banking index. Vesting is subject to continued employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee. No PEP awards are granted for the performance year 2012.

2012 Special Plan Award Program for the Investment Bank (SPAP): In April 2012, certain Managing Directors and Group Managing Directors of the Investment Bank were granted an award of UBS shares which will vest three years after grant. Vesting is subject to performance conditions, continued employment with the firm and certain other conditions. The vesting of Special

Note 31 Equity participation and other compensation plans (continued)

Plan awards is subject to performance conditions based on the level of reduction in risk-weighted assets achieved and the average return on risk-weighted assets in the Investment Bank for 2012, 2013 and 2014. Compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Mandatory deferred cash compensation plans

Global Asset Management Equity Ownership Plan: To align their compensation with the performance of the funds that they manage, with effect from 2012, all Global Asset Management employees who receive EOP awards do so in the form of deferred cash, the amount of which depends on the value of the relevant underlying Global Asset Management funds at the time of vesting. In prior years certain Global Asset Management employees received EOP awards in a combination of shares and deferred cash, the amount of which depends on the value of the underlying Global Asset Management funds at the time of vesting.

Conditional Variable Compensation Plan (CVCP): In 2009, certain employees received part of their incentive in the form of a mandatory deferred cash award that vests in increments over a three-year vesting period subject to performance conditions. The award consists of a contingent right to receive cash payments at vesting. The awards are forfeitable upon voluntary termination of employment. Compensation expense is recognized over the individual performance periods and accelerated to the retirement-eligibility date for those employees who are, or become, retirement eligible during the service period. CVCP was a one-time plan granted in 2009. The last tranche of CVCP vested and was distributed in 2012.

Cash Balance Plan (CBP): From 2010 to 2012, Group Executive Board (GEB) members received part of their annual incentive in the form of a mandatory deferred cash award. CBP awards are paid out in two equal installments during the two years following the year of grant, subject to certain performance conditions. Awards granted in 2011 and 2012 (for performance years 2010 and 2011, respectively) are subject to a Group return on equity performance conditions, whereas awards granted in 2010 (for performance year 2009) are subject to profitability hurdles. After a GEB member has left the firm, the deferred portion of the CBP award continues to be at risk of forfeiture. Awards granted under the CBP from 2011 onwards are forfeited if a GEB member voluntarily terminates his or her employment and joins another financial services organization. Compensation expense is recognized in the performance year, which is generally the financial year prior to the grant date. No CBP awards are granted for the performance year 2012.

Deferred Cash Plan (DCP): In 2011, DCP awards were granted to Investment Bank employees whose total compensation exceeded a certain threshold. DCP awards vest in one-third increments over a three-year vesting period following the grant date. The awards are forfeitable upon voluntary termination of employment. Compensation expense is recognized ratably over the vesting period. DCP was a one-time plan granted in 2011.

Long-Term Deferred Retention Senior Incentive Scheme (LTDRSIS): Awards granted under the LTDRSIS are granted to employees in Australia only and represent a profit share amount based on the profitability of the Australian business. Awards vest and are paid in equal installments over three years and include an arrangement which allows for unpaid installments to be reduced if the business has a loss during the calendar year preceding vesting. The awards are generally forfeitable upon voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of the grant. Otherwise, compensation expense is recognized ratably from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Deferred Contingent Capital Plan (DCCP): The DCCP is a mandatory performance award deferral plan for all employees whose total compensation exceeds a certain threshold. Such employees receive part of their annual incentive in the form of notional bonds, which are a right to receive a cash payment at vesting. DCCP awards vest in full five years from grant and are forfeited if the phase-in Basel III Common Equity Tier 1 Ratio of the Group falls below 7%, if FINMA determines that the DCCP awards need to be written down to prevent the insolvency, bankruptcy or failure of UBS AG, or if UBS AG has received a commitment of extraordinary support from the public sector that is necessary to prevent such insolvency, bankruptcy or failure. Interest is paid annually for performance years in which the firm generates an adjusted pre-tax profit. In any years during the vesting period where UBS does not achieve an adjusted pre-tax profit, GEB members would forfeit 20% of the award. The awards are subject to standard forfeiture and harmful acts provisions, including voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Wealth Management Americas financial advisor compensation

Financial advisor compensation – cash payments consist primarily of a formula-based compensation plan, which fluctuates in proportion to the level of business activity.

UBS also may enter into compensation arrangements with certain financial advisors primarily as a recruitment incentive and to incentivize financial advisors to achieve specified revenue production and other performance thresholds. The compensation is earned and paid to the employee during a period of continued employment and may be forfeited under certain circumstances. In certain cases, UBS grants loans to financial advisors in connection with these compensation arrangements.

GrowthPlus is a program for selected financial advisors whose revenue production and length of service exceeds defined thresh-

Note 31 Equity participation and other compensation plans (continued)

olds from 2010 through 2017. Compensation arrangements were granted in 2010 and 2011 with potential arrangements to be granted in 2015 and 2018. The awards vest ratably over seven years from grant with the exception of the 2018 commitment, which vests over five years.

PartnerPlus is a mandatory deferred cash compensation plan for selected employees. Awards (UBS contributions) are based on a predefined formula during the performance year. Participants are also allowed to voluntarily contribute additional amounts earned during the year, up to a percentage of UBS's contribution. Awards earn an above-market rate of interest during the initial four-year period and a market rate of interest thereafter. Voluntary contributions can earn an above-market rate of interest during the initial four-year period and a market rate of interest thereafter, or alternatively be benchmarked to various mutual funds. The awards vest in 20% increments six to ten years after the grant date. Awards and interest earned on both UBS and voluntary contributions are forfeitable under certain circumstances. Compensation expense for awards is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expenses for awards are recognized ratably commencing in the performance year to the earlier of the vesting date or the retirement eligibility date of the employee. Compensation expenses for voluntary contributions are recognized in the year of deferral.

Discretionary share-based compensation plans

Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP): Until 2009, key and high potential employees were granted discretionary share-settled Stock Appreciation Rights (SARs) or UBS options with a strike price not less than the fair market value of a UBS share on the date the SAR or option was granted. A SAR gives employees the right to receive a number of UBS shares equal to the value of any appreciation in the market price of a UBS share between the grant date and the exercise date. One option gives the right to acquire one registered UBS share at the option's strike price. SARs and options are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. These awards are generally forfeitable upon termination of employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. No Options or SARs awards have been granted since 2009.

Voluntary share-based compensation plans

Equity Plus Plan (Equity Plus): Equity Plus is a voluntary plan that provides eligible employees with the opportunity to purchase UBS shares at market value and receive, at no additional cost, one free notional UBS share for every three shares purchased, up to a maximum annual limit. Share purchases may be made annually from the performance award and/or monthly through regular deductions from salary. Shares purchased under Equity Plus are restricted from sale for a maximum of three years from the time of purchase. Equity Plus awards vest after up to three years. Prior to 2010, instead of notional shares participants received two UBS options for each share they purchased under this plan. The options had a strike price equal to the fair market value of a UBS share on the grant date, a two-year vesting period and generally expired ten years from the grant date. The options are forfeitable in certain circumstances and are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Compensation expense for the Equity Plus plan is recognized from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee.

Share delivery obligations

UBS satisfies share delivery obligations under its share-based plans either by purchasing UBS shares in the market or through the issuance of new shares. As of 31 December 2012, UBS held approximately 74 million shares in treasury (31 December 2011: approximately 77 million shares) and approximately 145 million (31 December 2011: 149 million shares) unissued shares (out of 150 million approved in 2006) in conditional share capital. These treasury shares and unissued shares are available to satisfy the exercising of options and SAR awards by employees. The shares available cover all vested and in-the-money (i.e. exercisable) employee options and SARs.

Note 31 Equity participation and other compensation plans (continued)

b) Effect on income statement

Effect on the income statement for the financial year and future periods

The following table summarizes the compensation expenses recognized for the year ended 31 December 2012 and deferred compensation expenses that will be recognized as an expense in the income statements for 2013 and later. The deferred compensation expenses in the table also include vested and non-vested awards granted mainly in March 2013, which relate to the performance year 2012.

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2012			Personnel expenses deferred to 2013 and later		
CHF million	Expenses relating to awards for 2012	Expenses relating to awards for prior years	Total	Relating to awards for 2012	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,411	(38)	1,373	0	0	0
Deferred Contingent Capital Plan (DCCP)	145	0	145	361	0	361
Deferred cash plans (CBP, DCP and other cash plans)	5	149	154	10	87	97
Equity Ownership Plan (EOP / SEEOP) – UBS shares	135	995	1,130	383	495	878
Performance Equity Plan (PEP)	0	10	10	0	4	4
Incentive Performance Plan (IPP)	0	62	62	0	82	82
Total UBS share plans	135	1,067	1,202	383	581	964
UBS share option plans (KESAP / KESOP)	0	14	14	0	0	0
Equity Ownership Plan (EOP) – AIVs	28	84	112	20	46	66
Total performance awards	**1,724**	**1,276**	**3,000**	**774**	**714**	**1,488**
Variable compensation						
Variable compensation – other	424	(57)	367[3]	494[4]	71	565
Financial advisor compensation – cash payments	1,957	0	1,957	0	0	0
Compensation commitments and advances related to recruited financial advisors	54	579	634	587	2,115	2,702
GrowthPlus and other deferral plans	54	129	183	54	620	674
UBS share plans	21	78	99	66	216	282
Wealth Management Americas: Financial advisor compensation[2]	2,087	786	2,873	706	2,951	3,657
Total	**4,235**	**2,005**	**6,240**	**1,974**	**3,736**	**5,710**

1 Total share-based personnel expenses recognized for the year ended 31 December 2012 were CHF 1,584 million and were comprised of UBS share plans of CHF 1,261 million, UBS share option plans of CHF 14 million, Equity Ownership Plan – AIVs of CHF 112 million, related social security costs of CHF 89 million and other compensation plans (reported within Variable compensation – other) of CHF 108 million. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date. 3 Includes replacement payments of CHF 109 million (of which CHF 94 million related to prior years), forfeiture credits of CHF 174 million (entirely related to prior years), severance payments and provisions of CHF 303 million (entirely related to the current year) and retention plan and other payments of CHF 128 million (of which CHF 21 million related to prior years). 4 Includes interest expense of CHF 137 million related to DCCP.

Note 31 Equity participation and other compensation plans (continued)

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2011			Personnel expenses deferred to 2012 and later		
CHF million	Expenses relating to awards for 2011	Expenses relating to awards for prior years	Total	Relating to awards for 2011	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,554	(88)	1,466	0	0	0
Deferred cash plans (CBP, DCP and other cash plans)	34	309	343	3	179	182
Equity Ownership Plan (EOP / SEEOP) – UBS shares	231	1,153	1,384	740	720	1,460
Performance Equity Plan (PEP)	3	5	8	10	4	14
Incentive Performance Plan (IPP)	0	97	97	0	134	134
Total UBS share plans	234	1,256	1,490	750	858	1,608
UBS share option plans (KESAP / KESOP)	0	100	100	0	15	15
Equity Ownership Plan (EOP) – AIVs	25	93	118	69	48	117
Total performance awards	**1,847**	**1,669**	**3,516**	**822**	**1,100**	**1,922**
Variable compensation						
Variable compensation – other	295	(104)	191[3]	132	111	243
Financial advisor compensation – cash payments	1,695	0	1,695	0	0	0
Compensation commitments and advances related to recruited financial advisors	37	499	536	561	2,131	2,692
GrowthPlus and other deferral plans	90	89	179	377	422	799
UBS share plans	20	88	108	86	261	347
Wealth Management Americas: Financial advisor compensation[2]	1,842	676	2,518	1,024	2,814	3,838
Total	**3,984**	**2,242**	**6,226**	**1,978**	**4,025**	**6,003**

1 Total share-based personnel expenses recognized for the year ended 31 December 2011 were CHF 1,789 million and were comprised of UBS share plans of CHF 1,490 million, UBS share option plans of CHF 100 million, Equity Ownership Plan – AIVs of CHF 118 million, related social security costs of CHF 39 million and other compensation plans (reported within Variable compensation – other) of CHF 42 million. In 2012, costs related to guarantees for new hires were reclassified from Variable compensation – other to Variable compensation – performance awards. In addition, costs related to both supplemental severance and certain retention payments were reclassified from Variable compensation – performance awards to Variable compensation – other. Prior periods were adjusted for these changes. The combined impact of these changes resulted in a net increase to Variable compensation – performance awards of CHF 125 million for the year ended 31 December 2011 with a corresponding net decrease to Variable compensation – other. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date. 3 Includes replacement payments of CHF 121 million, forfeiture credits of CHF 215 million, severance payments of CHF 239 million and retention plan and other payments of CHF 46 million.

Additional disclosures on income statement

During 2012, UBS accelerated the recognition of expenses for certain deferred compensation arrangements relating to employees that were made redundant as part of restructuring programs. Based on the redundancy provisions of the plan rules, these employees retain their deferred compensation awards, however, as the employees are not required to provide future service, compensation expense relating to these awards was accelerated to the termination date based on the shortened service period. The amounts accelerated and recognized in 2012 were CHF 63 million relating to share-based payment awards and CHF 13 million related to deferred cash awards. UBS also shortened the service period for certain employees in accordance with the mutually agreed termination provisions of their deferred compensation awards. Expense recognition was accelerated to the revised vesting date. The amounts accelerated and recognized in 2012 were CHF 20 million relating to share-based payment awards and CHF 2 million related to deferred cash awards. These amounts are included in personnel expenses.

Additional disclosures on mandatory, discretionary and voluntary share-based compensation plans (including AIVs granted under EOP)

The total share-based personnel expenses recognized for the years ended 31 December 2012, 2011 and 2010 were CHF

Note 31 Equity participation and other compensation plans (continued)

Personnel expenses – Recognized and deferred[1]

	Personal expenses for the year ended 2010			Personal expenses deferred to 2011 and later		
CHF million	Expenses relating to awards for 2010	Expenses relating to awards for prior years	Total	Relating to awards for 2010	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	2,168	5	2,173	(10)	0	(10)
Deferred cash plans (CBP, DCP and other cash plans)	64	250	314	236	311	547
Equity Ownership Plan (EOP/SEEOP) – UBS shares	434	852	1,286	1,249	515	1,764
Performance Equity Plan (PEP)	6	5	11	16	2	18
Incentive Performance Plan (IPP)	0	131	131	6	221	227
Total UBS share plans	440	988	1,428	1,271	738	2,009
UBS share option plans (KESAP/KESOP)	0	145	145	0	114	114
Equity Ownership Plan (EOP) – AIVs	28	83	111	67	57	124
Total performance awards	**2,700**	**1,471**	**4,171**	**1,564**	**1,220**	**2,784**
Variable compensation						
Variable compensation – other	310	(169)	141[3]	347	0	347
Financial advisor compensation – cash payments	1,813	0	1,813	0	0	0
Compensation commitments and advances related to recruited financial advisors	29	570	599	388	2,186	2,574
GrowthPlus and other deferral plans	127	35	162	221	302	523
UBS share plans	11	82	93	89	266	355
Wealth Management Americas: Financial advisor compensation[2]	1,980	687	2,667	698	2,754	3,452
Total	**4,990**	**1,989**	**6,979**	**2,609**	**3,974**	**6,583**

1 Total share-based personnel expenses recognized for the year ended 31 December 2010 were CHF 1,843 million and where comprised of UBS share plans of CHF 1,428 million, UBS share option plans of CHF 145 million, Equity Ownership Plan – AIVs of CHF 111 million, related social security costs of CHF 90 million and other compensation plans (reported within Variable compensation – other) of CHF 69 million. In 2012, costs related to guarantees for new hires were reclassified from Variable compensation – other to Variable compensation – performance awards. In addition, costs related to both supplemental severance and certain retention payments were reclassified from Variable compensation – performance awards to Variable compensation – other. Prior periods were adjusted for these changes. The combined impact of these changes resulted in a net increase to Variable compensation – performance awards of CHF 89 million for the year ended 31 December 2010 with a corresponding net decrease to Variable compensation – other. 2 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date. 3 Includes replacement payments of CHF 107 million, forfeiture credits of CHF 167 million, severance payments of CHF 80 million and retention plan and other payments of CHF 121 million.

1,584 million, CHF 1,789 million, and CHF 1,843 million, respectively. This includes the current period expense, amortization and related social security costs for awards issued in prior periods and performance year expensing for awards granted to retirement-eligible employees where the terms of the awards do not require the employee to provide future services.

The total compensation expenses for non-vested share-based awards granted up to 31 December 2012 relating to prior years to be recognized in future periods is CHF 1,108 million and will be recognized as personnel expenses over a weighted average period of 2.4 years. This includes UBS share plans, UBS share option plans, the Equity Ownership Plan (AIVs), other variable compensation and the Equity Plus Plan. Total deferred compensation amounts included in the 2012 table differ from this amount as the deferred compensation amounts also include non-vested awards granted in March 2013 related to the performance year 2012.

Actual payments to participants in cash-settled share-based plans, including amounts granted as AIVs issued under the EOP, for the years ended 31 December 2012, 2011 and 2010 were CHF 141 million, CHF 93 million and CHF 79 million, respectively. The total carrying amount of the liability related to these plans was CHF 249 million at 31 December 2012.

Note 31 Equity participation and other compensation plans (continued)

c) Movements during the year

UBS share and performance share awards

Movements in UBS share and notional share awards were as follows:

UBS share awards

	Number of shares 2012	Weighted average grant date fair value (CHF)	Number of shares 2011	Weighted average grant date fair value (CHF)	Number of shares 2010	Weighted average grant date fair value (CHF)
Outstanding, at the beginning of the year	**214,698,539**	**17**	171,085,140	18	86,888,626	31
Shares awarded during the year	**120,208,862**	**12**	111,254,968	18	125,133,310	15
Distributions during the year	**(72,997,669)**	**17**	(54,443,660)	21	(29,669,688)	42
Forfeited during the year	**(12,850,203)**	**17**	(13,197,909)	18	(11,267,108)	21
Outstanding, at the end of the year	**249,059,529**	**15**	214,698,539	17	171,085,140	18
of which: shares vested for accounting purposes	***61,555,483***		*59,154,235*		*47,366,286*	

The fair value of shares that became legally vested and were distributed (i.e. all restrictions were fulfilled) during the years ended 31 December 2012, 2011 and 2010 was CHF 1,216 million, CHF 980 million and CHF 421 million, respectively.

Movements in performance shares granted under the IPP are as follows:

Incentive Performance Plan

	2012		
	Number of performance shares 2012	**Weighted average fair value of IPP performance shares at grant date (CHF)**[1]	**Representative of UBS shares 2012**[2]
Forfeitable, at the beginning of the year	**16,137,466**	**22**	**16,137,466**
Awarded during the year	**0**	**0**	**0**
Distributions during the year	**(7,182)**	**22**	**(7,182)**
Forfeited during the year	**(1,898,453)**	**22**	**(1,898,453)**
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	**N/A**	**N/A**	**N/A**
Forfeitable, at the end of the year	**14,231,831**	**22**	**14,231,831**
of which: performance shares vested for accounting purposes	***8,965,917***		***8,965,917***
	2011		
Forfeitable, at the beginning of the year	18,157,242	22	18,157,242
Awarded during the year	31,848	21	31,848
Distributions during the year	0	0	0
Forfeited during the year	(2,051,624)	22	(2,051,624)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	0
Forfeitable, at the end of the year	16,137,466	22	16,137,466
of which: performance shares vested for accounting purposes	*6,727,398*		*6,727,398*
	2010		
Forfeitable, at the beginning of the year	0	0	0
Awarded during the year	19,629,916	22	19,629,916
Distributions during the year	0	0	0
Forfeited during the year	(1,472,674)	22	(1,472,674)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	N/A
Forfeitable, at the end of the year	18,157,242	22	18,157,242
of which: performance shares vested for accounting purposes	*4,073,546*		*4,073,546*

1 Valuations take into account the relevant performance conditions, targets set, and the range of possible outcomes. 2 Based on conditions existing at the relevant balance sheet date.

Movements in performance shares granted under the PEP are as follows:

Performance Equity Plan

	Number of performance shares 2012	Weighted average fair value of PEP performance shares at grant date (CHF)[1]	Representative of UBS shares 2012[2]
	2012		
Forfeitable, at the beginning of the year	**1,210,598**	**18**	**1,210,598**
Awarded during the year	**845,580**	**13**	**845,580**
Distributions during the year	**0**	**0**	**0**
Forfeited during the year	**(230,979)**	**13**	**(230,979)**
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	**N/A**	**N/A**	**(878,516)**
Forfeitable, at the end of the year	**1,825,199**	**16**	**946,683**
of which: performance shares vested for accounting purposes	***1,160,836***		***587,828***
	2011		
Forfeitable, at the beginning of the year	518,837	16	518,837
Awarded during the year	754,530	19	754,530
Distributions during the year	0	0	0
Forfeited during the year	(62,769)	19	(62,769)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	(732,364)
Forfeitable, at the end of the year	1,210,598	18	478,234
of which: performance shares vested for accounting purposes	*594,235*		*244,332*
	2010		
Forfeitable, at the beginning of the year	0	0	0
Awarded during the year	545,642	16	545,642
Distributions during the year	0	0	0
Forfeited during the year	(26,805)	16	(26,805)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	(251,636)
Forfeitable, at the end of the year	518,837	16	267,201
of which: performance shares vested for accounting purposes	*221,638*		*114,143*

1 Valuations take into account the relevant performance conditions, targets set, and the range of possible outcomes. 2 Based on conditions existing at the relevant balance sheet date.

UBS option awards

Movements in option awards were as follows:

UBS option awards

	Number of options 2012	Weighted average exercise price (CHF)[1]	Number of options 2011	Weighted average exercise price (CHF)[1]	Number of options 2010	Weighted average exercise price (CHF)[1]
Outstanding, at the beginning of the year	**179,992,361**	**43**	205,545,575	42	228,623,886	43
Granted during the year	**0**	**0**	0	0	0	0
Exercised during the year	**(992,180)**	**11**	(1,306,764)	12	(40,894)	14
Forfeited during the year	**(1,283,626)**	**44**	(810,094)	24	(5,814,986)	33
Expired unexercised	**(19,625,991)**	**40**	(23,436,356)	42	(17,222,431)	54
Outstanding, at the end of the year	**158,090,564**	**43**	179,992,361	43	205,545,575	42
Exercisable, at the end of the year	**158,090,564**	**43**	178,008,644	43	155,302,104	48

1 Some of the options in this table have exercise prices denominated in USD which have been converted into CHF at the year-end spot exchange rate for the purposes of this table.

The following table provides additional information about option exercises, grants and intrinsic values:

For the year ended	31.12.12	31.12.11	31.12.10
Weighted average share price of options exercised (CHF)	**13**	17	16
Intrinsic value of options exercised during the year (CHF million)	**3.6**	7.5	0.1
Weighted average grant date fair value of options granted (CHF)	**N/A**	N/A	N/A

Note 31 Equity participation and other compensation plans (continued)

The following table provides additional information about options outstanding and options exercisable as of 31 December 2012:

	Options outstanding				Options exercisable			
Range of exercise prices	Number of options outstanding	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)	Number of options exercisable	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)
CHF Awards								
10.21–15.00	14,801,336	11.38	43.8	6.1	14,801,336	11.38	43.8	6.1
15.01–25.00	10,306,684	18.75	0.0	6.3	10,306,684	18.75	0.0	6.3
25.01–35.00	34,383,941	30.97	0.0	4.4	34,383,941	30.97	0.0	4.4
35.01–45.00	8,768,140	41.98	0.0	2.0	8,768,140	41.98	0.0	2.0
45.01–55.00	16,679,077	49.36	0.0	2.5	16,679,077	49.36	0.0	2.5
55.01–65.00	4,589,852	60.10	0.0	4.0	4,589,852	60.10	0.0	4.0
65.01–75.00	48,336,965	67.59	0.0	3.7	48,336,965	67.59	0.0	3.7
10.21–75.00	**137,865,995**		**43.8**		**137,865,995**		**43.8**	
USD Awards								
17.88–25.00	5,312,270	19.51	0.0	0.2	5,312,270	19.51	0.0	0.2
25.01–35.00	6,809,592	31.69	0.0	1.4	6,809,592	31.69	0.0	1.4
35.01–40.00	5,772,639	37.27	0.0	2.2	5,772,639	37.27	0.0	2.2
40.01–45.96	2,330,068	41.12	0.0	2.5	2,330,068	41.12	0.0	2.5
17.88–45.96	**20,224,569**		**0.0**		**20,224,569**		**0.0**	

UBS SAR awards

Movements in SAR awards were as follows:

UBS SARs awards

	Number of SARs 2012	**Weighted average exercise price (CHF)**	Number of SARs 2011	Weighted average exercise price (CHF)	Number of SARs 2010	Weighted average exercise price (CHF)
Outstanding, at the beginning of the year	**55,021,238**	**12**	58,015,041	12	60,907,175	12
Granted during the year	**0**	**0**	0	0	0	0
Exercised during the year	**(14,217,629)**	**11**	(44,333)	15	(160,334)	12
Forfeited during the year	**(684,717)**	**11**	(2,946,350)	11	(2,721,700)	11
Expired unexercised	**(7,000,557)**	**11**	(3,120)	16	(10,100)	11
Outstanding, at the end of the year	**33,118,335**	**12**	55,021,238	12	58,015,041	12
Exercisable, at the end of the year	**33,118,335**	**12**	4,018,634	10	4,005,317	10

The following table provides additional information about SARs exercises, grants and intrinsic values:

For the year ended	**31.12.12**	31.12.11	31.12.10
Weighted average share price of SARs exercised (CHF)	**13**	18	16
Intrinsic value of SARs exercised during the year (CHF million)	**24.6**	0.1	0.6
Weighted average grant date fair value of SARs granted (CHF)	**N/A**	N/A	N/A

Note 31 Equity participation and other compensation plans (continued)

The following table provides additional information about SARs outstanding as of 31 December 2012:

	SARs outstanding				SARs exercisable			
Range of exercise prices	Number of SARs outstanding	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF million)	Weighted average remaining contractual term (years)	Number of SARs exercisable	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF million)	Weighted average remaining contractual term (years)
CHF								
9.35–12.50	31,704,385	11.34	92.7	6.2	31,704,385	11.34	92.7	6.2
12.51–15.00	32,000	14.51	0.0	6.5	32,000	14.51	0.0	6.5
15.01–17.50	110,950	16.80	0.0	6.4	110,950	16.80	0.0	6.4
17.51–20.00	366,000	19.25	0.0	6.7	366,000	19.25	0.0	6.7
20.01–40.00	905,000	40.00	0.0	6.2	905,000	40.00	0.0	6.2
9.35–40.00	**33,118,335**		**92.7**		**33,118,335**		**92.7**	

d) Valuation

UBS share awards

UBS measures compensation expense based on the average market price of the UBS share on the grant date as quoted on the SIX Swiss Exchange, taking into consideration post-vesting sale and hedge restrictions, non-vesting conditions and market conditions, where applicable. The fair value of the share awards subject to post-vesting sale and hedge restrictions is discounted based upon the duration of the post-vesting restriction and is referenced to the cost of purchasing an at-the-money European put option for the term of the transfer restriction. The weighted average discount for share and performance share awards granted during 2012 is approximately 15.4% (2011: 13.9%) of the market price of the UBS share. The grant date fair value of notional UBS shares without dividend entitlements also includes a deduction for the present value of future expected dividends to be paid between the grant date and distribution.

UBS options and SARs awards

Since 2010, the fair values of options and SARs have been determined using a standard closed-formula option valuation model. The expected term of each instrument is calculated based on historical employee exercise behavior patterns, taking into account the share price, strike price, vesting period and the contractual life of the instrument. The term structure of volatility is derived from the implied volatilities of traded UBS options in combination with the observed long-term historical share price volatility. Expected future dividends are derived from traded UBS options or from the historical dividend pattern. No options or SARs have been granted since 2009.

Incentive Performance Plan (IPP) and Performance Equity Plan (PEP)

For performance share awards granted in 2012, 2011 and 2010, UBS obtained independent third-party valuations based on the market conditions at the date of grant. The valuation methodology applied was a Monte Carlo simulation. The approach to determining input parameters and valuing the post-vesting transfer restriction is in line with that used for options. The fair value of IPP units granted in 2010 and PEP units granted in 2012, 2011 and 2010 was determined using the following assumptions:

	31.12.12	31.12.11	31.12.10
	PEP CHF awards	PEP CHF awards	PEP CHF awards
Expected total shareholder return volatility (%)	**43.00**	62.00	63.00
Expected economic profit volatility (%)[1]	**16.00**	52.00	57.00
Risk-free interest rate (%)	**0.09**	0.62	0.60
Expected dividend (CHF)	**0.13**	0.03	0.10
Share price (CHF)	**12.76**	18.43	14.80

1 For the PEP award in 2012, the expected volatility of economic profit was determined prior to the cost of equity deduction, resulting in a lower volatility compared with prior periods when the expected volatility of economic profit was determined after the cost of equity deduction. This refinement to the calculation did not have a significant impact on compensation expense for this award. Refer to the "Capital management" section in this report for more information on economic profit.

	31.12.10
	IPP CHF awards
Expected total shareholder return volatility (%)	38.07
Expected economic profit volatility (%)	N/A
Risk-free interest rate (%)	1.06
Expected dividend (CHF)	0.12
Share price (CHF)	14.80

Note 32 Related parties

UBS defines related parties as associated companies (entities which are significantly influenced by UBS), post-employment benefit plans for the benefit of UBS employees, key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled or jointly controlled by key management personnel or their close family members. Key management personnel is defined as members of the Board of Directors (BoD) and Group Executive Board (GEB).

a) Remuneration of key management personnel

The non-independent members of the BoD have top management employment contracts and receive pension benefits upon retirement. Total remuneration of the non-independent members of the BoD and GEB members, including those who stepped down during 2012[1], is as follows:

Remuneration of key management personnel

CHF million	**31.12.12**	31.12.11	31.12.10
Base salaries and other cash payments	**20**	21	16
Incentive awards – cash[2]	**0**	22	30
Annual incentive award under DCCP	**21**	0	0
Employer's contributions to retirement benefit plans	**1**	1	1
Benefits in kind, fringe benefits (at market value)	**1**	1	1
Equity-based compensation[3]	**34**	33	48
Total	**76**	79	96

1 During 2012, Alexander Wilmot-Sitwell and Carsten Kengeter stepped down from the GEB. 2 Includes immediate and deferred cash. 3 Expenses for shares granted is measured at grant date and allocated over the vesting period, generally for 5 years. In 2012, equity-based compensation was entirely comprised of EOP awards. In 2011 and 2010, equity-based compensation included PEP and SEEOP awards, as well as blocked shares due to applicable UK FSA regulations.

The independent members of the BoD do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the BoD. Payments to these individuals for their services as external board members amounted to CHF 7.6 million in 2012, CHF 7.0 million in 2011 and CHF 6.7 million in 2010.

b) Equity holdings

	31.12.12	31.12.11	31.12.10
Number of stock options from equity participation plans held by non-independent members of the BoD and the GEB members[1]	**3,137,426**	4,800,170	9,085,194
Number of shares held by members of the BoD, GEB and parties closely linked to them[2]	**4,557,522**	3,562,771	4,850,196

1 Refer to "Note 31 Equity participation and other compensation plans" for more information. 2 Excludes shares granted under variable compensation plans with forfeiture provisions.

Of the share totals above, 5,597 shares on 31 December 2012, 31 December 2011 and 31 December 2010, respectively, were held by close family members of key management personnel. No shares were held by entities that are directly or indirectly controlled or jointly controlled by key management personnel or their close family members on 31 December 2012, 31 December 2011 and 31 December 2010. Refer to "Note 31 Equity participation and other compensation plans" for more information. No member of the BoD or GEB is the beneficial owner of more than 1% of UBS AG's shares on 31 December 2012.

Note 32 Related parties (continued)

c) Loans, advances and mortgages to key management personnel

Non-independent members of the BoD and GEB members have been granted loans, fixed advances and mortgages on the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties but adjusted for reduced credit risk. Independent BoD members are granted loans and mortgages under general market conditions.

Movements in the loan, advances and mortgage balances are as follows:

Loans, advances and mortgages to key management personnel [1]

CHF million	**2012**	2011
Balance at the beginning of the year	**19**	22
Additions	**5**	0
Reductions	**(5)**	(3)
Balance at the end of the year	**19**	19[2]

1 All loans are secured loans, except for CHF 311,308 in 2012 and CHF 45,435 in 2011. 2 Includes a forgivable loan of CHF 3.3 million, subject to the GEB member's continued full-time employment with UBS and a performance satisfactory and commensurate with his responsibilities. The loan has been fully repaid in 2012, as the GEB member stepped down during the year.

d) Associated companies

All transactions with associated companies are conducted at arm's length:

Loans and receivables with associated companies

CHF million	**2012**	2011	2010
Balance at the beginning of the year	**231**	259	373
Additions	**251**	3	2
Reductions	**(32)**	(33)	(118)
Credit loss (expense) / recovery	**0**	0	0
Foreign currency translation	**1**	1	2
Balance at the end of the year	**450**	231	259
of which: unsecured loans	***276***	*28*	*39*
of which: allowances for credit losses	***1***	*1*	*1*

Other transactions with associated companies

	As of or for the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Payments to associates for goods and services received	**131**	131	139
Fees received for services provided to associates	**0**	1	1
Commitments and contingent liabilities to associates	**8**	9	68

Refer to "Note 34 Significant subsidiaries and associates" for an overview of significant associates.

Note 32 Related parties (continued)

e) Other related party transactions

During 2012 and 2011, UBS entered into transactions at arm's length with entities which are directly or indirectly controlled or jointly controlled by UBS's key management personnel or their close family members. In 2012 and 2011, these entities included H21 Macro Fund Ltd (Cayman Islands) and Immo Heudorf AG (Switzerland). In 2010, UBS provided services for H21 Macro Fund Ltd (Cayman Islands).

Other related party transactions

CHF million	**2012**	2011	2010
Balance at the beginning of the year	**11**	0	0
Additions	**1**	15	0
Reductions	**0**	4	0
Balance at the end of the year	**11**[1]	11[1]	0

1 Comprised of loans.

Other transactions with these related parties include:

CHF million	**2012**	2011	2010
Goods sold and services provided to UBS	**0**	0	0
Fees received for services provided by UBS	**0**	3	1

f) Additional information

UBS also engages in trading and risk management activities (e.g. swaps, options and forwards) with various related parties mentioned in previous sections. These transactions may give rise to credit risk either for UBS or for a related party towards UBS. As part of its normal course of business, UBS is also a market-maker in equity and debt instruments and at times may hold positions in instruments of related parties. These transactions are generally entered into at arm's length terms.

Note 33 Events after the reporting period

There have been no material events after the reporting period which would require disclosure in or adjustment to the 31 December 2012 Financial Statements.

Note 34 Significant subsidiaries and associates

Significant subsidiaries as of 31 December 2012

Company	Registered office	Business division		Share capital in million	Equity interest accumulated in %
CCR Asset Management SA	Paris, France	Global Asset Management	EUR	5.3	100.0
OOO UBS Bank	Moscow, Russia	Investment Bank	RUB	3,450.0	100.0
Swiss Finance Corporation (Mauritius) Limited	Port Louis, Mauritius	Investment Bank	USD	0.0	100.0
Topcard Service AG	Glattbrugg, Switzerland	Retail & Corporate	CHF	0.2	100.0
UBS (Bahamas) Ltd	Nassau, Bahamas	Wealth Management	USD	4.0	100.0
UBS (China) Limited[1]	Beijing, China	Investment Bank	CNY	2,000.0	100.0
UBS (France) SA	Paris, France	Wealth Management	EUR	125.7	100.0
UBS (Grand Cayman) Limited	George Town, Cayman Islands	Investment Bank	USD	0.0	100.0
UBS (Italia) SpA	Milan, Italy	Wealth Management	EUR	60.0	100.0
UBS (Luxembourg) SA	Luxembourg, Luxembourg	Wealth Management	CHF	150.0	100.0
UBS (Monaco) SA	Monte Carlo, Monaco	Wealth Management	EUR	9.2	100.0
UBS Alternative and Quantitative Investments LLC	Wilmington, Delaware, USA	Global Asset Management	USD	0.1	100.0
UBS Americas Inc.	Wilmington, Delaware, USA	Investment Bank	USD	0.0	100.0
UBS Asesores Mexico, S.A. de C.V.	Mexico City, Mexico	Wealth Management	MXN	303.6	100.0
UBS Bank (Canada)	Toronto, Canada	Wealth Management Americas	CAD	8.5	100.0
UBS Bank (Netherlands) B.V.	Amsterdam, Netherlands	Wealth Management	EUR	0.2	100.0
UBS Bank Mexico, S.A. Institucion de Banca Multiple, UBS Grupo Financiero	Mexico City, Mexico	Investment Bank	MXN	706.4	100.0
UBS Bank USA	Salt Lake City, Utah, USA	Wealth Management Americas	USD	1,880.0[2]	100.0
UBS Bank, SA	Madrid, Spain	Wealth Management	EUR	82.2	100.0
UBS Belgium SA/NV	Brussels, Belgium	Wealth Management	EUR	28.0	100.0
UBS Beteiligungs-GmbH & Co. KG	Frankfurt, Germany	Wealth Management	EUR	568.8	100.0
UBS Brasil Administradora de Valores Mobiliarios Ltda	São Paulo, Brazil	Wealth Management	BRL	114.2	100.0
UBS Capital Securities (Jersey) Limited	St. Helier, Jersey	Corporate Center	EUR	0.0	100.0
UBS Card Center AG	Glattbrugg, Switzerland	Retail & Corporate	CHF	0.1	100.0
UBS Casa de Bolsa, S.A. de C.V., UBS Grupo Financiero	Mexico City, Mexico	Investment Bank	MXN	114.9	100.0
UBS Derivatives Hong Kong Limited	Hong Kong, China	Investment Bank	HKD	880.0	100.0
UBS Deutschland AG	Frankfurt, Germany	Wealth Management	EUR	176.0	100.0
UBS Finance (Curaçao) NV	Willemstad, Curaçao	Corporate Center	USD	0.1	100.0
UBS Finance (Delaware) LLC	Wilmington, Delaware, USA	Investment Bank	USD	37.3[2]	100.0
UBS Financial Services Inc.	Wilmington, Delaware, USA	Wealth Management Americas	USD	4,522.5[2]	100.0
UBS Financial Services Incorporated of Puerto Rico	San Juan, Puerto Rico	Wealth Management Americas	USD	56.0[2]	100.0
UBS Fund Advisor, L.L.C.	Wilmington, Delaware, USA	Wealth Management Americas	USD	0.0	100.0
UBS Fund Management (Luxembourg) SA	Luxembourg, Luxembourg	Global Asset Management	EUR	10.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	Global Asset Management	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	Global Asset Management	USD	5.6	100.0
UBS Fund Services (Luxembourg) SA	Luxembourg, Luxembourg	Global Asset Management	CHF	2.5	100.0
UBS Futures Singapore Ltd	Singapore, Singapore	Investment Bank	USD	35.1	100.0
UBS Global Asset Management (Americas) Inc.	Wilmington, Delaware, USA	Global Asset Management	USD	0.0	100.0
UBS Global Asset Management (Australia) Ltd	Sydney, Australia	Global Asset Management	AUD	19.9	100.0
UBS Global Asset Management (Canada) Inc.	Toronto, Canada	Global Asset Management	CAD	117.0	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	Global Asset Management	JPY	2,200.0	100.0
UBS Global Asset Management (Singapore) Ltd	Singapore, Singapore	Global Asset Management	SGD	4.0	100.0
UBS Global Asset Management (UK) Ltd	London, United Kingdom	Global Asset Management	GBP	125.0	100.0
UBS Global Asset Management Holding Ltd	London, United Kingdom	Global Asset Management	GBP	151.4	100.0
UBS Global Life AG	Vaduz, Liechtenstein	Wealth Management	CHF	5.0	100.0
UBS Grupo Financiero, S.A. de C.V.	Mexico City, Mexico	Investment Bank	MXN	918.8	100.0
UBS Hana Asset Management Company Ltd	Seoul, South Korea	Global Asset Management	KRW	45,000.0	51.0
UBS Holding (France) SA	Paris, France	Investment Bank	EUR	418.9	100.0

1 Incorporated in 2012. 2 Share capital and share premium.

Note 34 Significant subsidiaries and associates (continued)

Significant subsidiaries as of 31 December 2012

Company	Registered office	Business division		Share capital in million	Equity interest accumulated in %
UBS Hypotheken AG	Zurich, Switzerland	Retail & Corporate	CHF	0.1	98.0
UBS International Holdings B.V.	Amsterdam, Netherlands	Corporate Center	EUR	6.8	100.0
UBS International Life Limited	Dublin, Ireland	Wealth Management	EUR	1.0	100.0
UBS Italia SIM SpA	Milan, Italy	Investment Bank	EUR	15.1	100.0
UBS Life AG	Zurich, Switzerland	Wealth Management	CHF	25.0	100.0
UBS Limited	London, United Kingdom	Investment Bank	GBP	193.6	100.0
UBS Loan Finance LLC	Wilmington, Delaware, USA	Investment Bank	USD	16.7[2]	100.0
UBS O'Connor LLC	Dover, Delaware, USA	Global Asset Management	USD	1.0	100.0
UBS Preferred Funding (Jersey) Limited	St. Helier, Jersey	Corporate Center	EUR	0.0	100.0
UBS Preferred Funding Company LLC IV	Wilmington, Delaware, USA	Corporate Center	USD	0.0	100.0
UBS Preferred Funding Company LLC V	Wilmington, Delaware, USA	Corporate Center	USD	0.0	100.0
UBS Real Estate Kapitalanlagegesellschaft mbH	Munich, Germany	Global Asset Management	EUR	7.5	94.9
UBS Real Estate Securities Inc.	Wilmington, Delaware, USA	Investment Bank	USD	1,300.4[2]	100.0
UBS Realty Investors LLC	Boston, Massachusetts, USA	Global Asset Management	USD	9.0	100.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	Investment Bank	THB	500.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	Investment Bank	AUD	209.8[2]	100.0
UBS Securities Canada Inc.	Toronto, Canada	Investment Bank	CAD	10.0	100.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	Investment Bank	EUR	15.0	100.0
UBS Securities France SA	Paris, France	Investment Bank	EUR	22.9	100.0
UBS Securities Hong Kong Limited	Hong Kong, China	Investment Bank	HKD	430.0	100.0
UBS Securities India Private Limited	Mumbai, India	Investment Bank	INR	140.0	100.0
UBS Securities Japan Co., Ltd	Tokyo, Japan	Investment Bank	JPY	74,450.0	100.0
UBS Securities LLC	Wilmington, Delaware, USA	Investment Bank	USD	22,205.6[2]	100.0
UBS Securities Pte. Ltd	Singapore, Singapore	Investment Bank	SGD	311.5	100.0
UBS Securities Pte. Ltd Seoul Branch	Seoul, South Korea	Investment Bank	KRW	0.0	100.0
UBS Securities Pte. Ltd Taipei Branch	Taipei, Taiwan	Investment Bank	TWD	0.0	100.0
UBS Service Centre (Poland) Sp. z o.o.	Zabierzow, Poland	Corporate Center	PLN	1.4	100.0
UBS South Africa (Proprietary) Limited	Sandton, South Africa	Investment Bank	ZAR	0.0	100.0
UBS Swiss Financial Advisers AG	Zurich, Switzerland	Wealth Management	CHF	1.5	100.0
UBS Trust Company of Puerto Rico	Hato Rey, Puerto Rico	Wealth Management Americas	USD	5.0[2]	100.0
UBS UK Properties Limited	London, United Kingdom	Investment Bank	GBP	132.0	100.0
UBS Wealth Management Australia Ltd	Sydney, Australia	Wealth Management	AUD	53.9	100.0

1 Incorporated in 2012. 2 Share capital and share premium.

Significant subsidiaries deconsolidated during 2012

Significant deconsolidated companies	Registered office	Reason for deconsolidation
UBS Leasing AG	Zurich, Switzerland	Merger with UBS AG

Significant associates as of 31 December 2012

Company	Registered office	Industry	Equity interest in %
SIX Group AG[1]	Zurich, Switzerland	Financial	17.3
UBS Securities Co. Limited[1]	Beijing, China	Financial	20.0

1 UBS is represented on the Board of Directors.

Note 35 Invested assets and net new money

Invested assets

Invested assets include all client assets managed by or deposited with UBS for investment purposes. Invested assets include managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. All assets held for purely transactional purposes and custody-only assets, including corporate client assets held for cash management and transactional purposes, are excluded from invested assets as the Group only administers the assets and does not offer advice on how the assets should be invested. Also excluded are non-bankable assets (e.g. art collections) and deposits from third-party banks for funding or trading purposes. In the first quarter 2012, the definition of invested assets for Retail & Corporate was refined and hence pension fund assets are no longer counted as invested assets. Accordingly, the Group's invested assets were restated as of 31 December 2011 from CHF 2,167 billion to CHF 2,088 billion.

Discretionary assets are defined as client assets that UBS decides how to invest. Other invested assets are those where the client ultimately decides how the assets are invested. When a single product is created in one business division and sold in another, it is counted in both the business division that manages the investment and the one that distributes it. This results in double counting within UBS total invested assets, as both business divisions are providing a service independently to their respective clients, and both add value and generate revenue.

Net new money

Net new money in a reporting period is the amount of invested assets that are entrusted to UBS by new and existing clients, less those withdrawn by existing clients and clients who terminated their relationship with UBS.

Net new money is calculated using the direct method, under which inflows and outflows to/from invested assets are determined at the client level based on transactions. Interest and dividend income from invested assets are not counted as net new money inflows. Market and currency movements as well as fees, commissions and interest on loans charged are excluded from net new money, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Reclassifications between invested assets and custody-only assets as a result of a change in the service level delivered are generally treated as net new money flows; however, where such change in service level directly results from a new externally-imposed regulation, the one-time net effect of the implementation is reported as an asset reclassification without net new money impact.

The Investment Bank does not track invested assets and net new money. However, when a client is transferred from the Investment Bank to another business division, this produces net new money even though client assets were already with UBS. Net new money resulting from such transfers between business divisions was zero in 2012 and 2011.

	As of or for the year ended	
CHF billion	**31.12.12**	31.12.11
Fund assets managed by UBS	**270**	270
Discretionary assets	**635**	585
Other invested assets	**1,325**	1,233
Total invested assets (double counts included)	**2,230**	2,088
of which: double count	***172***	*183*
of which: acquisitions (divestments)	***(13.8)***	*24.6*
Net new money (double counts included)	**32.9**	40.4

Note 36 Business combinations

Business combinations in 2012

In 2012, no significant business combinations were completed.

Business combinations completed in 2011

In 2011, UBS completed acquisitions in Global Asset Management and in the equities business of the Investment Bank. The aggregated acquisition costs of these two acquisitions amounted to approximately CHF 54 million of which CHF 11 million related to goodwill, CHF 20 million to intangible assets, and CHF 23 million to other net assets. Intangible assets from both business acquisitions included customer relationships and beneficial contracts. The aggregated acquisition costs included cash payments of CHF 44 million and contingent consideration of CHF 10 million, including CHF 8 million in restricted UBS AG shares.

Business combinations in 2010

In 2010, no significant business combinations were completed.

Note 37 Changes in organization

Net restructuring charges by business division and Corporate Center

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Wealth Management	**26**	82	(9)
Wealth Management Americas	**(1)**	10	162
Investment Bank	**331**	216	(25)
Global Asset Management	**20**	26	1
Retail & Corporate	**3**	32	(3)
Corporate Center	**(8)**	15	(13)
Total net restructuring charges	**371**	380	113
of which: personnel expenses	***358***	*261*	*(2)*
of which: general and administrative expenses	***0***	*93*	*79*
of which: depreciation and impairment of property and equipment	***14***	*26*	*37*

Net restructuring charges by personnel expense category

	For the year ended		
CHF million	**31.12.12**	31.12.11	31.12.10
Salaries	**64**	31	0
Variable compensation – performance awards	**115**	54	3
Variable compensation – other	**247**	122	(10)
Contractors	**0**	0	0
Social security	**(10)**	20	1
Pension and other post-employment benefit plans	**(56)**	30	0
Wealth Management Americas: Financial advisor compensation	**0**	(1)	2
Other personnel expenses	**(1)**	6	2
Total net restructuring charges: personnel expenses	**358**	261	(2)

Note 38 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of our foreign operations into Swiss francs:

	Spot rate		Average rate[1]		
	As of		Year ended		
	31.12.12	31.12.11	**31.12.12**	31.12.11	31.12.10
1 USD	**0.92**	0.94	**0.92**	0.88	1.04
1 EUR	**1.21**	1.21	**1.21**	1.23	1.37
1 GBP	**1.49**	1.46	**1.50**	1.45	1.62
100 JPY	**1.05**	1.22	**1.07**	1.11	1.18

1 Monthly income statement items of foreign operations with a functional currency other than Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a year represent an average of twelve month-end rates, weighted according to the income and expense volumes of all foreign operations of the Group with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for the Group.

Note 39 Swiss banking law requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards (IFRS). The Swiss Financial Market Supervisory Authority (FINMA) requires banks which present their financial statements under IFRS to provide a narrative explanation of the main differences between IFRS and Swiss GAAP (FINMA Circular 2008/2 and the Banking Ordinance). Included in this note are the significant differences in regard to recognition and measurement between IFRS and the provisions of the Banking Ordinance and the guidelines of the FINMA governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance. The differences outlined in points two through eleven also apply to the Parent Bank statutory accounts.

1. Consolidation

Under IFRS, all entities which are controlled by the Group are consolidated.

Under Swiss law, only entities that are active in the field of banking and finance and real estate entities are subject to consolidation. Entities which are held temporarily are generally recorded as financial investments.

2. Financial investments available-for-sale

Under IFRS, financial investments available-for-sale are carried at fair value. Changes in fair value are recorded directly in equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in equity is included in net profit or loss for the period. On disposal of a financial investment available-for-sale, the cumulative unrecognized gain or loss previously recognized in equity is recognized in the income statement.

Under Swiss law, financial investments are carried either at the lower of cost or market or at amortized cost less impairment with changes in measurement recorded in the income statement. Reductions to market value below cost and reversals of such reductions up to original cost as well as gains and losses on disposal are included in *Other income*. Permanent equity investments are classified on the balance sheet as *Investments in subsidiaries and other participations* and are measured at cost less impairment with impairment losses recorded in the income statement.

3. Cash flow hedges

The Group designates derivative instruments in cash flow hedge accounting relationships. Under IFRS, when hedge accounting is applied, the fair value gain or loss on the effective portion of the derivative designated as a cash flow hedge is recognized in equity. When the hedged cash flows materialize, the accumulated unrecognized gain or loss is reclassified to income.

Under Swiss law, the effective portion of the fair value change of the derivative instrument used to hedge cash flow exposures is deferred on the balance sheet as *Other assets* or *Other liabilities*. The deferred amounts are released to income when the hedged cash flows materialize.

4. Investment property

Under IFRS, investment property is carried at fair value, with changes in fair value recognized in the income statement.

Under Swiss law, unless the investment property is classified as held for sale, investment property is carried at amortized cost less any accumulated depreciation and impairment losses. Investment property classified as held for sale is carried at the lower of cost or market value.

Note 39 Swiss banking law requirements (continued)

5. Fair value option

Under IFRS, the Group applies the fair value option to certain financial assets and financial liabilities. Instruments for which the fair value option is applied are accounted for at fair value with changes in fair value reflected in *Net trading income*. The fair value option is applied primarily to hybrid debt instruments, certain loans and loan commitments and certain fund investments.

Under Swiss accounting rules, the fair value option can only be applied to structured products issued that consist of a debt host contract and an embedded derivative(s) that requires bifurcation. Changes in fair value attributable to changes in own credit are not recognized in the income statement.

6. Goodwill and intangible assets

Under IFRS, goodwill acquired in a business combination is not amortized but tested annually for impairment. Intangible assets acquired in a business combination with an indefinite useful life are also not amortized but tested annually for impairment.

Under Swiss law, goodwill and intangible assets with indefinite useful lives are amortized over a period not exceeding five years, unless a longer useful life, which may not exceed twenty years, can be justified.

7. Pension funds

Swiss law permits the use of IFRS or Swiss accounting standards for pension funds, with the election made on a plan by plan basis. UBS applies IFRS for its non-Swiss defined benefit plans and Swiss accounting standards (FER 16) for the Swiss pension plan in the Parent Bank. The requirements of FER 16 are better aligned with the specific nature of Swiss pension plans, which are hybrid in that they combine elements of defined contribution and defined benefit plans, but are treated as defined benefit plans under IFRS. Key differences between FER 16/26 and IAS 19R relate to the treatment of future salary increases, which are not considered under FER 16/26, and the determination of the discount rate.

For defined benefit plans, IFRS requires the full defined benefit obligation net of the plan assets to be recorded on the balance sheet, with changes resulting from remeasurements recognized directly in equity. For plans for which IFRS is elected, Swiss law requires that changes due to remeasurements are recognized in the income statement.

Swiss accounting standards require that employer contributions to the pension fund are recognized as personnel expenses in the income statement. Further, FER 16 requires an assessment as to whether, based on the financial statements of the pension fund prepared in accordance with Swiss accounting standards (FER 26), an economic benefit or obligation for the employer arises from the pension fund and is recognized in the balance sheet when conditions are met. Conditions for recording a pension asset or liability would be met if, for example, an employer contribution reserve is available or the employer is required to contribute to the reduction of a pension deficit (on a FER 26 basis).

8. Netting of replacement values

Under IFRS, replacement values are reported on a gross basis unless certain restrictive requirements are met. Under Swiss law, replacement values and the related cash collateral are reported on a net basis, provided the master netting and the related collateral agreements are legally enforceable.

9. Restructuring provisions

Under Swiss law, a provision for restructuring costs should be recognized when the governing body has authorized a plan for the direction, supervision and control of restructuring measures. For IFRS, in addition to a detailed formal plan for the restructuring, a provision for restructuring costs is recognized only when the entity also has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. Accordingly, recognition of a provision for restructuring may occur earlier under Swiss GAAP than under IFRS.

10. Discontinued operations

Under certain conditions, IFRS requires that non-current assets or disposal groups be classified as held for sale. Disposal groups that meet the criteria of discontinued operations are presented in the income statement in a single line as net income from discontinued operations.

Under Swiss law, the concept of discontinued operations does not exist, therefore no such reclassification takes place.

11. Extraordinary income and expense

Certain items of non-recurring and non-operating income and expense are classified as extraordinary items under Swiss law. This distinction is not available under IFRS.

Note 40 Supplemental guarantor information required under SEC rules

Guarantee of PaineWebber securities

Following the acquisition of Paine Webber Group Inc. (PaineWebber), UBS AG entered into a full and unconditional guarantee of the senior notes, the subordinated notes and the trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was a SEC registrant. Upon the acquisition, PaineWebber was merged into UBS Americas Inc., a wholly-owned subsidiary of UBS AG.

Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS AG without first proceeding against UBS Americas Inc. UBS AG's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS AG and all other liabilities of UBS AG.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the consolidated financial statements of UBS of which this information is a part.

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2012	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	13,376	2,774	2,153	(2,336)	15,968
Interest expense	(9,615)	(1,153)	(1,542)	2,336	(9,974)
Net interest income	3,762	1,622	610	0	5,994
Credit loss (expense) / recovery	(7)	(112)	1	0	(118)
Net interest income after credit loss expense	3,754	1,510	611	0	5,875
Net fee and commission income	5,933	6,333	3,139	0	15,405
Net trading income	3,115	250	115	0	3,480
Income from subsidiaries	(4,009)	0	0	4,009	0
Other income	1,545	783	(1,646)	0	682
Total operating income	10,338	8,876	2,220	4,009	25,443
Operating expenses					
Personnel expenses	7,682	5,369	1,686	0	14,737
General and administrative expenses	4,643	2,618	1,393	0	8,653
Depreciation and impairment of property and equipment	501	104	84	0	689
Impairment of goodwill	14	2,860	156	0	3,030
Amortization and impairment of intangible assets	3	84	20	0	106
Total operating expenses	12,843	11,034	3,339	0	27,216
Operating profit / (loss) from continuing operations before tax	(2,505)	(2,158)	(1,119)	4,009	(1,774)
Tax expense / (benefit)	6	165	290	0	461
Net profit / (loss) from continuing operations	(2,511)	(2,323)	(1,409)	4,009	(2,235)
Net profit from discontinued operations	0	0	0	0	0
Net profit / (loss)	(2,511)	(2,323)	(1,409)	4,009	(2,235)
Net profit attributable to non-controlling interests	0	0	276	0	276
Net profit / (loss) attributable to UBS shareholders	(2,511)	(2,323)	(1,686)	4,009	(2,511)

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated balance sheet

CHF million For the year ended 31 December 2012	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	54,192	11,395	796	0	66,383
Due from banks	29,107	7,875	68,713	(84,464)	21,230
Cash collateral on securities borrowed	35,749	35,172	3,126	(36,675)	37,372
Reverse repurchase agreements	105,197	60,659	60,880	(95,795)	130,941
Trading portfolio assets	117,337	21,786	33,072	(11,335)	160,861
of which: assets pledged as collateral which may be sold or repledged by counterparties	*47,226*	*5,467*	*2,466*	*(10,460)*	*44,698*
Positive replacement values	416,098	5,695	129,090	(132,854)	418,029
Cash collateral receivables on derivative instruments	32,740	4,045	28,331	(34,703)	30,413
Financial assets designated at fair value	7,007	3,037	10,535	(11,473)	9,106
Loans	279,038	38,663	11,765	(49,566)	279,901
Financial investments available-for-sale	51,041	10,637	4,706	0	66,383
Accrued income and prepaid expenses	1,954	3,994	590	(446)	6,093
Investments in subsidiaries and associates	64,807	2	1	(63,951)	858
Property and equipment	5,034	593	376	0	6,004
Goodwill and intangible assets	323	5,116	1,023	0	6,461
Deferred tax assets	5,132	2,643	368	0	8,143
Other assets	8,969	3,718	1,233	(2,865)	11,055
Total assets	1,213,726	215,030	354,604	(524,128)	1,259,232
Liabilities					
Due to banks	54,795	46,014	6,680	(84,464)	23,024
Cash collateral on securities lent	19,704	22,105	4,069	(36,675)	9,203
Repurchase agreements	24,540	51,057	57,837	(95,795)	37,639
Trading portfolio liabilities	24,996	8,892	6,137	(5,870)	34,154
Negative replacement values	391,863	5,856	130,204	(132,854)	395,070
Cash collateral payables on derivative instruments	58,650	10,907	36,294	(34,703)	71,148
Financial liabilities designated at fair value	88,775	988	15,154	(12,039)	92,878
Due to customers	330,271	45,107	46,079	(49,566)	371,892
Accrued expenses and deferred income	4,731	2,047	549	(446)	6,881
Debt issued	102,015	353	7,186	(4,899)	104,656
Provisions	1,166	1,023	347	0	2,536
Other liabilities	24,622	18,642	19,503	(2,865)	59,902
Total liabilities	1,126,129	212,993	330,038	(460,177)	1,208,983
Equity attributable to UBS shareholders	87,597	2,037	20,213	(63,951)	45,895
Equity attributable to non-controlling interests	0	0	4,353	0	4,353
Total equity	87,597	2,037	24,566	(63,951)	50,249
Total liabilities and equity	1,213,726	215,030	354,604	(524,128)	1,259,232

1 UBS AG (Parent Bank) prepares its financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows[1]

CHF million For the year ended 31 December 2012	UBS AG (Parent Bank)[2]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	49,070	10,795	7,186	67,050
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(11)	0	0	(11)
Disposal of subsidiaries, associates and intangible assets[3]	41	0	0	41
Purchase of property and equipment	(878)	(189)	(50)	(1,118)
Disposal of property and equipment	194	5	3	202
Net (investment in) / divestment of financial investments available-for-sale	(12,429)	(780)	(737)	(13,946)
Net cash flow from / (used in) investing activities	(13,082)	(965)	(784)	(14,831)
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	(26,177)	0	(11,790)	(37,967)
Net movements in treasury shares and own equity derivative activity	(1,159)	0	0	(1,159)
Dividends paid	(379)	0	0	(379)
Issuance of long-term debt, including financial liabilities designated at fair value	49,885	575	5,287	55,747
Repayment of long-term debt, including financial liabilities designated at fair value	(49,981)	(23)	(3,991)	(53,996)
Dividends paid to / decrease in non-controlling interests	0	0	(288)	(288)
Net activity in investments in subsidiaries	(2,600)	(99)	2,698	0
Net cash flow from / (used in) financing activities	(30,410)	452	(8,084)	(38,041)
Effects of exchange rate differences	(200)	(352)	(121)	(673)
Net increase / (decrease) in cash and cash equivalents	5,377	9,930	(1,802)	13,506
Cash and cash equivalents at the beginning of the year	66,481	4,336	14,796	85,612
Cash and cash equivalents at the end of the year	71,858	14,266	12,994	99,118
Cash and cash equivalents comprise:				
Cash and balances with central banks	54,192	11,395	796	66,383
Money market paper[4]	4,279	47	56	4,382
Due from banks[5]	13,387	2,824	12,142	28,354
Total	71,858	14,266	12,994	99,118

1 In 2012, the estimation of the effects of foreign currency translation on the statement of cash flows was refined. This change in estimate resulted for UBS Group in Net cash flows from / (used in) operating activities being higher by CHF 1.8 billion (recorded in Other net adjustments), from / (used in) investing activities being higher by CHF 0.5 billion, from / (used in) financing activities being higher by CHF 1.4 billion and the amounts presented under the line item Effects of exchange rate differences being lower by CHF 3.7 billion. 2 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 3 Includes dividends received from associates. 4 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 5 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2011	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	15,311	2,910	2,952	(3,203)	17,969
Interest expense	(10,854)	(1,102)	(2,391)	3,203	(11,143)
Net interest income	4,457	1,808	561	0	6,826
Credit loss (expense) / recovery	(96)	18	(6)	0	(84)
Net interest income after credit loss expense	4,361	1,826	555	0	6,742
Net fee and commission income	6,351	5,757	3,128	0	15,236
Net trading income	4,155	(81)	269	0	4,343
Income from subsidiaries	677	0	0	(677)	0
Other income	1,427	728	(689)	0	1,467
Total operating income	16,972	8,230	3,263	(677)	27,788
Operating expenses					
Personnel expenses	8,772	5,199	1,663	0	15,634
General and administrative expenses	2,577	2,283	1,099	0	5,959
Depreciation and impairment of property and equipment	564	117	81	0	761
Impairment of goodwill	0	0	0	0	0
Amortization and impairment of intangible assets	26	80	21	0	127
Total operating expenses	11,940	7,679	2,864	0	22,482
Operating profit / (loss) from continuing operations before tax	5,032	551	399	(677)	5,307
Tax expense / (benefit)	895	61	(55)	0	901
Net profit / (loss) from continuing operations	4,138	490	454	(677)	4,406
Net profit from discontinued operations	0	0	0	0	0
Net profit / (loss)	4,138	490	454	(677)	4,406
Net profit attributable to non-controlling interests	0	2	266	0	268
Net profit / (loss) attributable to UBS shareholders	4,138	488	189	(677)	4,138

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated balance sheet

CHF million For the year ended 31 December 2011	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	38,094	1,977	568	0	40,638
Due from banks	26,085	4,866	80,863	(88,596)	23,218
Cash collateral on securities borrowed	41,783	57,893	3,040	(43,953)	58,763
Reverse repurchase agreements	161,663	123,923	88,167	(160,252)	213,501
Trading portfolio assets	130,585	30,864	33,451	(13,374)	181,525
of which: assets pledged as collateral which may be sold or repledged by counterparties	*50,064*	*2,801*	*609*	*(13,537)*	*39,936*
Positive replacement values	482,528	8,244	146,545	(150,732)	486,584
Cash collateral receivables on derivative instruments	44,906	4,640	25,894	(34,118)	41,322
Financial assets designated at fair value	6,290	4,537	7,515	(8,005)	10,336
Loans	263,927	37,836	11,391	(46,549)	266,604
Financial investments available-for-sale	39,431	9,877	3,866	0	53,174
Accrued income and prepaid expenses	1,971	4,046	872	(561)	6,327
Investments in subsidiaries and associates	59,809	4	0	(59,018)	795
Property and equipment	4,757	523	408	0	5,688
Goodwill and intangible assets	329	8,172	1,194	0	9,695
Deferred tax assets	6,274	2,839	514	0	9,627
Other assets	9,425	2,141	1,688	(4,089)	9,165
Total assets	1,317,857	302,381	405,973	(609,248)	1,416,962
Liabilities					
Due to banks	63,340	41,669	13,787	(88,596)	30,201
Cash collateral on securities lent	16,498	32,622	2,969	(43,953)	8,136
Repurchase agreements	38,030	141,005	83,646	(160,252)	102,429
Trading portfolio liabilities	32,299	8,437	5,751	(7,007)	39,480
Negative replacement values	467,112	8,312	148,708	(150,732)	473,400
Cash collateral payables on derivative instruments	55,378	11,188	34,666	(34,118)	67,114
Financial liabilities designated at fair value	84,386	533	13,522	(9,459)	88,982
Due to customers	321,393	31,934	35,632	(46,549)	342,409
Accrued expenses and deferred income	4,530	2,203	678	(561)	6,850
Debt issued	125,251	407	19,873	(4,914)	140,617
Provisions	752	527	347	0	1,626
Other liabilities	25,913	19,080	21,879	(4,089)	62,784
Total liabilities	1,234,882	297,917	381,457	(550,230)	1,364,027
Equity attributable to UBS shareholders	82,975	4,463	20,111	(59,017)	48,530
Equity attributable to non-controlling interests	0	0	4,406	0	4,406
Total equity	82,975	4,463	24,517	(59,017)	52,935
Total liabilities and equity	1,317,857	302,381	405,973	(609,248)	1,416,962

1 UBS AG (Parent Bank) prepares its financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2011	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	(12,251)	(933)	(1,057)	(14,241)
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(58)	0	0	(58)
Disposal of subsidiaries, associates and intangible assets[2]	50	0	0	50
Purchase of property and equipment	(917)	(114)	(98)	(1,129)
Disposal of property and equipment	137	91	5	233
Net (investment in) / divestment of financial investments available-for-sale	19,125	1,165	(9)	20,281
Net cash flow from / (used in) investing activities	18,336	1,142	(101)	19,377
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	5,459	0	9,879	15,338
Net movements in treasury shares and own equity derivative activity	(1,885)	0	0	(1,885)
Issuance of long-term debt, including financial liabilities designated at fair value	48,844	197	3,549	52,590
Repayment of long-term debt, including financial liabilities designated at fair value	(55,668)	(8)	(6,950)	(62,626)
Increase in non-controlling interests	0	0	1	1
Dividends paid to / decrease in non-controlling interests	0	0	(748)	(749)
Net activity in investments in subsidiaries	640	(366)	(274)	0
Net cash flow from / (used in) financing activities	(2,610)	(177)	5,457	2,670
Effects of exchange rate differences	(2,587)	299	159	(2,129)
Net increase / (decrease) in cash and cash equivalents	889	333	4,457	5,678
Cash and cash equivalents at the beginning of the year	65,592	4,003	10,339	79,934
Cash and cash equivalents at the end of the year	66,481	4,336	14,796	85,612
Cash and cash equivalents comprise:				
Cash and balances with central banks	38,094	1,977	568	40,638
Money market paper[3]	3,804	29	67	3,900
Due from banks[4]	24,582	2,330	14,162	41,074
Total	66,481	4,336	14,796	85,612

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2010	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	15,732	3,388	2,723	(2,971)	18,872
Interest expense	(12,153)	(1,409)	(2,067)	2,971	(12,657)
Net interest income	3,579	1,980	656	0	6,215
Credit loss (expense) / recovery	(2)	(16)	(48)	0	(66)
Net interest income after credit loss expense	3,577	1,964	608	0	6,149
Net fee and commission income	7,293	6,465	3,401	0	17,160
Net trading income	6,979	(117)	609	0	7,471
Income from subsidiaries	1,392	0	0	(1,392)	0
Other income	1,515	1,296	(1,597)	0	1,214
Total operating income	20,757	9,608	3,022	(1,392)	31,994
Operating expenses					
Personnel expenses	9,339	5,842	1,849	0	17,031
General and administrative expenses	2,729	2,691	1,164	0	6,585
Depreciation and impairment of property and equipment	628	172	117	0	918
Impairment of goodwill	0	0	0	0	0
Amortization and impairment of intangible assets	3	90	24	0	117
Total operating expenses	12,700	8,796	3,154	0	24,650
Operating profit / (loss) from continuing operations before tax	8,057	812	(132)	(1,392)	7,345
Tax expense / (benefit)	605	(1,150)	136	0	(409)
Net profit / (loss) from continuing operations	7,452	1,962	(268)	(1,392)	7,754
Net profit from discontinued operations	0	0	2	0	2
Net profit / (loss)	7,452	1,962	(266)	(1,392)	7,756
Net profit attributable to non-controlling interests	0	0	304	0	304
Net profit / (loss) attributable to UBS shareholders	7,452	1,962	(570)	(1,392)	7,452

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2010	UBS AG (Parent Bank)[1]	UBS Americas Inc.	Other subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	10,719	(2,772)	5,440	13,385
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(75)	0	0	(75)
Disposal of subsidiaries, associates and intangible assets[2]	307	0	0	307
Purchase of property and equipment	(367)	(88)	(86)	(541)
Disposal of property and equipment	196	22	24	242
Net (investment in) / divestment of financial investments available-for-sale	2,123	3,474	(1,433)	4,164
Net cash flow from / (used in) investing activities	2,185	3,408	(1,497)	4,097
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	3,241	0	1,218	4,459
Net movements in treasury shares and own equity derivative activity	(1,456)	0	0	(1,456)
Capital issuance	(113)	0	0	(113)
Issuance of long-term debt, including financial liabilities designated at fair value	75,842	8	2,568	78,418
Repayment of long-term debt, including financial liabilities designated at fair value	(65,968)	(82)	(11,447)	(77,497)
Increase in non-controlling interests	0	0	6	6
Dividends paid to / decrease in non-controlling interests	0	(6)	(2,047)	(2,053)
Net activity in investments in subsidiaries	(122)	235	(113)	0
Net cash flow from / (used in) financing activities	11,424	154	(9,815)	1,764
Effects of exchange rate differences	(10,218)	1,482	(3,444)	(12,181)
Net increase / (decrease) in cash and cash equivalents	14,110	2,272	(9,315)	7,066
Cash and cash equivalents at the beginning of the year	51,482	1,731	19,654	72,868
Cash and cash equivalents at the end of the year	65,592	4,003	10,339	79,934
Cash and cash equivalents comprise:				
Cash and balances with central banks	26,372	69	498	26,939
Money market paper[3]	15,798	1,190	123	17,110
Due from banks[4]	23,422	2,744	9,719	35,885
Total	65,592	4,003	10,339	79,934

1 UBS AG (Parent Bank) prepares its audited financial statements in accordance with Swiss banking law requirements. Amounts presented in this column serve as a basis for preparing Group Financial Statements under IFRS. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 40 Supplemental guarantor information required under SEC rules (continued)

Guarantee of other securities

UBS AG, acting through wholly-owned US-domiciled finance subsidiaries, has issued the following outstanding trust preferred securities:

Guarantee of other securities

USD billion, unless otherwise indicated			As of 31.12.12	
Issuing entity	Type of security	Date issued	Interest (%)	Amount outstanding
UBS Preferred Funding Trust IV	Non-cumulative trust preferred securities	May 2003	one-month USD LIBOR + 0.7	0.3
UBS Preferred Funding Trust V	Non-cumulative trust preferred securities	May 2006	6.243	1.0

UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit and all other liabilities of UBS. At 31 December 2012, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,198 billion.

Guarantee to UBS Ltd.

UBS AG has issued a guarantee for the benefit of each counterparty of UBS Limited. Under this guarantee, UBS AG irrevocably and unconditionally guarantees each and every obligation that UBS Limited entered into. UBS AG promises to pay to that counterparty on demand any unpaid balance of such liabilities under the terms of the guarantee.

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 2012 as at and for the year ended 31 December 2012. References 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

In line with the strategy of the firm, the structure of our risk profile has continued to shift during 2012. Having achieved a significant decrease in the level of market risk in the past few years, looking forward we see our risk focus being primarily on credit risk, operational risk and treasury-related risks.

- Credit risk comprises the vast majority of Basel III risk-weighted assets. Our lending exposure arises mainly from our Swiss domestic business, which offers corporate loans and mortgage loans secured against residential properties and income-producing real estate, and is therefore tied to the health of the Swiss economy (refer to page 140). Within the Investment Bank, our credit exposure is predominantly investment grade, but includes loan underwriting characterized by concentrated exposure to lower-rated credits, albeit of a temporary nature (refer to page 141). Credit risk also arises from derivative activities, a significant portion of which has been determined to be non-core and therefore is being transferred to the Corporate Center and will be run down. Credit risks within the Legacy Portfolio have been significantly reduced and the remainder largely relates to derivatives and securitized positions that we will continue to reduce.
- Operational risk, including the risk from pending or potential litigation (refer to "Note 23 Provisions and contingent liabilities" and "Risk factors" sections), remains a key focus, particularly the delivery of remediation of identified operational risk issues (refer to page 162).
- Treasury-related risks are associated with potential imbalances in our asset and liability structure, including liquidity and funding risks arising from stressed market conditions or from firm-specific factors.

Summary of key developments in 2012

The key developments that took place in 2012 with regard to risk management and control include the following:

- The overall level of market risk decreased significantly and value-at-risk halved to CHF 18 million at year-end. This was in line with the implementation of our strategy to make the Investment Bank more focused, less complex and less capital-intensive. The remaining market risks predominantly arose from the Investment Bank Core activities, which may increase over time, and non-core trading positions, which we will continue to reduce.
- Our credit portfolios saw net credit loss expenses totaling CHF 118 million, mainly related to sales of student loan auction rate securities as part of the run-down of the Legacy Portfolio. Our impaired loan portfolio decreased by CHF 0.6 billion to CHF 1.6 billion, mainly as a result of these sales. Although we envisage growth within our core lending businesses, credit risks arising from non-core positions will roll off or be reduced over time and the preparations to transfer these risks to the Corporate Center were initiated.
- The implementation of the enhanced Operational Risk Framework remained a primary focus. Reporting of significant risk issues and the operational effectiveness of controls was strengthened and substantial progress was made across our risk remediation programs.
- Further progress was made in reducing our legacy positions. This mainly resulted from commutations of monoline insurance and sales of student loan auction rate securities. Net exposure to monoline insurers after credit valuation adjustments reduced from USD 1.2 billion to USD 0.6 billion. The remaining exposure is hedged via single-name credit default swaps. Our student loan auction rate securities portfolio reduced from USD 5.7 billion to USD 4.1 billion.
- We maintained our strong liquidity and funding positions, ending 2012 with a Basel III estimated pro-forma liquidity coverage ratio and an estimated pro-forma net stable funding ratio comfortably above the regulatory requirements of 100%.

➔ **Refer to the "Credit risk", "Market risk", "Operational risk" and "Liquidity and funding management" sections of this report for more information**

Risk management and control principles

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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 individual exposure levels, at specific portfolio levels and at an aggregate firm-wide level across all risk types.
2. Protecting our reputation through a sound risk culture characterized by a holistic and integrated view of risk, performance and reward, and through full compliance with our standards and principles, particularly our Code of Business Conduct and Ethics.
3. Ensuring management accountability, whereby business management, as opposed to Risk Control, owns all risks assumed throughout the firm and is responsible for the continuous and active management of all risk exposures to ensure that risk and return are balanced.
4. Independent control functions which monitor the effectiveness of the business's risk management and oversee risk-taking activities.

5. Disclosure of risks to senior management, the Board of Directors (BoD), shareholders, regulators, rating agencies and other stakeholders with an appropriate level of comprehensiveness and transparency.

Our risk management and control principles are implemented through a risk management and control framework. This framework comprises qualitative elements such as policies, procedures and authorities, and quantitative components including risk measurement methodologies and risk limits.

The framework is dynamic and continuously adapted to our evolving businesses and the market environment. It includes clearly defined processes to deal with new business initiatives as well as large and complex transactions.

Risk management and control responsibilities

The key roles and responsibilities for risk management and control are as follows:
- The BoD is responsible for determining the firm's risk principles, risk appetite and major portfolio limits, including their allocation to the business divisions. The risk assessment and oversight of management performed by the BoD considers evolving best practices and is intended to conform to statutory requirements, as is the related disclosure in this section. The BoD is supported by the BoD Risk Committee, which monitors and oversees the firm's risk profile and the implementation of the risk framework as approved by the BoD. The BoD Risk Committee also assesses and approves the firm's key risk measurement methodologies.
- The Group Executive Board (GEB) implements the risk framework, controls the firm's risk profile and approves all major risk policies.
- The Group Chief Executive Officer (Group CEO) is responsible for the results of the firm, has risk authority over transactions, positions and exposures, and also allocates portfolio limits approved by the BoD within the business divisions.
- The divisional Chief Executive Officers, as well as the head of our Non-core and Legacy Portfolio, are accountable for the results of their business divisions. This includes actively managing their risk exposures, and ensuring that risks and returns are balanced.
- The Group Chief Risk Officer reports directly to the Group CEO and has functional and management authority over Risk Control throughout the firm. Risk Control provides independent oversight of risk and is responsible for implementing the risk control processes for credit, country, market, investment, treasury and operational risk. This includes establishing methodologies to measure and assess risk, setting risk limits, and developing and operating an appropriate risk control infrastructure. The risk control process is supported by a framework of policies and authorities, which are delegated to Risk Control Officers according to their expertise, experience and responsibilities.
- The Group Chief Financial Officer (Group CFO) is responsible for ensuring that disclosure of our financial performance is clear and transparent and meets regulatory requirements and corporate governance standards. The Group CFO is also responsible for the management and control of UBS's tax affairs and for treasury and capital management, including management and control of funding and liquidity risk and UBS's regulatory capital ratios. Responsibility for implementation of the control framework for tax resides with the Group CFO whereas responsibility for implementation of the control framework for treasury activities is with Risk Control.
- The Group General Counsel is responsible for implementing the firm's risk management and control principles for legal and compliance matters.

Risk categories

The risks faced by our businesses can be broken down into three different categories: primary risks, operational risks and business risks. All three categories may impact the firm's reputation.

Primary and operational risks result from our business activities and are subject to independent risk control, whereas business risks are managed by divisional and firm-wide management. Primary risks are credit risk, market risk and treasury risk, as well as country risk and issuer risk. Operational risks include legal, compliance and tax risk and other risk categories. Business risks may arise from the commercial, strategic and economic risks inherent in our business activities.

Primary and operational risks are defined as follows:
- Credit risk – the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations.
- Issuer risk – the potential total loss that would occur on a tradable name (position or group of tradable positions) if an issuer or issuer group to which UBS is exposed were subject to a credit event. The potential loss arises not only from the value of securities issued by the name but also from any other obligations in tradable form which are referenced to the name (including derivatives and basket securities).
- Market risk – the risk of loss resulting from changes in market variables, whether to our trading positions or financial investments.
- Treasury risk – the risk that the firm fails to manage its funding, balance sheet, capital and liquidity resources as well as the market and issuer risk arising from treasury activities.
- Country risk – the risk of loss resulting from country-specific events. It includes transfer risk, whereby a country's authorities prevent or restrict the payment of an obligation, as well as systemic risk events arising from country-specific political or macroeconomic developments.
- Operational risk – the risk resulting from inadequate or failed internal processes, people and systems, or from external causes. Events may cause direct financial losses or indirect consequences in the form of revenue forgone as a result of business suspen-

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sion. They may also result in damage to our reputation and to our franchise, which have longer-term financial consequences.

Risk measurement

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A variety of methodologies and measurements are applied to quantify the risks of our portfolios and our risk concentrations. Risks that are not fully reflected within standard measures are subject to additional controls, which may include pre-approval of transactions and specific restrictions. Models to quantify risk are generally developed by dedicated units within control functions. Valuations and risk models that could impact the firm's books and records are independently verified, and subjected to ongoing monitoring and control by the Group Chief Risk Officer and Group Chief Financial Officer organizations.

The base measures are position level market risk sensitivities and credit risk exposures which, in aggregate, provide an overview of our risk across positions. These measures are supplemented with portfolio level statistical and stress loss measures, which are two complementary types of risk measures we use to assess potential future losses at an aggregate level.

Statistical loss

Statistical loss measures include value-at-risk (VaR), expected loss and earnings-at-risk (EaR). VaR estimates the losses arising from market risk, which could potentially be realized over a set time period at an established level of confidence. Expected loss measures the average annual costs that are expected to arise from our credit portfolios and operational risks. EaR measures the potential shortfall in our earnings that could be realized over a set time period at an established level of confidence, and is comprised of core statistical measures complemented by management assessment.

➔ **Refer to the "Credit risk", "Market risk" and "Operational risk" sections of this report for a description of our key statistical loss measures**

Stress loss

Stress loss is the loss that could result from extreme events under specified scenarios. We perform stress testing to complement our statistical loss measures and to give us a better understanding of our risk capacity and appetite. Stress testing quantifies our exposures to plausible yet extreme and unusual market movements and enables us to identify, understand and manage our potential vulnerabilities and risk concentrations. Our stress testing framework incorporates a comprehensive range of portfolio-specific stress tests as well as combined firm-wide stress tests.

Portfolio-specific stress tests are measures that focus on the risks of specific portfolios within the business divisions. Our portfolio stress loss measures are informed by past events but also include forward-looking elements. The stress scenarios for trading risks capture the liquidity characteristics of different markets and positions. For example, our stress frameworks include a scenario which reflects the extreme market conditions that were experienced at the height of the financial crisis in the fourth quarter of 2008.

Our combined stress test (CST) framework captures firm-wide exposures to a number of global systemic events, including a eurozone crisis and a severe global recession triggered by severe market events similar to those observed in 2008. These stress tests are based on forward-looking market events and macroeconomic scenarios calibrated to different levels of severity. The evolution of market indicators and economic variables under these scenarios is defined and applied to our entire risk portfolio. The impact of primary risks, operational risks, other consequential risks (e.g. structural foreign exchange risk) and business risks is assessed with the aim of calculating the loss and capital implications should these stress scenarios occur.

Stress test results are included in risk reporting and are important inputs for the risk control, risk appetite and business planning processes of the firm. Our firm-wide stress testing, which captures all major identified risks across our business divisions, is one of the key inputs for discussions between senior management, the BoD and regulators with regard to our risk profile. We continue to provide detailed stress analyses to FINMA in accordance with their requirements.

The stress scenarios are reviewed, updated and expanded regularly in the context of the macroeconomic and geopolitical environment by a committee of representatives from the business divisions, Risk Control and economic research. Our stress testing therefore attempts to provide a control framework that is forward-looking and responsive to changing market conditions. However, the market moves experienced in real stress events may differ from moves envisaged in our scenario specifications.

Most major financial firms employ stress tests, but their approaches vary significantly, and there are no industry standards defining stress scenarios or the way they should be applied to a firm's positions. Consequently, comparisons of stress results between firms can be misleading and, therefore, like most of our peers, we do not publish quantitative stress test results.

➔ **Refer to the "Credit risk" and "Market risk" sections of this report for a description of our key stress loss measures**

Group risk appetite framework

Our risk appetite framework establishes risk appetite objectives that we seek to maintain, even after experiencing severe losses over a defined time horizon. The risk appetite objectives are approved by the BoD.

In order to monitor our risk profile against our risk appetite, we use two complementary firm-wide risk measurement frameworks: one statistical, comprising the metrics earnings-at-risk (EaR) and capital-at–risk (CaR), and the other a scenario-based combined stress test (CST). Both frameworks seek to capture risks across all of our business divisions and from all major risk categories, including primary risks, operational risks, other consequential risks (e.g. structural foreign exchange risk) and business risks. The firm-wide risk metrics have a central place in our risk control, capital management and business planning processes, and can be summarized as follows:

- EaR is measured as the potential shortfall in earnings at a 95% confidence level and is evaluated over both three-month and one-year periods.
- CaR extends EaR to consider the impact on BIS tier 1 capital of a more severe earnings shortfall and is measured at confidence levels from 95% to 99.9%.
- CST evaluates the potential impact of specific stress scenarios across our risk portfolios, as described in the "Stress loss" section above, from which the impact on our earnings and capital is assessed.

For each risk appetite objective, aggregate risk exposure as measured by our firm-wide risk metrics is compared to risk capacity, which is based on our capital and forecasted earnings. Overall risk appetite is expressed through a defined risk capacity for each objective, which thus sets an upper limit on aggregate risk exposure. The comparison of risk exposure to risk capacity is a key consideration in management decisions on potential adjustments to the risk profile of our firm. The risk appetite objectives are evaluated each year in the context of the prospective business plans. The risk limit framework reflects the risk appetite as expressed through the approved risk appetite objectives, but also takes prevailing operating conditions into account.

As of 1 January 2013 the risk appetite objectives consider the impact of our specified stress events on Basel III CET1 capital. Specifically, we have set as an objective that the Basel III CET1 phase-in capital ratio remains at 10% or above if a severe stress event were to occur, for which we consider both the prevailing CST stress scenarios and the statistical CaR metric at a 95% confidence level. In both cases, we apply a one-year time horizon during which we model how the risks, earnings and costs of the firm will evolve. All elements that impact income, regulatory capital (including planned dividends and other capital distributions) and RWA are included in the assessment. In addition, we have set as an objective that available Basel III CET1 capital plus outstanding loss-absorbing notes are sufficient to absorb losses from an extreme 99.9% worst-case CaR stress event. The strategic plan approved by the BoD on 29 October 2012 is consistent with the achievement of these objectives. It is our intention to use fully applied Basel III CET1 as the capital measure for the purpose of the risk appetite framework by 2015.

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

Risk concentrations

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A risk concentration exists where (i) a position in financial instruments is affected by changes in a group of correlated factors, or a group of positions are affected by changes in the same risk factor or a group of correlated factors, and (ii) the exposure could, in the event of large but plausible adverse developments, result in significant losses.

The identification of risk concentrations requires judgment, as potential future developments cannot be predicted and may vary from period to period. In determining whether we have a risk concentration, we consider a number of elements, both individually and collectively. These elements include: the shared characteristics of the instruments and counterparties; the size of the position or group of positions; the sensitivity of the position or group of positions to changes in risk factors; and the volatility and correlations of those factors. Also important in our assessment is the liquidity of the markets where the instruments are traded, and the availability and effectiveness of hedges or other potential risk-mitigating factors. The value of a hedge instrument may not always move in line with the position being hedged, and this mismatch is referred to as basis risk.

Risk concentrations are subject to increased monitoring by Risk Control and assessed to determine whether they should be reduced or mitigated depending on the available means to do so. It is possible that material losses could occur on asset classes, positions and hedges, particularly if the correlations that emerge in a stressed environment differ markedly from those we anticipated. We are exposed to price risk, basis risk, credit spread risk and default risk as well as other idiosyncratic and correlation risks on both our equities and fixed income inventories. In addition, we have lending, counterparty and country risk exposures that could result in significant losses if economic conditions were to change.

➔ Refer to the "Credit risk", "Market risk" and "Operational risk" sections of this report for more information on the risks to which we are exposed

Risk disclosures

Our measures of risk exposure may differ depending on the purpose for which exposures are calculated, for example, for financial accounting purposes under International Financial Reporting Standards (IFRS), determination of our required regulatory capital or our internal management purposes. The exposures detailed in the "Credit risk" and "Market risk" sections are typically based on our internal management view of risk exposure.

➔ Refer to the "Basel 2.5 Pillar 3" section of this report for more information on the exposures we use in the determination of our required regulatory capital

Credit risk

Credit risk is the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. This includes settlement risk, an example of which would be a counterparty failing to deliver the counter-value of a foreign exchange transaction in which we have fulfilled our obligation. In addition, a credit loss can be triggered by economic or political difficulties in the country in which a counterparty or issuer of a security is based or has substantial assets (country risk).

Sources of credit risk

Credit risk arises from traditional banking products such as loans, loan commitments and guarantees (for example, letters of credit). It also arises from traded products, including over-the-counter (OTC) derivative transactions and exchange-traded derivatives, as well as securities financing transactions such as repurchase agreements (repos and reverse repos), securities borrowing and lending transactions. The same general risk control processes are applied to these products, although the accounting treatment may vary, as products may be carried at amortized cost (loans and receivables), at fair value through profit and loss (instruments held for trading, instruments designated at fair value) or at fair value through other comprehensive income (available-for-sale instruments) depending on the product type and the nature of the exposure. Securities and other obligations in tradable form also pose credit risk, as their fair values are affected by changing expectations regarding the probability of issuers failing to meet these obligations or when issuers actually fail to meet these obligations. Where these securities and obligations are held in connection with a trading activity, we view the risk as an issuer risk. Debt securities not held in connection with a trading activity are reported as debt investments and discussed at the end of this section. Many of the business activities of Wealth Management, Wealth Management Americas, Retail & Corporate, the Investment Bank and the Corporate Center – Legacy Portfolio expose us to credit risk. Credit risk exposures also arise from our Global Asset Management business, albeit to a lesser extent.

Credit risk control

Limits and controls

Limits are established for individual counterparties and their counterparty groups covering banking and traded products, as well as settlement amounts. These limits apply not only to the current outstanding amount, but also to contingent commitments and the potential future exposure of traded products. Credit engagements may not be entered into without the appropriate approvals and adherence to these limits.

In the Investment Bank, a distinction is made between exposures intended to be held to maturity (take-and-hold exposures) and those which are intended to be held for a short term, pending distribution or risk transfer (temporary exposures).

Credit risk concentrations can arise if clients are engaged in similar activities, are located in the same geographical region or have comparable economic characteristics, for example if their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. To avoid credit risk concentrations, we establish limits and/or operational controls that constrain risk concentrations at portfolio and sub-portfolio levels with regard to sector exposures, country risk and specific product exposures.

Risk mitigation

We actively manage the credit risk in our portfolios by taking collateral against exposures and utilizing credit hedging. In Wealth Management, Wealth Management Americas and Retail & Corporate, the majority of loans are extended on a secured basis. For real estate financing, a mortgage over the property is taken to secure the claim. Commercial loans may also be secured by mortgages on business premises or other real estate. We apply measures to evaluate collateral and determine maximum loan-to-value ratios, including an assessment of income cover.

Lombard loans are made against the pledge of eligible marketable securities, guarantees and other forms of collateral. The Investment Bank also takes collateral in the form of marketable securities and cash in its OTC derivatives and securities financing businesses. Discounts (haircuts) are generally applied to the market value of the collateral reflecting the quality, liquidity and volatility of the underlying collateral. Exposure and collateral values are continuously monitored, and margin calls or close-out procedures are enforced when the market value of collateral falls below a predefined trigger level. Concentrations within individual collateral portfolios and across clients are also monitored where relevant and may affect the haircut applied to a specific collateral pool.

Our OTC derivatives trading is generally conducted under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master netting agreements, which allow for the close-out and netting of all transactions in the event of default. For certain major market participant counterparties like hedge funds, we may also use two-way collateral agreements under which either party can be required to provide collateral in the form of cash or marketable securities when the exposure exceeds a predefined level. We have clearly defined processes for entering into netting and collateral agreements, including the requirement to have a legal opinion on the enforceability of contracts in relevant jurisdictions in the case of insolvency.

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Primarily in the Investment Bank and for the Corporate Center – Legacy Portfolio, we actively manage the credit risk of our portfolios with the aim of reducing concentrations of risk from specific counterparties, sectors or portfolios. Hedging measures used include single-name credit default swaps (CDS), index CDS and total return swaps. Single-name CDS are generally executed under bilateral netting and collateral agreements with high-grade market counterparties. We observe strict standards for recognizing credit hedges. For example, when monitoring exposures against limits, we do not usually recognize credit risk mitigants such as proxy hedges (credit protection on a correlated but different name) or index CDS. Buying credit protection creates credit exposure against the hedge provider. We monitor our exposures to credit protection providers and the effectiveness of credit hedges as part of our overall credit exposures to the relevant counterparties. In addition, we identify and monitor positions where we believe there is significant exposure and correlation between the counterparty and the hedge provider (so-called wrong-way risk). Our policy is to discourage such activity, but in any event or as market correlations may change, not to recognize wrong-way-risk hedge benefits within counterparty limits and capital calculations.

➔ **Refer to the "Basel 2.5 Pillar 3" section of this report for more information on credit derivatives**

Credit risk measurement

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We have developed tools and models to measure credit risk. Exposures to individual counterparties are measured based on three generally accepted parameters: probability of default, exposure at default and loss given default. These parameters are the basis for the majority of our internal measures of credit risk, and are key inputs for the regulatory capital calculation under the advanced internal ratings-based approach of the Basel 2.5 framework governing international convergence of capital. We also use models to derive the portfolio credit risk measures of expected loss, statistical loss and stress loss.

Probability of default

The probability of default is an estimate of the likelihood of a counterparty defaulting on its contractual obligations. This probability is assessed using rating tools tailored to the various categories of counterparties. These categories are also calibrated to our internal credit rating scale (masterscale), which is designed to ensure a consistent assessment of default probabilities across counterparties. We regularly assess the performance of our rating tools and adjust our model parameters as necessary. In addition to using ratings for credit risk measurement, we use them as an important input for determining credit risk approval authorities.

In the Investment Bank and for the Corporate Center – Legacy Portfolio, rating tools are applied to broad segments including banks, sovereigns, corporates, funds, hedge funds and commercial real estate. We determine our choice of the relevant assessment criteria, for example, financial ratios and qualitative factors, for the rating tools on the basis of various statistical analyses, externally available information and expert judgment.

Within Retail & Corporate, we rate our business and corporate clients in the small to medium enterprise segment using statistically developed scorecards. The underlying data used in our scorecards is predominantly based on a combination of clients' financial information, qualitative criteria and credit loss history over several years. To rate our large corporate clients domiciled in Switzerland, Retail & Corporate uses templates established for this segment by our Investment Bank. We assess the probability of default from loans secured on owner-occupied or investment properties with a model that takes into account loan-to-value ratios and debt service capacity of the obligor. We rate Lombard loan exposures by means of a model simulating potential changes in the value of the collateral, and the probability that it may become lower than the loan amount.

Our masterscale expresses default probabilities that we determine through our various rating tools by means of distinct classes, whereby each class incorporates a range of default probabilities. Counterparties migrate between rating classes as our assessment of their probability of default changes.

During the third quarter of 2012 we recalibrated the internal ratings for counterparties in several of our portfolios, extending the sample of historical defaults to take into account observations further back in time than had been considered previously. The extension of the sample reduces the pro-cyclicality of the rating tools. This resulted in some internal ratings changing, a generally downward shift in the ratings of counterparties within our Swiss mortgage portfolio and a generally upward shift in the ratings of counterparties within the corporate portfolio.

The ratings of the major credit rating agencies, and their mapping to our internal rating masterscale, are shown in the "Internal UBS rating scale and mapping of external ratings" table. The

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Internal UBS rating scale and mapping of external ratings

Internal UBS rating	*Description*	Moody's Investors Service mapping	Standard & Poor's mapping
0 and 1	*Investment grade*	Aaa	AAA
2		Aa1 to Aa3	AA+ to AA–
3		A1 to A3	A+ to A–
4		Baa1 to Baa2	BBB+ to BBB
5		Baa3	BBB–
6	*Sub-investment grade*	Ba1	BB+
7		Ba2	BB
8		Ba3	BB–
9		B1	B+
10		B2	B
11		B3	B–
12		Caa	CCC
13		Ca to C	CC to C
14	*Defaulted*		D

mapping is based on the long-term average of one-year default rates available from the rating agencies. For each external rating category, the average default rate is compared with our internal default probability bands to derive a mapping to our internal rating scale. Our internal rating of a counterparty may, therefore, diverge from one or both of the correlated external ratings shown in the table. Observed defaults by rating agencies may vary through economic cycles, and we do not necessarily expect the actual number of defaults in our equivalent rating band to equal the rating agencies' average in any given period. We periodically assess the long-term average default rates of credit rating agencies' grades, and we adjust their mapping to our masterscale as necessary to reflect any material changes.

Exposure at default

Exposure at default (EaD) represents the amount we expect to be owed by a counterparty at the time of a possible default. We derive EaD from our current exposure to the counterparty and the possible future development of that exposure.

The EaD of a loan is the drawn or face value of the loan. For loan commitments and guarantees, the EaD includes the amount drawn as well as potential future amounts that may be drawn, which are estimated based on historical observations.

For traded products, we derive the EaD by modeling the range of possible exposure outcomes at various points in time. For securities financing transactions, we assess the net amount that may be owed to us or that we may owe to others, taking into account the impact of market moves over the potential time it would take to close out all our positions. For exchange-traded derivatives, our calculation of EaD takes into account initial and daily variation margins. We derive the EaD for OTC derivatives by modeling the potential development of replacement values of the portfolio of trades by counterparty (potential credit exposure) less the values of legally enforceable netting agreements. For collateralized OTC derivatives, our potential credit exposure is based on modeling the potential development of replacement values and collateral values, and the price correlation between the various instruments.

When measuring individual counterparty exposure against credit limits, we consider the maximum likely exposure measured to a high level of confidence of outstanding obligations. However, when aggregating exposures to different counterparties for portfolio risk measurement purposes, we use the expected exposure to each counterparty at a given time period (usually one year) generated by the same model.

We monitor the performance of our exposure models by backtesting and benchmarking them, whereby model outcomes are compared with actual results, based on our internal experience as well as externally observed results.

We assess our exposures where there is a material correlation between the factors driving the credit quality of the counterparty and those driving the potential future value of our traded product exposure (wrong-way risk), and we have established specific controls to mitigate these risks.

Loss given default

Loss given default (LGD) is the magnitude of the likely loss in case of default. LGD estimates include loss of principal, interest and other amounts (such as workout costs, including the cost of carrying an impaired position during the workout process) less recovered amounts. We determine LGD based on the likely recovery rate of claims against defaulted counterparties, which depends on the type of counterparty and any credit mitigation by way of collateral or guarantees. In our Investment Bank, LGD estimates are based on an assessment of key risk drivers such as industry segment, collateral and seniority of a claim as well as a country's legal environment and bankruptcy procedures, supported by our internal loss data and external information where available. In our other lending portfolios, the LGD differs by counterparty and collateral type and is statistically estimated based on our internal loss data. Where we hold collateral, such as marketable securities or a mortgage on a property, loan-to-value ratios are a key factor in determining LGD.

Expected loss

Credit losses are an inherent cost of doing business, but the occurrence and amount of credit losses can be erratic. In order to quantify future credit losses that may be implicit in our current portfolio, we use the concept of expected loss.

Expected loss is a statistical measure used to estimate the average annual costs we expect to experience from positions in our current credit portfolio that become impaired. The expected loss for a given credit facility is a function of the three components described above: probability of default, EaD and LGD. We aggregate the expected loss for individual counterparties to derive our expected portfolio credit losses.

Expected loss is the basis for quantifying credit risk in all our portfolios. It is also the starting point for the measurement of our portfolio statistical loss and stress loss and may be used as an input to value certain products.

Statistical and stress loss

We use a statistical modeling approach to estimate the loss profile of our credit portfolios over a one-year period to a specified level of confidence. The mean value of this loss distribution is the expected loss. The loss estimates deviate from the mean due to the statistical uncertainty on the defaulting counterparties and to systematic default relationships among counterparties within and between segments. The statistical measure is sensitive to concentration risks on individual counterparties and groups of counterparties. The outcome provides an indication of the level of risk in our portfolio and the way it may develop over time.

Stress loss is a scenario-based measure which complements our statistical modeling approach. We use it to assess our potential loss in various stress scenarios based on the assumption that one or more of the three key credit risk parameters will deteriorate substantially. We run stress tests on a regular basis to monitor and limit the potential impact of extreme, but nevertheless plausible events on our portfolios and apply limits on this basis.

Composition of credit risk – Group

The exposures detailed in the tables in this section are based on our internal management view of credit risk.

The "Credit exposure by business division and Corporate Center" table shows a breakdown of our banking and traded product exposures before and after allowances and provisions for credit losses, credit valuation adjustments (CVA) on traded products and single-name credit hedges. The effect of portfolio hedges, such as index CDS, is not reflected in this analysis. Banking product exposures are shown on an amortized cost-basis, guarantees and loan commitments on a notional basis, without applying credit conversion factors. Exposures to OTC derivatives are generally shown in the tables as net positive replacement values (RV) after the application of legally enforceable netting agreements and the deduction of cash collateral. In some cases, however, the exposures are based on a more simplistic RV plus add-on approach. Exchange-traded derivatives (ETD) exposures take into account initial and daily variation margins. Securities financing exposures are shown net of the collateral received.

Our lending businesses saw increased levels of exposure in 2012. Total gross credit exposure amounted to CHF 496 billion on 31 December 2012 compared with CHF 476 billion at the end of 2011. Our banking product exposures increased to CHF 440 billion from CHF 394 billion, mainly due to increases in the balances with central banks and in the loan books of Wealth Management and Wealth Management Americas. Our traded products exposures, which arise largely in our Investment Bank, declined by CHF 26 billion to CHF 56 billion.

Additional information on the composition and credit quality of our Wealth Management and Retail & Corporate loan portfolios and the Investment Bank's banking products and OTC derivatives portfolios is provided further on in this section.

➔ Refer to the "Basel 2.5 Pillar 3" section of this report for more information on the credit exposures used in the determination of our required regulatory capital and additional information on credit derivatives

➔ Refer to "Note 25 Derivative instruments and hedge accounting" and "Note 29a Measurement categories of financial assets and liabilities" in the "Financial information" section of this report for the IFRS required disclosures on derivatives and credit risk

Audited

Credit exposure by business division and Corporate Center

	Wealth Management		Wealth Management Americas		Investment Bank		Global Asset Management		Retail & Corporate		Corporate Center[1]		Group	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Balances with central banks	**413**	1,165	**11,260**	2,161	**21,049**	31,743		155	**2,173**	2,205	**29,224**	1,135	**64,119**	38,565
Due from banks	**1,039**	555	**2,298**	1,594	**15,521**	18,182	**343**	317	**2,713**	3,840	**599**	338	**22,513**	24,826
Loans[2]	**86,581**	75,056	**31,250**	27,894	**16,288**	13,942	**91**	141	**137,344**	135,320	**4,420**	4,625	**275,973**	256,977
Guarantees	**2,326**	2,641	**406**	406	**6,074**	5,551			**10,042**	9,156	**12**	129	**18,860**	17,884
Loan commitments	**1,574**	1,220	**1,214**	1,076	**48,755**	46,763			**6,787**	6,735	**39**	164	**58,369**	55,958
Banking products[3]	**91,932**	80,637	**46,428**	33,131	**107,686**	116,181	**433**	613	**159,059**	157,256	**34,295**	6,390	**439,834**	394,209
OTC derivatives	**2,884**	3,869	**57**	74	**23,848**	38,748	**286**	330	**1,406**	1,839	**4,306**	7,011	**32,787**	51,871
Exchange-traded derivatives	**779**	817	**814**	877	**5,545**	7,938			**61**	167			**7,199**	9,799
Securities financing transactions			**154**	155	**14,462**	20,051					**1,072**	3	**15,687**	20,209
Traded products	**3,663**	4,686	**1,025**	1,106	**43,855**	66,737	**286**	330	**1,467**	2,006	**5,377**	7,014	**55,673**	81,880
Total credit exposure	**95,595**	85,323	**47,453**	34,238	**151,541**	182,918	**719**	943	**160,526**	159,262	**39,672**	13,404	**495,506**	476,088
Total credit exposure, net[4]	**95,554**	85,278	**47,436**	34,235	**128,197**	154,349	**719**	943	**159,826**	158,198	**38,547**	10,328	**470,279**	443,331

1 Includes the Legacy Portfolio. 2 Does not include reclassified securities and similar acquired securities in our Legacy Portfolio. 3 Excludes loans designated at fair value. 4 Net of allowances, provisions, CVA and hedges.

Swiss residential mortgage loans

Our largest loan portfolio is our mortgage loan portfolio, which principally comprises loans within Switzerland which are secured by residential and commercial real estate. These mortgage loans mainly originate from our Retail & Corporate business but also include mortgage loans originating from our Wealth Management business. The majority of these mortgage loans relate to residential properties that the borrower either occupies or rents out and are full recourse to the borrower.

We use a scoring model as part of a standardized front-to-back process to support credit decisions for the origination or modification of all Swiss mortgage loans. The two key factors within this model are an affordability calculation relative to gross income and the loan-to-value ratio (LTV). The calculation of affordability takes into account interest payments, minimum amortization requirements, potential property maintenance costs and, in the case of properties expected to be rented out, the level of rental income. Interest payments are estimated using a predefined framework, which takes into account the potential for significant increases in interest rates during the lifetime of the loan.

Approximately 70% of the Swiss residential mortgage loan portfolio relates to properties occupied by the borrower. For such mortgage loans, the maximum LTV allowed within the standard approval process is 80%. This is reduced to 60% in the case of vacation properties and luxury real estate. The value assigned by UBS to each property is based on the lowest value determined based on an internal valuation, the purchase price and, in some cases, an additional external valuation. Valuations of owner-occupied real estate are reviewed and updated throughout the lifetime of the loan, typically using real estate price indices. The average LTV ratio of this portfolio was approximately 55% at 31 December 2012 compared with 58% at 31 December 2011. Over 99% of the aggregate amount of mortgage loans within this portfolio would continue to be covered by the real estate collateral even if the value assigned to that collateral were to decrease by 20%. Furthermore, these loans are full recourse to the borrower. The average LTV for 2012 of newly originated loans in this portfolio was 63%.

Approximately 30% of the Swiss residential mortgage loan portfolio relates to properties rented out by the borrower. For such mortgage loans, the maximum LTV allowed within the standard approval process ranges from 60% to 80%, depending on the type of property, the age of the property and the amount of any renovation work required. LTVs are reviewed and updated periodically throughout the lifetime of the loan. The rental income from properties is reviewed, at a minimum, once every three years, but indications of significant changes in the amount of rental income or the level of vacancy rate can trigger an interim reappraisal. The average LTV ratio of this portfolio was approximately 58% at 31 December 2012 compared with 59% at 31 December 2011. Over 99% of the aggregate amount of mortgage loans within this portfolio would continue to be covered by the real estate collateral even if the value assigned to that collateral were to decrease by 20%. Furthermore, these loans are full recourse to the borrower. The average LTV for 2012 of newly originated loans in this portfolio was 56%.

Composition of credit risk – business divisions and Corporate Center

Wealth Management

The total gross banking products exposure of Wealth Management increased to CHF 92 billion on 31 December 2012 compared with CHF 81 billion on 31 December 2011, in line with our strategy.

Our Wealth Management loan portfolio is mainly secured by marketable securities, residential property and cash (including certain fiduciary investments) as outlined in the table "Wealth Management and Retail & Corporate: composition of loan portfolio, gross". The majority of loans secured by securities were of high quality, with 91% (94% on 31 December 2011) rated investment grade.

Wealth Management Americas

The total gross banking products exposure of Wealth Management Americas increased to CHF 46 billion on 31 December 2012 compared with CHF 33 billion on 31 December 2011. This exposure largely relates to loans secured by marketable securities (CHF 27.6 billion), residential mortgage loans (CHF 3.5 billion) and credit cards (CHF 0.2 billion).

The majority of loans secured by marketable securities were of high quality, with 87% (88% in 2011) rated investment grade. Our Wealth Management Americas mortgage loan portfolio consists primarily of residential mortgages offered in all US states. Exposure continued to grow to CHF 3.5 billion as of 31 December 2012 from CHF 1.8 billion the prior year. The overall quality of this portfolio remains high with an average loan-to-value ratio (LTV) of 58% and we have experienced no credit losses since the inception of the mortgage program. The credit risk exposure arising from the credit card business was CHF 152 million on 31 December 2012 compared with CHF 135 million in the prior year.

Investment Bank

The table "Investment Bank: banking products and OTC derivatives exposure" shows the Investment Bank's banking products (loans, guarantees and loan commitments) and OTC derivatives portfolios, gross and net of allowances, provisions, credit valuation adjustments (CVA) and single-name credit hedges based on our internal risk view. The effect of portfolio hedges, such as index CDS, is not reflected in this analysis. The gross banking product exposures shown in this table exclude exposure to central banks, due from banks, nostro accounts and money market balances, which are included in the "Credit exposure by business division and Corporate Center" table. The Investment Bank's net banking products exposure increased to CHF 56.0 billion as of 31 December 2012 from CHF 47.6 billion at the end of 2011. The Investment Bank continued to actively manage the credit risk of this portfolio and, as of 31 December 2012, held CHF 20.6 billion of single-name CDS hedges against its exposures to corporates

Investment Bank: banking products and OTC derivatives exposure[1]

	Banking products		OTC derivatives	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Total exposure, before deduction of allowances and provisions, CVA and hedges	**76,673[2]**	70,606[2]	**23,848**	38,748
Less: allowances, provisions and CVA	***(51)***	*(75)*	***(559)***	*(981)*
Less: credit protection bought (credit default swaps, notional)	***(20,619)***	*(22,886)*	***(2,005)***	*(4,513)*
Net exposure after allowances and provisions, CVA and hedges	**56,003**	47,645	**21,285**	33,254

1 Banking products: risk view, excludes balances with central banks, due from banks and internal risk adjustments; OTC derivatives: net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law. 2 Banking products including money market and nostro accounts amount to CHF 107,686 million (31 December 2011: CHF 116,181 million).

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

CHF million, except where indicated			**31.12.12**						31.12.11	
				LGD buckets						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	**Exposure**	**0–25%**	**26–50%**	**51–75%**	**76–100%**	**Weighted average LGD (%)**	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB-	**35,075**	**9,875**	**17,035**	**2,679**	**5,486**	**44**	30,326	47
Sub-investment grade			**20,928**	**12,017**	**6,632**	**1,573**	**705**	**25**	17,318	31
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***14,139***	***9,104***	***3,937***	***847***	***251***	***22***	*9,686*	*35*
of which: 10–12	*B2 to Caa*	*B to CCC*	***6,590***	***2,805***	***2,621***	***710***	***454***	***32***	*7,112*	*27*
of which:13 and defaulted	*Ca and lower*	*CC and lower*	***199***	***108***	***75***	***16***	***0***	***21***	*520*	*20*
Net banking products exposure, after application of credit hedges[1]			**56,003**	**21,892**	**23,667**	**4,252**	**6,191**	**37**	47,645	42

1 Banking products: risk view, excludes balances with central banks, due from banks and internal risk adjustments.

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

CHF million, except where indicated			**31.12.12**						31.12.11	
				LGD buckets						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	**Exposure**	**0–25%**	**26–50%**	**51–75%**	**76–100%**	**Weighted average LGD (%)**	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB-	**20,008**	**5,210**	**12,609**	**1,339**	**850**	**34**	31,374	32
Sub-investment grade			**1,276**	**649**	**375**	**51**	**201**	**34**	1,879	53
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***1,131***	***600***	***289***	***44***	***198***	***34***	*1,464*	*59*
of which: 10–12	*B2 to Caa*	*B to CCC*	***41***	***4***	***31***	***5***	***1***	***41***	*117*	*45*
of which:13 and defaulted	*Ca and lower*	*CC and lower*	***104***	***45***	***55***	***2***	***2***	***30***	*297*	*31*
Net OTC derivatives exposure, after application of credit hedges[1]			**21,285**	**5,859**	**12,984**	**1,390**	**1,051**	**34**	33,254	34

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

Investment Bank: net banking products and OTC derivatives exposure by industry sector[1]

	Banking products		OTC derivatives	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Banks	**5,540**	5,082	**7,947**	10,935
Chemicals	**1,336**	1,866	**224**	188
Electricity, gas, water supply	**3,944**	3,760	**463**	252
Non-bank financial institutions	**16,211**	13,145	**8,823**	15,764
Manufacturing	**8,127**	6,307	**331**	626
Mining	**5,959**	5,990	**114**	211
Public authorities	**2,841**	1,264	**1,992**	3,585
Retail and wholesale	**2,046**	1,791	**54**	43
Transport, storage and communication	**3,543**	4,041	**601**	943
Other	**6,456**	4,398	**736**	707
Total	**56,003**	47,645	**21,285**	33,254

1 Banking products: exposure to commercial counterparties after risk transfer and application of credit hedges. OTC derivatives: net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law.

Investment Bank: net banking products and OTC derivatives exposure by geographical region

	Banking products		OTC derivatives	
CHF million	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Asia Pacific	**4,158**	4,259	**3,499**	3,345
Latin America	**210**	653	**186**	201
Middle East and Africa	**278**	271	**755**	433
North America	**40,798**	33,771	**6,524**	9,293
Switzerland	**257**	758	**864**	1,263
Rest of Europe	**10,301**	7,932	**9,457**	18,718
Total	**56,003**	47,645	**21,285**	33,254

and other non-banks down from CHF 22.9 billion at the end of 2011. In addition the Investment Bank held CHF 403 million of loss protection from the subordinated tranches of structured credit protection which is not reflected in the table.

Further breakdowns are provided within the table "Investment Bank: distribution of net banking products exposure, across internal UBS ratings and loss given default (LGD) buckets". At the end of the year, and based on internal ratings, approximately 63% of the Investment Bank's net banking products exposure was classified as investment grade compared with 64% at the end of the prior year. The majority of the Investment Bank's net banking products exposure had estimated loss given defaults of between 0% to 50%. The Investment Bank's lending activities are largely associated with corporates and other non-banks, which is broadly diversified across industry sectors, but concentrated in North America.

The Investment Bank's net OTC exposure decreased to CHF 21.3 billion as of 31 December 2012 from CHF 33.3 billion at the end of 2011. Approximately 94% of the Investment Bank's net OTC derivatives portfolio was traded with counterparties rated investment grade, the vast majority of which were banks and regulated financial institutions with which trading was conducted primarily on a collateralized basis. The tables shown on the previous and on this page provide additional analysis of the portfolio by our internal rating and LGD, by industry sector and by geographical region.

➔ **Refer to "Note 29b) Reclassification of financial assets" in the "Financial information" section of this report for more information on reclassified securities**

Retail & Corporate

The total gross banking products exposure of Retail & Corporate was CHF 159 billion on 31 December 2012 compared with CHF 157 billion on 31 December 2011. Approximately 70% of Retail & Corporate's banking product portfolio is rated investment grade, with over 80% of this portion categorized in the lowest LGD bucket of 0–25%.

Retail & Corporate's gross loan portfolio increased to CHF 137 billion, from CHF 135 billion in the prior year. The composition of the Retail & Corporate loan portfolio was largely unchanged over the year. At year-end 2012, 92% of this portfolio was secured by collateral and, based on our internal ratings, 54% of the unsecured loan portfolio was rated investment grade. Furthermore, 60% of the unsecured portfolio related to cash flow-based lending to corporate counterparties compared with 61% on 31 December 2011, and 22% to lending to public authorities compared with 23% on 31 December 2011.

Wealth Management and Retail & Corporate: composition of loan portfolio, gross

	Wealth Management				Retail & Corporate			
CHF million, except where indicated	**31.12.12**[1]		31.12.11		**31.12.12**		31.12.11	
		%		%		%		%
Secured by residential property	**30,829**	**35.6**	28,467	37.9	**98,681**	**71.8**	96,172	71.1
Secured by commercial / industrial property	**1,972**	**2.3**	1,805	2.4	**19,861**	**14.5**	19,542	14.4
Secured by cash	**12,235**	**14.1**	10,000	13.3	**173**	**0.1**	637	0.5
Secured by securities	**34,973**	**40.4**	26,718	35.6	**1,414**	**1.0**	1,327	1.0
Secured by guarantees and other collateral	**6,265**	**7.2**	8,010	10.7	**5,875**	**4.3**	5,285	3.9
Unsecured loans	**307**	**0.4**	55	0.1	**11,340**	**8.3**	12,356	9.1
Total loans, gross	**86,581**	**100.0**	75,056	100.0	**137,344**	**100.0**	135,320	100.0
Total loans, net of allowances and credit hedges	**86,540**		75,011		**136,770**		134,561	

1 Exposures as of 31 December 2012 reflect a refined reporting process for allocating Wealth Management loans to the secured and unsecured categories and are therefore not directly comparable to the prior period exposures.

Retail & Corporate: distribution of net banking products exposure across internal UBS ratings and loss given default (LGD) buckets

CHF million, except where indicated			**31.12.12**						31.12.11	
				LGD buckets						
Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	**Exposure**	**0–25%**	**26–50%**	**51–75%**	**76–100%**	**Weighted average LGD (%)**	Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB-	**109,221**	**92,245**	**15,953**	**1,014**	**9**	**10**	104,748	10
Sub-investment grade			**47,971**	**38,557**	**7,067**	**1,283**	**1,064**	**15**	50,314	15
of which: 6–9	*Ba1 to B1*	*BB+ to B+*	***45,704***	***36,614***	***6,764***	***1,264***	***1,062***	***16***	*47,922*	*15*
of which: 10–12	*B2 to Caa*	*B to CCC*	***1,916***	***1,598***	***297***	***18***	***2***	***14***	*2,132*	*15*
of which: 13	*Ca and lower*	*CC and lower*	***351***	***345***	***5***	***0***	***0***	***6***	*261*	*6*
Total non-defaulted			**157,192**	**130,802**	**23,020**	**2,297**	**1,073**	**12**	155,062	12
Defaulted[1]			***1,168***						*1,130*	
Net banking products exposure[2]			**158,359**						156,192	

1 Due to the applied risk calculation approach for default positions, no LGD is assigned. 2 Gross exposure before deduction of allowances and provisions for credit losses of CHF 610 million (31 December 2011: CHF 665 million) and credit hedges of CHF 90 million (31 December 2011: CHF 400 million) is CHF 159,059 million (31 December 2011: CHF 157,256 million).

Retail & Corporate: unsecured loans by industry sector

CHF million	**31.12.12**	31.12.11
Construction	**108**	120
Financial institutions	**1,106**	882
Hotels and restaurants	**51**	252
Manufacturing	**1,921**	2,165
Private households	**1,578**	1,730
Public authorities	**2,562**	2,906
Real estate and rentals	**430**	1,110
Retail and wholesale	**1,818**	1,520
Services	**1,289**	1,454
Other	**478**	218
Total	**11,340**	12,356

Corporate Center – Legacy Portfolio

The loans of CHF 11.7 billion in our Legacy Portfolio predominantly comprise assets that were reclassified in the fourth quarter of 2008 and in the first quarter 2009 from *Held for trading* to *Loans and receivables*, student loan auction rate securities and our loan to the RMBS Opportunities Master Fund, LP, a special purpose entity managed by BlackRock Financial Management Inc.

The net replacement value of our OTC contracts within the Legacy Portfolio after application of master netting agreements, hedges, allowances and credit valuation adjustments was CHF 3.2 billion at year-end 2012.

Loan to BlackRock fund

In the second quarter of 2008, we sold a portfolio of US residential mortgage-backed securities (RMBS) for USD 15 billion to the RMBS Opportunities Master Fund, LP (RMBS fund), a special purpose entity managed by BlackRock Financial Management, Inc. The RMBS fund was capitalized with approximately USD 3.75 billion in equity raised by BlackRock from third-party investors and an eight-year amortizing USD 11.25 billion senior secured loan provided by UBS.

The RMBS fund amortizes the loan through monthly payments drawn from amounts collected from the underlying assets. These collections are allocated to the payment of interest and principal of the loan and to the holders of equity interests in the RMBS fund in accordance with the terms of the loan agreement. Allocations to equity holders may be reduced or suspended in the event of specified declines in the aggregate notional balance of the portfolio, and we may assume control of the underlying assets in the event of a further specified decline in the notional balance.

As of 31 December 2012, the loan had a balance outstanding of USD 3.6 billion compared with USD 4.7 billion on 31 December 2011, taking into account amounts held in escrow. The aggregate notional balance of the RMBS fund's assets collateralizing the loan on 31 December 2012 was USD 9.7 billion. By notional balance, the portfolio is primarily comprised of Alt-A (53%) and sub-prime (34%) credit grades. In terms of priority, the portfolio was dominated by senior positions (97%).

The RMBS fund is not consolidated in our financial statements. We continue to monitor the RMBS fund and its performance and will reassess the consolidation status if events warrant and deterioration of the underlying RMBS mortgage pools indicates that the equity investors in the fund no longer control it. We also continue to assess the loan to the RMBS fund to determine whether it has been impaired. Developments through the year ended 31 December 2012 have not altered our conclusion that the loan is not impaired and that consolidation is not required.

Exposure to student loan auction rate securities

Audited

Our overall exposure to student loan auction rate securities (ARS) was reduced by USD 1.6 billion to USD 4.1 billion on 31 December 2012 following sales during the year.

At the end of 2012, 88% of the collateral underlying the remaining student loan auction rate securities inventory was backed by Federal Family Education Loan Program guaranteed collateral, which is reinsured by the US Department of Education for no less than 97% of principal and interest. All of our student loan auction rate securities positions are held as *Loans and receivables* and are subject to a quarterly impairment test that includes a review of performance reports for each issuing trust.

Audited

Student loan ARS inventory

	Carrying value	
USD million	**31.12.12**	31.12.11
US student loan ARS	**4,110**[1]	5,683
of which: rated BB– and above	***4,062***	*5,154*
of which: rated below BB–	***47***	*529*

1 Includes USD 1.8 billion (CHF 1.6 billion) at carrying value of student loan ARS that were reclassified to Loans and receivables from Held for trading in the fourth quarter of 2008. Refer to "Note 29b) Reclassification of financial assets" in the "Financial information" section of this report for more information.

Audited

Exposure to monoline insurers, by rating[1]

	31.12.12			
	Notional amount[2]	**Fair value of CDS**	**CVA**	**Fair value of CDS after CVA**
USD million	**Column 1**	**Column 2**	**Column 3**	**Column 4 (=2–3)**
Credit protection bought from monoline insurers, by rating[3]				
of which: from monolines rated investment grade (BBB and above)	***1,130***	***291***	***66***	***225***
of which: from monolines rated sub-investment grade (BB and below)	***4,599***	***684***	***277***	***407***
Total 31.12.12	**5,729**	**975**	**343**	**633**
Total 31.12.11	7,714	2,825	1,597	1,228

1 Excludes the benefit of credit protection purchased from unrelated third parties. 2 Represents gross notional amount of credit default swaps (CDS) purchased as credit protection. 3 Categorization based on the lowest insurance financial strength rating assigned by external rating agencies.

Exposure to monoline insurers

All our exposure to monoline insurers is within the Legacy Portfolio and arises from credit default swap (CDS) protection purchased to hedge specific positions. The table "Exposure to monoline insurers, by rating" shows the CDS protection purchased from monoline insurers, calculated as the sum of the fair values of individual CDS after credit valuation adjustments (CVA).

The total fair value of CDS protection purchased from monoline insurers decreased from USD 1.2 billion to USD 0.6 billion after cumulative CVA of USD 0.3 billion. This reduction was largely a result of trade commutation on monoline exposures. This exposure is materially hedged with single-name credit default swaps.

➔ **Refer to the "Non-trading portfolios – valuation and sensitivity information by instrument category" section below for more information**

Impairment and default – distressed claims

With respect to distressed claims resulting from banking products, we distinguish between loans that are "past due" and those that are "impaired". We also assess claims from securities financing transactions for default and impairment using the same principles and processes we use for banking products.

We consider a loan to be past due when a contractual payment has not been received by its contractual due date. Past due but not impaired loans are those that have suffered missed payments, but are not considered impaired because we expect to collect all amounts due under the contractual terms of the loans or the equivalent value from liquidation of collateral.

A loan is considered impaired when management determines that it is probable that we will not be able to collect all amounts due (or the equivalent value thereof) based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realizable value of any collateral.

Loans in arrears for 90 days are evaluated individually for impairment. However, an impairment analysis would be carried out irrespective of whether the loan was in arrears if other objective evidence indicates that a loan may be impaired. Any event that impacts current and future cash flows may be an indication of impairment and trigger an assessment by the risk officer. Such events may be: (i) past due and non-performing status of credit exposures, (ii) significant collateral shortfalls due to a fall in lending values (securities and real estate), (iii) increase in loan or derivative exposures, (iv) significant financial difficulties of a client, (v) high probability of bankruptcy, (vi) debt moratorium, (vii) financial restructuring including granting of preferential interest rates and (viii) extension of maturity or even partial forgiveness to prevent a credit default.

We have established processes to ensure that the carrying values of impaired claims are determined in compliance with IFRS requirements. Our credit controls applied to valuation and workout are the same for both amortized cost and fair-valued credit products. With the exception of a part of the mortgage portfolio and small unsecured retail account overdrafts, we assess each identified case individually. Our workout strategy and estimation of recoverable amounts are independently approved in accordance with our credit authorities.

We also assess our portfolios of claims carried at amortized cost with similar credit risk characteristics for collective impairment in order to consider if these portfolios contain impaired claims that cannot yet be identified. In our retail and corporate banking business in Switzerland, we typically review individual positions for impairment only after they have been in arrears for a certain time as described above. To cover the time lag between the occurrence of an impairment event and its identification, we establish collective loan loss allowances based on the estimated loss for the portfolio over the average period between trigger events and the identification of individual impairment. Collective loan loss allowances of this kind typically apply to our retail and corporate portfolio.

None of the portfolios with collective loan loss allowances are included in the totals of impaired loans in the tables shown in the composition of credit risk for business divisions in this section.

Additionally, for all of our portfolios we assess whether there have been any unforeseen developments which might result in impairments but that are not immediately observable. These events could be stress situations, such as a natural disaster or a country crisis, or they could result from structural changes in the legal or regulatory environment. To determine whether an event-driven collective impairment exists, we regularly use a set of global economic drivers to assess the most vulnerable countries and review the impact of any potential impairment event.

The recognition of impairment in our financial statements depends on the accounting treatment of the claim. For products carried at amortized cost, impairment is recognized through the creation of an allowance or provision charged to the income statement as a credit loss expense. For products recorded at fair value, such as derivatives, a deterioration of the credit quality is recognized through a CVA charged to the income statement through the *Net trading income* line.

➔ **Refer to "Note 1 Significant accounting policies" and "Note 27a) Valuation principles" in the "Financial information" section of this report for more information on credit valuation adjustments**

Impaired loans, allowances and provisions

The credit risk exposures reported in the table "Allowances and provisions for credit losses" represent the IFRS balance sheet view of our gross banking products portfolio. This comprises the balance sheet line items *Balances with central banks*, *Due from banks* and *Loans* as well as the off-balance sheet items *Guarantees* and *Loan commitments*. The table also shows the IFRS reported allowances and provisions for credit losses and impairments.

The table shows that our allowances and provisions for credit losses, excluding collective loan loss allowances of CHF 114 mil-

Allowances and provisions for credit losses[1]

	IFRS exposure, gross		Impaired exposure[2]		Specific allowances and provisions for credit losses[3]		Estimated liquidation proceeds of collateral		Impairment ratio (%)	
CHF million, except where indicated	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Group										
Balances with central banks	**64,119**	38,565							**0.0**	0.0
Due from banks	**21,252**	23,235	**56**	20	**22**	17			**0.3**	0.1
Loans	**280,606**	267,429	**1,550**	2,135	**591**	694	**437**	893	**0.6**	0.8
of which: related to Legacy Portfolio[4]	***11,718***	*16,048*	***113***	*572*	***38***	*86*	***74***	*483*	***1.0***	*3.6*
of which: related to other loans	***268,888***	*251,381*	***1,437***	*1,563*	***553***	*607*	***363***	*411*	***0.5***	*0.6*
Guarantees	**20,058**	18,905	**76**	94	**56**	87	**6**	3	**0.4**	0.5
Loan commitments	**59,818**	58,192	**68**	70	**8**	6		1	**0.1**	0.1
Banking products	**445,852**	406,326	**1,749**	2,318	**677**	804	**443**	897	**0.4**	0.6
Wealth Management										
Balances with central banks	**413**	1,165							**0.0**	0.0
Due from banks	**1,039**	555							**0.0**	0.0
Loans	**86,581**	75,056	**55**	45	**38**	42	**20**	6	**0.1**	0.1
Guarantees	**2,326**	2,641							**0.0**	0.0
Loan commitments	**1,574**	1,220							**0.0**	0.0
Banking products	**91,932**	80,637	**55**	45	**38**	42	**20**	6	**0.1**	0.1
Wealth Management Americas										
Balances with central banks	**11,260**	2,161							**0.0**	0.0
Due from banks	**2,298**	1,594							**0.0**	0.0
Loans	**31,250**	27,894	**15**		**15**				**0.0**	0.0
Guarantees	**406**	406							**0.0**	0.0
Loan commitments	**1,214**	1,076							**0.0**	0.0
Banking products	**46,428**	33,131	**15**	0	**15**	0	**0**	0	**0.0**	0.0
Investment Bank										
Balances with central banks	**21,049**	31,743							**0.0**	0.0
Due from banks	**14,260**	16,397	**11**	11	**2**	5			**0.1**	0.1
Loans	**12,646**	12,957	**412**	542	**36**	71	**99**	159	**3.3**	4.2
Guarantees	**7,271**	6,571	**49**	52	**48**	46			**0.7**	0.8
Loan commitments	**50,206**	48,999	**61**	67		1			**0.1**	0.1
Banking products	**105,432**	116,666	**533**	672	**85**	122	**99**	159	**0.5**	0.6
Global Asset Management										
Balances with central banks		155								0.0
Due from banks	**343**	317							**0.0**	0.0
Loans	**91**	141							**0.0**	0.0
Guarantees										
Loan commitments										
Banking products	**433**	613	**0**	0	**0**	0	**0**	0	**0.0**	0.0
Retail & Corporate										
Balances with central banks	**2,173**	2,205							**0.0**	0.0
Due from banks	**2,713**	3,840	**45**	9	**20**	12			**1.6**	0.2
Loans	**137,344**	135,320	**955**	975	**464**	495	**244**	246	**0.7**	0.7
Guarantees	**10,042**	9,156	**27**	25	**8**	26	**6**	3	**0.3**	0.3
Loan commitments	**6,787**	6,735	**7**	3	**8**	5		1	**0.1**	0.0
Banking products	**159,059**	157,256	**1,033**	1,012	**500**	539	**251**	250	**0.6**	0.6
Corporate Center										
Balances with central banks	**29,224**	1,135							**0.0**	0.0
Due from banks	**599**	532							**0.0**	0.0
Loans	**12,695**	16,063	**113**	572	**38**	86	**74**	483	**0.9**	3.6
of which: related to Legacy Portfolio[4]	***11,718***	*16,048*	***113***	*572*	***38***	*86*	***74***	*483*	***1.0***	*3.6*
Guarantees	**12**	130		17		15			**0.0**	13.1
Loan commitments	**37**	163							**0.0**	0.0
Banking products	**42,568**	18,023	**113**	589	**38**	101	**74**	483	**0.3**	3.3

1 Excludes allowances for securities borrowed. 2 Excludes reclassified securities that are not considered impaired. 3 Excludes CHF 114 million collective loan loss allowances (31 December 2011: CHF 131 million). 4 Refer to "Note 29b Reclassification of financial assets" in the "Financial information" section of this report.

lion, decreased 16% to CHF 677 million on 31 December 2012 from CHF 804 million (excluding collective loan loss allowances of CHF 131 million) at the end of 2011.

We consider a reclassified security an impaired loan if the carrying value at the balance sheet date is, on a cumulative basis, 5% or more below the carrying value at the reclassification date adjusted for redemptions.

Our gross impaired loan portfolio decreased to CHF 1,550 million as of 31 December 2012 from CHF 2,135 million at the end of the prior year.

The ratio of the impaired loan portfolio to the total loan portfolio (both measured gross) reduced to 0.6% compared with 0.8% on 31 December 2011, mainly due to sales of impaired reclassified assets. For loans excluding securities the ratio decreased to 0.5% compared with 0.6% in the prior year.

Audited

We reclassified loans and receivables with carrying amounts of CHF 79 million and CHF 186 million from impaired to performing during 2012 and 2011, respectively. These reclassifications occurred because the loans had either been renegotiated and the new terms and conditions met normal market criteria for the quality of the obligor and type of loan, or because the financial position of the obligor improved, enabling it to repay any overdue amounts such that we deemed future principal and interest to be fully collectible in accordance with the original contractual terms.

Audited

Collateral held against our impaired loan portfolio mainly consisted of real estate and securities on 31 December 2012.

It is our policy to dispose of foreclosed real estate as soon as practicable. The carrying amount of foreclosed property recorded in our balance sheet under *Other assets* at the end of 2012 and 2011 amounted to CHF 47 million and CHF 58 million, respectively.

We seek to liquidate collateral held in the form of financial assets expeditiously and at prices considered fair. This may require us to purchase assets for our own account, where permitted by law, pending orderly liquidation.

The table "Impaired assets by type of financial instrument" includes impaired loans, impaired guarantees and loan commitments, and defaulted derivative and securities financing transactions, which are subject to the same workout and recovery processes. Our impaired assets decreased by CHF 2.0 billion to CHF 2.5 billion on 31 December 2012, largely as a result of trade commutation on monoline exposures. After deducting allocated specific allowances, provisions and CVA of CHF 1.1 billion and the estimated liquidation proceeds of collateral of CHF 0.4 billion, net impaired assets amounted to CHF 0.9 billion as of 31 December 2012.

➔ **Refer to "Note 9 Due from banks and loans" in the "Financial information" section of this report for more information**

Risk, treasury and capital management

Audited

Impaired assets by type of financial instrument

CHF million	Impaired exposure		Specific allowances, provisions and CVA		Estimated liquidation proceeds of collateral		Net impaired exposure	
	31.12.12	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Impaired loans (incl. due from banks)	**1,605**	2,155	**(613)**[1]	(711)[1]	**(437)**	(893)	**555**	551
Impaired guarantees and loan commitments	**144**	164	**(64)**	(93)	**(6)**	(4)	**73**	67
Defaulted derivatives contracts	**716**	2,143	**(438)**	(1,457)			**278**	686
Defaulted securities financing transactions	**2**	3	**(2)**	(3)				
Total	**2,467**	4,465	**(1,117)**	(2,263)	**(443)**	(897)	**906**	1,304

1 Excludes CHF 114 million collective loan loss allowances (31 December 2011: CHF 131 million).

Audited

Past due but not impaired loans

CHF million	31.12.12	31.12.11
1–10 days	**104**	105
11–30 days	**30**	54
31–60 days	**44**	57
61–90 days	**14**	9
>90 days	**793**	670
of which: mortgage loans	***639***	*486*
Total	**986**	895

Past due but not impaired mortgage loans

CHF million	31.12.12		31.12.11	
	Total mortgage exposure	**of which: past due > 90 days but not impaired**	Total mortgage exposure	of which: past due > 90 days but not impaired
Total	**144,667**	**639**	139,356[1]	486

1 Restated prior-year number includes CHF 4,119 million related to Wealth Management and Wealth Management Americas.

Past due but not impaired loans

Audited

The table above shows a breakdown of our total loan balances where payments have been missed, but which we do not consider impaired because we expect to collect all amounts due under the contractual terms of the loans or the equivalent value from liquidation of collateral. The loan balances in the table relate entirely to our Wealth Management and Retail & Corporate divisions, where delayed payments are routinely observed. We currently have no past due but not impaired loans in Wealth Management Americas, the Investment Bank and our Corporate Center – Legacy Portfolio.

The increase in our past due but not impaired loan exposures resulted primarily from mortgage loans that were past due over 90 days but not impaired. Our overall past due but not impaired levels on mortgage loans were not significant compared with the overall size of the mortgage portfolio.

Settlement risk

Settlement risk arises in transactions involving exchange of value where we must fulfill our obligation to deliver without first being able to determine with certainty that we will receive the countervalue. We use multilateral and bilateral agreements with counterparties to reduce our actual settlement volumes.

Our most significant source of settlement risk is foreign exchange transactions. UBS is a member of Continuous Linked Settlement, a foreign exchange clearing house which allows transactions to be settled on a delivery-versus-payment basis, thereby significantly reducing foreign exchange-related settlement risk relative to the volume of business.

The mitigation of settlement risk through Continuous Linked Settlement membership and other means, such as payment netting, does not eliminate our credit risk in foreign exchange transactions resulting from changes in exchange rates prior to settlement. We measure and control such counterparty risk in forward foreign exchange transactions as part of our overall credit risk management of OTC derivatives.

Country risk

Country risk framework

Country risk includes all country-specific events that occur within a sovereign's jurisdiction and may lead to an impairment of UBS's exposures. Country risk can take the form of either sovereign risk, which refers to the ability and willingness of a government to honor its financial commitments, or transfer risk, which would arise if an issuer or counterparty could not acquire foreign currencies following a moratorium of a central bank on foreign exchange transfers, or "other" country risk that may manifest itself through increased and multiple counterparty and issuer default risk (systemic risk) on the one hand, and by events that may affect the standing of a country (e.g. political stability, institutional and legal framework) on the other hand. We have a well-established risk control framework through which we assess the risk profile of all countries where we have exposure.

We attribute to each country a sovereign rating, which expresses the probability of the sovereign defaulting on its own financial obligations in foreign currency. Our ratings are expressed by statistically derived default probabilities as described in the "Probability of default" section above. Based on this internal analysis we also define the probability of a transfer event occurring and establish rules as to how the aspects of "other" country risk should be incorporated into the analysis of the counterparty rating of incorporated entities that are domiciled in the respective country.

We ensure that our exposure to all countries is commensurate with the credit ratings we assign to them, and that it is not disproportionate to the respective country risk profile. For all countries rated 3 and below we set country risk ceilings, which are approved either by the Board of Directors or under delegated authority by the Group Chief Executive Officer or Group Chief Risk Officer, depending on the size of the limit and the country rating. A country risk ceiling applies to all our exposures to counterparties or issuers of securities and financial investments in the respective country. We may limit the extension of credit, transactions in traded products or positions in securities based on a country ceiling, even if our exposure to a counterparty is otherwise acceptable.

For internal measurement and control of country risk, we also consider the financial impact of market disruptions arising prior to, during and following a country crisis. These may take the form of a severe deterioration in a country's debt, equity or other asset markets or of a sharp depreciation of the currency. We use stress testing to assess the potential financial impact of a severe country and/or sovereign crisis. This involves the development of plausible stress scenarios for combined stress testing and the identification of countries that may potentially be subject to a crisis event, determining potential losses and making assumptions about recovery rates depending on the types of credit transactions involved and their economic importance to the affected countries.

Our exposures to market risks are also subject to regular stress tests that cover major global scenarios, which are used for combined stress testing as well, whereby we apply market shock factors to equity indices, interest and currency rates in all relevant countries and consider the potential liquidity of the instruments.

In light of the ongoing European sovereign debt crisis, we increased the monitoring and focus on the quality of collateral we hold.

Country risk exposure

Country risk exposure measure

The presentation of country risk follows our internal risk view, whereby the basis for measurement of exposures depends on the product category into which we have classified our exposures:

– *Banking products* are loans (at amortized cost), loan commitments (notional basis) and guarantees (notional basis), and include an immaterial amount of available-for-sale debt and equity positions (at fair value).
– *Traded products* include the counterparty risk arising from OTC derivatives and securities financing transactions, presented at net positive replacement value after taking into account valid master netting agreements.
– *Trading inventory* includes securities such as bonds and equities, as well as the risk relating to the underlying reference assets for derivative positions, including those linked to credit protection we buy or sell.

As we manage the trading inventory on a net basis, we net the value of long positions against short positions with the same underlying issuer. Net exposures are, however, floored at zero per issuer in the figures presented. We therefore do not recognize the potentially offsetting benefit of certain hedges and short positions across issuers.

We do not recognize any expected recovery values when reporting country exposures as "Exposure before hedges" except for the risk-reducing effects of master netting agreements and collateral held in the form of either cash or portfolios of diversified marketable securities, which we deduct from the basic positive exposure values. Within banking products and traded products, the risk-reducing effect of any credit protection is taken into account on a notional basis when determining the "Net of hedges" exposures.

Country risk exposure allocation

In general, exposures are shown against the country of domicile of the contractual counterparty or the issuer of the security. For some counterparties whose economic substance in terms of assets or source of revenues is primarily located in a different country, the exposure is allocated to the risk domicile of that different country.

This is the case, for example, with legal entities incorporated in financial offshore centers, which have their main assets and revenue streams outside the country of domicile. The same principle applies to exposures for which we hold third-party guarantees or collateral, where we report the exposure against the country of domicile of either the guarantor or the issuer of the underlying security, or against the country where pledged physical assets are located.

We apply a specific approach to banking products exposures to branches of financial institutions which are located in a country other than that of the domicile of the legal entity. In such cases, exposures are recorded in full against the country of domicile of the counterparty and additionally in full against the country in which the branch is located.

In the case of derivatives, we show the counterparty risk associated with the positive replacement value against the country of domicile of the counterparty (presented within "Traded products"). In addition, the risk associated with the instantaneous fall in value of the underlying reference asset to zero (assuming no recovery) is shown against the country of domicile of the issuer of the reference asset (presented within "Trading inventory"). This approach ensures that we capture both the counterparty and, where applicable, issuer elements of risk arising from derivatives and applies comprehensively for all derivatives, including single-name CDS and other credit derivatives.

As a basic example: if a CDS protection for a notional value of 100 bought from a counterparty domiciled in country X referencing debt of an issuer domiciled in country Y has a positive replacement value of 20, we record (i) the fair value of the CDS (20) against country X (within "Traded products") and (ii) the hedge benefit (notional minus fair value) of the CDS (100 – 20 = 80) against country Y (within "Trading inventory"). In the example of protection bought, the 80 hedge benefit would offset against any exposure arising from securities held and issued by the same entity as the reference asset, floored at zero per issuer. In the case

Exposures to selected eurozone countries

CHF million	Total		Banking products (loans, loan commitments, guarantees)			Traded products (counterparty risk from derivatives and securities financing) after master netting agreements and net of collateral		Trading inventory (securities and potential benefits / remaining exposure from derivatives)
31.12.12		Net of hedges[1]	Exposure before hedges	Net of hedges[1]	*of which: unfunded*	Exposure before hedges	Net of hedges	Net long per issuer
France	**9,990**	**8,777**	**3,462**	**2,403**	***899***	**1,817**	**1,663**	**4,711**
Sovereign, agencies and central bank	4,656	4,448	190	103		341	220	4,125
Local governments	48	48	10	10		4	4	34
Banks	1,719	1,719	1,285	1,285		400	400	33
Other[2]	3,567	2,562	1,976	1,005		1,072	1,038	519
Italy	**5,897**	**4,389**	**1,647**	**1,065**	***705***	**1,973**	**1,048**	**2,276**
Sovereign, agencies and central bank	2,361	1,471	28	28		1,315	424	1,019
Local governments	141	141				141	141	0
Banks	715	715	438	438		264	264	13
Other[2]	2,679	2,061	1,181	598		253	218	1,244
Spain	**4,567**	**3,712**	**3,325**	**2,680**	***101***	**408**	**198**	**834**
Sovereign, agencies and central bank	180	180	15	15				164
Local governments	20	20				14	14	6
Banks	2,667	2,667	2,580[3]	2,580		85	85	2
Other[2]	1,701	846	729	85		310	99	662
Austria	**2,060**	**1,927**	**175**	**175**	***54***	**1,054**	**920**	**831**
Sovereign, agencies and central bank	1,609	1,476	12	12		921	787	676
Local governments	11	11				7	7	4
Banks	238	238	16	16		120	120	101
Other[2]	202	202	148	148		5	5	49
Ireland[4]	**1,391**	**1,391**	**399**	**399**	***3***	**855**	**855**	**137**
Sovereign, agencies and central bank	15	15				3	3	12
Local governments								
Banks	441	441	381	381		28	28	32
Other[2]	936	936	18	18		824	824	93
Belgium	**573**	**558**	**103**	**103**	***32***	**391**	**376**	**79**
Sovereign, agencies and central bank	344	329	3	3		316	302	24
Local governments	1	1						1
Banks	91	91	36	36		44	44	11
Other[2]	137	137	64	64		31	31	42
Portugal	**160**	**63**	**118**	**22**	***21***	**8**	**8**	**34**
Sovereign, agencies and central bank	12	12						12
Local governments								
Banks	31	31	21	21		8	8	2
Other[2]	117	20	97	0		0	0	20
Greece	**48**	**48**	**4**	**4**	***3***	**1**	**1**	**43**
Sovereign, agencies and central bank	35	35	0	0		1	1	34
Local governments								
Banks	0	0	0	0		0	0	
Other[2]	12	12	3	3				9
Other	**212**	**212**	**146**	**146**	***25***	**51**	**51**	**14**

1 Not deducted are total allowances and provisions of CHF 35 million (of which: Austria CHF 13 million, Malta CHF 8 million and France CHF 7 million). 2 Includes corporates, insurance companies and funds. 3 The majority of the banking products exposure shown to Spanish banks relates to secured facilities that are collateralized by non-European sovereign debt securities 4 The majority of the Ireland exposure relates to funds and foreign bank subsidiaries.

of protection sold, this would be reflected as a risk exposure of 80 in addition to any exposure arising from securities held and issued by the same entity as the reference asset. In the case of derivatives referencing a basket of assets, the issuer risk against each reference entity is calculated as the expected change in fair value of the derivative given an instantaneous fall in value to zero of the corresponding reference asset (or assets) issued by that entity. Exposures are then aggregated by country across issuers, floored at zero per issuer.

Exposures to selected eurozone countries
We continue to monitor and manage our exposure to peripheral European countries closely, and our direct exposure to Greece, Italy, Ireland, Portugal and Spain remains limited.

In addition to monitoring direct exposure, we actively consider the inter-linkages among eurozone countries and institutions. We monitor and evaluate the policy responses of key EU institutions and the International Monetary Fund. In addition, we evaluate the implications of these developments for a broad range of countries and institutions beyond Europe when calibrating our eurozone-focused stress scenarios and making assumptions about the behavior of a variety of factors, including currencies, GDP, equity markets, consumer price index, corporate spreads, sovereign CDS and interest rates, for a number of key countries and regions. We apply these stress scenarios to our risk portfolios as part of our firm-wide stress testing framework. Furthermore, we subject our OTC exposures with a wide range of counterparties to these stress scenarios to gain an understanding of potential adverse impacts on our counterparty exposures, as well as to help identify so-called wrong-way risks.

The table "Exposures to selected eurozone countries" provides an overview of our exposure to eurozone countries rated lower than AAA/Aaa by at least one of the major rating agencies. The overview provides an internal risk view of gross and net exposures split by sovereign, local governments, banks and other counterparties. The sovereign category includes agencies and central banks. Corporates, insurance companies and funds are included in the "Other" category. The exposures to Andorra, Cyprus, Estonia, Malta, Monaco, Montenegro, San Marino, Slovakia and Slovenia are grouped in "Other".

CDS are primarily bought and sold in relation to our trading businesses, but are also used to hedge parts of our risk exposure, including that related to selected eurozone countries. At 31 December 2012, and not taking into account the risk-reducing effect of master netting agreements, we had purchased approximately CHF 91 billion gross notional of single name CDS protection on issuers domiciled in Greece, Italy, Ireland, Portugal or Spain (GIIPS) and had sold CHF 88 billion gross notional of single name CDS protection. On a net basis, taking into account the risk reducing effect of master netting agreements, this equates to approximately CHF 18 billion notional purchased and CHF 15 billion notional sold. More than 99% of gross protection purchased was from investment grade counterparties (based on internal ratings) and on a collateralized basis. The vast majority of this was from financial institutions domiciled outside the eurozone. Less than CHF 1 billion of the gross protection purchased was from counterparties domiciled in a GIIPS country and less than CHF 0.5 billion was with counterparties domiciled in the same country as the reference entity.

Holding CDS for credit default protection does not necessarily protect the buyer of protection against losses, as the contracts will only pay out under certain scenarios. The effectiveness of our CDS protection as a hedge of default risk is influenced by a number of factors, including the contractual terms under which the CDS was written. Generally, only the occurrence of a credit event as defined by the CDS terms (which may include among other events, failure to pay, restructuring or bankruptcy) results in a payment under the purchased credit protection contracts. For CDS contracts on sovereign obligations, repudiation can also be deemed as a default event. The determination as to whether a credit event has occurred is made by the relevant International Swaps and Derivatives Association (ISDA) determination committees (comprised of various ISDA member firms) based on the terms of the CDS and the facts and circumstances surrounding the event.

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

31.12.12	Protection bought						Protection sold		Net position (after application of counterparty master netting agreements)			
			of which: counterparty domiciled in GIIPS country		of which: counterparty domicile is the same as the reference entity domicile							
CHF million	Notional	RV	Notional	RV	Notional	RV	Notional	RV	Buy notional	Sell notional	PRV	NRV
Greece	1,405	155					(1,388)	(162)	346	(329)	54	(62)
Italy	47,884	2,285	550	26	226	3	(46,406)	(2,460)	8,024	(6,394)	365	(539)
Ireland	6,363	32	22	0			(6,446)	(84)	1,442	(1,526)	70	(121)
Portugal	7,163	387	71	9	7	0	(7,110)	(430)	1,702	(1,622)	124	(167)
Spain	27,702	968	289	6	129	4	(26,994)	(990)	6,355	(5,395)	320	(342)
Total	90,516	3,828	933	42	362	7	(88,343)	(4,126)	17,869	(15,266)	933	(1,231)

Emerging markets net exposure[1] by internal UBS country rating category

CHF million	31.12.12	31.12.11
Investment grade	**16,953**	19,341
Sub-investment grade	**1,428**	3,053
Total	**18,381**	22,394

1 Net of credit hedges (for banking products and for traded products); net long per issuer (for trading inventory). Total allowances and provisions of CHF 73 million are not deducted (31 December 2011: CHF 61 million).

Emerging market exposures by major geographical region

CHF million	**Total**		**Banking products** (loans, loan commitments, guarantees)		**Traded products** (counterparty risk from derivatives and securities financing) after master netting agreements and net of collateral		**Trading inventory** (securities and potential benefits / remaining exposure from derivatives)	
	Net of hedges[1]		Net of hedges[1]		Net of hedges		Net long per issuer	
	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11
Emerging Americas	**2,498**	3,692	**707**	656	**489**	791	**1,302**	2,245
Brazil	**1,353**	1,538	**185**	168	**305**	527	**863**	842
Chile	**322**	258	**200**	154	**82**	75	**40**	29
Mexico	**214**	487	**97**	125	**75**	134	**43**	228
Colombia	**192**	597	**124**	122	**23**	37	**44**	438
Venezuela	**141**	226	**0**	0			**141**	226
Other	**276**	586	**101**	87	**4**	18	**171**	482
Emerging Asia	**11,184**	13,671	**4,341**	5,240	**1,846**	2,390	**4,998**	6,041
China	**3,163**	2,978	**838**	1,373	**245**	733	**2,080**	872
India	**2,155**	2,620	**1,156**	1,158	**254**	172	**744**	1,290
Hong Kong	**1,557**	3,048	**674**	983	**510**	602	**374**	1,462
South Korea	**1,532**	2,037	**447**	513	**462**	432	**623**	1,091
Taiwan	**1,072**	1,459	**299**	458	**247**	310	**526**	692
Other	**1,704**	1,529	**926**	754	**127**	142	**651**	634
Emerging Europe	**1,833**	2,500	**864**	939	**247**	337	**722**	1,224
Russia	**1,061**	905	**489**	355	**174**	117	**398**	433
Turkey	**264**	843	**204**	310	**23**	45	**38**	488
Ukraine	**121**	140	**37**	61	**0**	0	**84**	79
Hungary	**112**	159		3	**8**	95	**104**	61
Poland	**64**	110	**18**	29	**30**	52	**16**	30
Other	**210**	343	**115**	182	**12**	28	**83**	133
Middle East and Africa	**2,867**	2,531	**1,006**	1,094	**1,105**	807	**756**	630
Saudi Arabia	**599**	649	**107**	170	**473**	438	**19**	41
South Africa	**559**	526	**114**	137	**31**	61	**414**	328
United Arab Emirates	**525**	451	**196**	214	**217**	142	**112**	95
Kuwait	**309**	104	**16**	20	**293**	84	**0**	0
Israel	**299**	149	**190**	85	**4**	10	**105**	55
Other	**575**	652	**383**	468	**86**	72	**107**	111
Total	**18,381**	22,394	**6,918**	7,929	**3,686**	4,325	**7,777**	10,140

1 Not deducted are total allowances and provisions of CHF 73 million (31 December 2011: CHF 61 million).

Exposure to emerging market countries

The table "Emerging markets net exposure by major geographical region" shows the five largest emerging market country exposures in each major geographical area by product type on 31 December 2012 compared with 31 December 2011. Based on the main country rating categories, on 31 December 2012, 92% of our emerging market country exposure was rated investment grade compared with 86% on 31 December 2011.

Debt investments

Audited

Debt investments classified according to IFRS as *Financial investments available-for-sale* are measured at fair value with changes in fair value recorded through equity, and can be broadly categorized as money market instruments and debt securities primarily held for statutory, regulatory or liquidity reasons. Debt investments available-for-sale may also include non-performing loans purchased in the secondary market by the Investment Bank.

The risk control framework applied to debt instruments classified as *Financial investments available-for-sale* depends on the nature of the instruments and the purpose for which we hold them. Our exposures may be included in market risk limits or be subject to specific monitoring such as interest rate sensitivity analysis, firm-wide earnings-at-risk, capital-at-risk and combined stress test metrics.

Composition of debt investments

Audited

Debt instruments classified as *Financial investments available-for-sale* were CHF 65.7 billion on 31 December 2012 compared with CHF 52.5 billion on 31 December 2011. These instruments primarily comprised highly liquid short-term securities issued by governments and government-controlled institutions. The increase was mainly due to an increase in government bills / bonds.

➔ **Refer to "Note 14 Financial investments available-for-sale" in the "Financial information" section of this report for more information**

➔ **Refer to the "Non-trading portfolios" section of this report for more information**

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

Market risk

Audited 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

Audited We take general and specific market risks both in our trading activities and in some non-trading businesses.

Trading portfolios

Audited In 2012, most of our market risk originated from the Investment Bank's trading activities, including the non-core assets that have been transferred to Corporate Center in the first quarter of 2013 as part of the accelerated implementation of our strategy announced in October 2012. In addition, the Group Treasury function (part of Corporate Center) assumes foreign-exchange and interest-rate risk in connection with its balance sheet, profit and loss and capital management responsibilities. Market risk also arises within our Legacy Portfolio within Corporate Center and our wealth and asset management operations also take limited market risk in relation to client business.

Our trading businesses are subject to multiple market risk limits. Traders are required to manage their risks within these limits, which may involve utilizing hedging and risk mitigation strategies. These strategies can expose the firm to additional risks as the hedge instrument and the position being hedged may not always move in parallel (often referred to as basis risk). We actively manage such basis risks. Management and Risk Control may also give instructions to reduce the risk, even when limits are not exceeded.

Our asset management and wealth management businesses carry small trading positions, principally to support client activity. The market risk from these positions is not material to UBS as a whole.

Non-trading portfolios

Audited 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.

Audited 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

Audited We use a limit framework to control our market risks. We have two major portfolio measures of market risk: value-at-risk (VaR) and stress loss. Both are common to all our business divisions and subject to limits that are approved by the Board of Directors.

In the Investment Bank, these portfolio measures are complemented by concentration and other supplementary limits on portfolios, asset classes and products, and also cover exposures to general market risk factors and single-name risk. Single-name risk (or issuer risk) is a measure of our exposure to the tradable instruments (debt, equity and derivatives) of a single issuer (or issuer group) were that issuer to be subject to a credit event, including default. Our concentration and other supplementary limits take a variety of forms, including values (market or notional) and risk sensitivities, which are measures of exposure to a given risk factor such as interest rates, credit spreads, equity indices, foreign exchange rates or volatilities. These limits take into account the extent of market liquidity and volatility, available operational capacity, valuation uncertainty, and, for our single-name exposures, the credit quality of issuers.

Our exposures from security underwriting commitments are subject to the same concentration measures and controls as secondary market positions. Underwriting commitments are approved under delegated risk management and risk control authorities. As such, certain larger or more complex transactions are required to be approved by our Commitment Committee, which includes representatives from both business and control functions.

Market risk limits are set for each of the business divisions and Corporate Center. The limit framework in the Investment Bank is more detailed than in the other business divisions, reflecting the nature and magnitude of the risks it takes.

Trading portfolios

For the purposes of our risk disclosure, the 1-day 95% confidence level value-at-risk (VaR) is used to quantify market risk exposures in our trading portfolios. This measure is also used for internal management purposes and applies to the market risk position population, that group of portfolios for which positions are generally marked to market on a daily basis and that are actively managed under market risk trading limits. Any material market risks that arise from positions outside of this population (e.g. the option to acquire equity of the SNB StabFund) are discussed separately either via sensitivity analysis within the "Non-trading portfolios – valuation and sensitivity information by instrument category" section, as part of our disclosure of sensitivity of "Interest rate risk in the banking book", or by other means for example the composition of equity investments in this section.

Value-at-risk definition

Audited

VaR is a statistical measure of market risk, representing the market risk losses that could potentially be realized over a set time horizon at an established level of confidence. This assumes no change in the firm's trading positions over the relevant time period.

We calculate VaR on a daily basis on our end-of-day positions. Our VaR calculation is based on the application of historical changes in market risk factors directly to our current positions – a method known as historical simulation. We use a single VaR model for both internal management purposes and for determining market risk regulatory capital requirements, although the confidence levels and time horizons differ. For internal management purposes we measure VaR at the 95% confidence level using a 1-day holding period. The regulatory measure of risk used to underpin the market risk capital requirement under the Basel accord, by contrast, requires a measure equivalent to a 99% confidence level and using a 10-day holding horizon.

Our VaR model is approved by FINMA and significant revisions of our VaR methodology and model, certain of which are ongoing, are also subject to regulatory approval.

Value-at-risk limitations

Audited

Actual realized market risk losses may differ from those implied by our VaR for a variety of reasons. All VaR measures are subject to limitations and must be interpreted accordingly and used in conjunction with other risk measures. The limitations of VaR include the following:

- The use of a five-year window means that sudden increases in market volatility will not tend to increase VaR as quickly as the use of shorter historical observation periods, but the increase will impact our VaR for a longer period of time.
- The VaR measure is calibrated to a specified level of confidence and may not indicate potential losses beyond this confidence level.
- The 1-day time horizon in the VaR measure, or 10-day in the case of regulatory VaR, may not fully capture the market risk of positions that cannot be closed out or hedged within the specified period.

Audited

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

	For the year ended 31.12.12				For the year ended 31.12.11			
CHF million, except where indicated	Min.	Max.	Average	31.12.12	Min.	Max.	Average	31.12.11
Wealth Management	0	0	0	0				0
Wealth Management Americas	1	2	2	2	1	2	1	2
Investment Bank[1]	15	164	30	15	30	219	75	34
Global Asset Management	0	0	0	0	0	0	0	0
Retail & Corporate	0	0	0	0				0
Corporate Center[1]	3	17	11	10	4	14	7	4
Diversification effect	–[2]	–[2]	(10)	(9)	–[2]	–[2]	(7)	(4)
Total management VaR, Group	18	167	33	18	31	222	76	36
Diversification effect (%)			(23)	(34)			(8)	(9)

1 The prior period has not been restated for the transfer of legacy positions from the Investment Bank to the Corporate Center. 2 As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

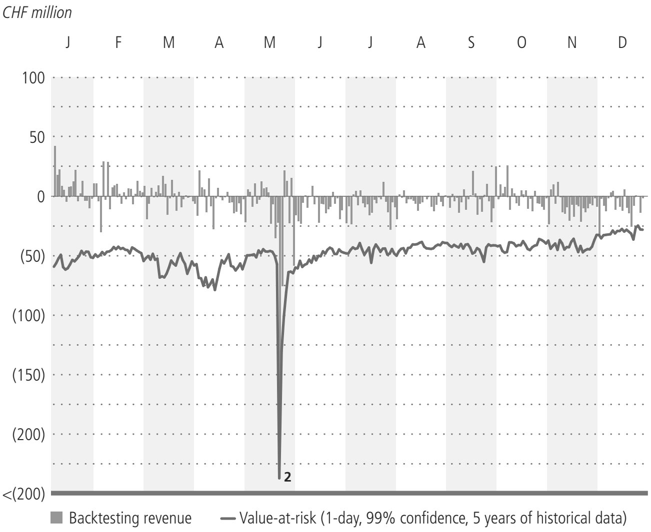
Audited

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

	For the year ended 31.12.12				For the year ended 31.12.11			
CHF million, except where indicated	Min.	Max.	Average	31.12.12	Min.	Max.	Average	31.12.11
Equities	7	160	12	8	10	76	15	13
Interest rates	11	33	19	12	14	35	24	18
Credit spreads	23	42	31	26	29	84	56	29
Foreign exchange	3	13	6	5	3	17	8	5
Energy, metals and commodities	1	7	3	3	2	10	4	3
Diversification effect	–[1]	–[1]	(38)	(37)	–[1]	–[1]	(31)	(32)
Total management VaR, Group	18	167	33	18	31	222	76	36
Diversification effect (%)			(54)	(68)			(29)	(47)

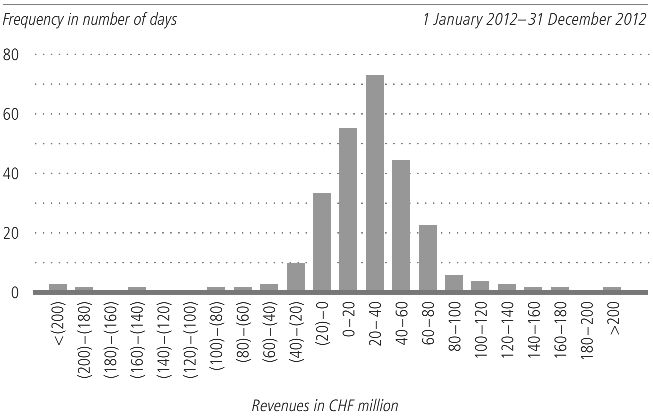
1 As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Group: development of backtesting revenues[1] against value-at-risk (1-day, 99% confidence)



1 Excludes non-trading revenues, such as commissions and fees, and revenues from intraday trading.
2 Due to previously disclosed incident related to the Facebook initial public offering.

Investment Bank: all revenue distribution[1]



1 Includes all revenues from business areas which have trading activities.

- In certain cases, VaR calculations approximate the impact of changes in risk factors on the values of positions and portfolios. This may happen because the number of risk factors included in the VaR model is necessarily limited; for example, yield curve risk factors do not exist for all future dates.
- The effect of extreme market movements is subject to estimation errors, which may result from non-linear risk sensitivities, as well as the potential for actual volatility and correlation levels to differ from assumptions implicit in the VaR calculations.

We recognize that no single measure may encompass the entirety of risks associated with a position or portfolio. Consequently, we employ a suite of various metrics with both overlapping and complementary characteristics in order to create a holistic framework which ensures material completeness of risk identification and measurement.

As a statistical aggregate risk measure, VaR is supplemented by a comprehensive framework of non-statistical measures and corresponding limits. This includes an extensive series of stress tests and scenario analyses that undergo continuous evaluation to ensure that, were an extreme but nevertheless plausible event to occur, the resulting losses would not exceed our appetite for losses.

Furthermore, we have an established framework to identify and quantify potential risks that are not adequately captured by our VaR model.

Starting in the fourth quarter of 2012, this framework is used as the basis for underpinning such risks with regulatory capital by means of a methodology approved by FINMA. The resulting risk-weighted-assets (RWA) add-on does not reflect any diversification benefits across risks capitalized through VaR and those subject to this additional capital underpinning. As at 31 December 2012, the add-on amounted to approximately one-third of the sum of RWA from VaR and stressed VaR.

Value-at-risk developments in 2012

The Group's management VaR decreased to CHF 18 million on 31 December 2012 from CHF 36 million on 31 December 2011. This decrease was mainly due to active steps taken by the Investment Bank to reduce trading risks following the announcement in October 2012 regarding the accelerated implementation of our strategy. Average management VaR was CHF 33 million for 2012 compared with CHF 60 million in 2011 (excluding the effects of the 2011 unauthorized trading incident). The main contributors to Group VaR continue to be credit spread risk and, to a lesser extent, interest rate risk.

In the fourth quarter 2012, we improved the component of our VaR model used to calculate equity price risk by replacing the existing single-factor model with a multi-factor model, which better captures the correlations among equity returns. The effects of this model change on Group management, regulatory and stressed VaR figures, prior to and at the time of implementation, were reductions of between 10% and 20%.

Backtesting

Backtesting compares 1-day 99% confidence level regulatory VaR calculated on positions at the close of each business day with the revenues generated by those positions on the following business day. Backtesting revenues exclude non-trading revenues, such as fees and commissions, and estimated revenues from intraday trading. A backtesting exception occurs when backtesting revenues are negative and the absolute value of those revenues is greater than the previous day's VaR.

We had one backtesting exception at Group level in 2012 compared with three in the prior year. We investigate all backtesting exceptions and any exceptional revenues on the profit side of the VaR distribution. In addition, we report all backtesting results to senior business management, the Group Chief Risk Officer and the business divisions' chief risk officers.

Audited

Backtesting exceptions are also reported to internal and external auditors and to the relevant regulators.

The chart "Group: development of backtesting revenues against value-at-risk" shows the 12-month development of 1-day 99% VaR against backtesting revenues of the Group for the whole year of 2012. The histogram "Investment Bank: all revenue distribution" shows the Investment Bank's full trading revenues distribution in 2012.

Market risk – stress loss

VaR is supplemented by a comprehensive framework of non-statistical measures and corresponding limits. This includes an extensive series of stress tests and scenario analyses that undergo continuous evaluation to ensure that, were an extreme but nevertheless plausible event to occur, the resulting losses would not exceed our appetite for losses.

Our scenarios capture the liquidity characteristics of different markets, asset classes and positions.

Our market risk stress testing framework is designed to provide a control framework that is forward-looking and responsive to changing market conditions. Our stress scenarios are therefore reviewed regularly in the context of the macroeconomic and geopolitical environment by a committee comprised of representatives from the business divisions, Risk Control and Economic Research. In response to changing market conditions and new developments around the world, we develop and run ad hoc stress scenarios to assess the potential impact on our portfolio.

➔ **Refer to the discussion on stress loss in this section for more information**

Non-trading portfolios

Audited

This section includes an overview of interest rate risk in the banking book and a description of the valuation of certain significant product categories and related valuation techniques and models. In addition, sensitivity information is provided for certain significant instrument categories that are not included, or not fully captured, in management VaR.

Interest rate risk in the banking book

Audited

The banking book consists of *Available-for-sale instruments*, *Loans and receivables*, certain *Instruments designated at fair value through profit or loss*, derivatives measured at fair value through profit or loss and derivatives employed for cash flow hedge accounting purposes, as well as related funding transactions. These positions may impact *Other comprehensive income* or profit or loss, due to differences in accounting treatment.

All interest rate risk is subject to independent risk control. When not included in our VaR measure, interest rate risk is subject to specific monitoring, which may include interest rate sensitivity analysis, earnings-at-risk, capital-at-risk and combined stress test metrics.

Audited

The interest sensitivity of non-contractual maturity products is modeled using historical behavior patterns from a complete interest rate cycle.

Our largest banking book interest rate risk exposures arise primarily from loans and deposits in our Wealth Management, Retail & Corporate and Wealth Management Americas divisions, as well as our treasury activities.

Interest rate risks arising in the majority of Wealth Management and Retail & Corporate locations are transferred either by means of back-to-back transactions or, in the case of products with no contractual maturity date or direct market-linked rate, by "replicating" portfolios from the originating business into Group Treasury where they are netted against interest rate risks from other sources. Residual interest rate risks in Wealth Management and Retail & Corporate locations that are not transferred to Group Treasury are managed locally and subject to independent monitoring and control both in the locations by local risk control units as well as centrally by Treasury Risk Control.

Group Treasury manages two main types of interest rate risk positions. One type is the risk transferred from Wealth Management and Retail & Corporate banking operations (mentioned above). The other type arises from investing or funding non-monetary corporate balance sheet items that have indefinite maturities, such as equity and goodwill. For these items senior management has defined specific target durations based on which we fund and invest as applicable. These targets are defined by replication portfolios, which establish rolling benchmarks to execute against. The table on the next page includes any residual risk in the Group Treasury books against these benchmarks. This activity and associated sensitivities of these replication portfolios are further discussed in the Group Treasury section.

In addition to its regular risk management activities, Group Treasury may execute transactions that aim to economically hedge negative effects on our net interest income stemming from the prolonged period of extraordinarily low yields, mainly through income-generating fixed receiver swaps.

Interest rate risk within Wealth Management Americas arises from the business division's investment portfolio in addition to its lending and deposit products offered to clients. This interest rate risk is closely measured, monitored and managed within approved risk limits and controls, taking into account Wealth Management Americas' balance sheet items that mutually offset interest rate risk. The Corporate Center Legacy Portfolio assets that were reclassified to Loans and receivables from Held for trading in the fourth quarter of 2008 and the first quarter of 2009, and certain other debt securities held as Loans and receivables, also give rise to nontrading interest rate risk.

➔ **Refer to the "Interest rate and currency management" section of this report for more information**

The interest rate risk sensitivity figures presented in the table "Interest rate sensitivity – banking book" represent the impacts of +1, ± 100 and ±200-basis-point parallel moves in yield curves on present values of future cash flows, irrespective of accounting treatment. For some portfolios, the +1-basis-point sensitivity has been estimated by dividing the +100-basis-point sensitivity by 100. Due to the low level of interest rates, the downward moves by 100/200 basis-points sensitivities are floored at zero to ensure that the resulting interest rates are not negative. This effect, combined with pre-payment risk on US mortgage products, results in nonlinear behavior of the sensitivity.

During the second quarter of 2012, we modified our calculation approach. Client rate durations are no longer assumed to be responsive to the applied instantaneous yield curve changes, with the exception of those products contractually referencing market rates. The figures for 31 December 2011 have been restated to reflect these changes.

The impact of an adverse parallel shift in interest rates of 200 basis points on our non-trading interest rate risk exposures is significantly below the threshold of 20% of eligible capital set by regulators.

As part of its management of interest rate risk, Group Treasury has managed portfolios that aimed to economically hedge negative effects on the firm's interest income stemming from the unusually low yield environment, as discussed in the "Interest rate and currency management" section of this report. The risk positions in these portfolios were closed during the third quarter 2012, largely explaining the change in the overall banking book sensitivity profile compared with the prior year-end.

Interest rate sensitivity of available-for-sale debt investments

Audited

Debt investments classified as *Financial investments available-for-sale* amounted to CHF 65.7 billion on 31 December 2012 compared with CHF 52.5 billion on 31 December 2011. The sensitivity of these positions (excluding hedges and excluding investments in funds accounted for as available-for-sale) to a 1-basis-point parallel increase in the yields of the respective instruments is approximately negative CHF 8.2 million, which would be recorded in other comprehensive income if such change occurred. The interest rate sensitivity of this position including the associated hedges is included within the table "Interest rate sensitivity – banking book", some elements of which are additionally included in VaR.

➔ **Refer to "Note 14 Financial investments available-for-sale" in the "Financial information" section of this report for more information**

➔ **Refer to "Debt investments" in the "Credit risk" section of this report for more information**

Interest rate sensitivity of interest rate swaps designated in cash flow hedges

Audited

Fair value gains or losses associated with the effective portion of interest rate swaps designated as cash flow hedges for cash flow repricing risk are recognized initially in Equity. When the hedged forecast cash flows affect profit or loss, the associated gains or losses on the hedging derivatives are reclassified from *Equity* to profit or loss. Interest rate swaps designated in cash flow hedges are denominated in US dollar, euro, British pound, Swiss franc and Canadian dollar. As of 31 December 2012, the fair value of these interest rate swaps amounted to CHF 7.8 billion (positive replacement values) and CHF 3.0 billion (negative replacement values). The impact on other comprehensive income under IFRS of a 1-basis-point increase of underlying LIBOR curves would have decreased equity by approximately CHF 23.7 million. The interest rate sensitivity of these swaps is included in the table below "Interest rate sensitivity – banking book" some elements of which are additionally included in VaR disclosure.

Audited

Interest rate sensitivity – banking book[1]

CHF million	31.12.12				
	–200 bps	**–100 bps**	**+1 bp**	**+100 bps**	**+200 bps**
CHF	**(22.4)**	**(13.4)**	**(0.3)**	**(27.5)**	**(51.0)**
EUR	**21.0**	**13.3**	**(0.5)**	**(48.5)**	**(94.1)**
GBP	**(0.5)**	**2.3**	**(0.1)**	**(14.3)**	**(29.5)**
USD	**(197.3)**	**(138.3)**	**4.1**	**412.6**	**793.7**
Other	**(8.3)**	**(10.5)**	**0.2**	**20.2**	**40.3**
Total impact on interest rate-sensitive banking book positions	**(207.4)**	**(146.7)**	**3.3**	**342.5**	**659.4**

CHF million	31.12.11				
	–200 bps	**–100 bps**	**+1 bp**	**+100 bps**	**+200 bps**
CHF	14.3	17.5	(0.7)	(66.9)	(130.2)
EUR	316.8	169.6	(1.6)	(160.3)	(314.1)
GBP	(6.9)	(9.4)	0.1	13.2	25.6
USD	153.5	117.3	(1.6)	(157.0)	(385.4)
Other	17.2	3.5	(0.2)	(13.4)	(25.2)
Total impact on interest rate-sensitive banking book positions	**494.9**	**298.5**	**(4.0)**	**(384.2)**	**(829.3)**

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

Non-trading portfolios – valuation and sensitivity information by instrument category

Credit valuation adjustments on monoline credit protection

Included in our Legacy Portfolio are trades whereby we purchased credit default swaps (CDS) protection from monoline insurers against UBS-held underlyings, including residential mortgage-backed securities (RMBS) collateralized debt obligations (CDO) and commercial mortgage-backed securities (CMBS) CDO, transactions with collateralized loan obligations (CLO) and asset-backed securities (ABS) CDO. Since the start of the financial crisis, the credit valuation adjustments (CVA) relating to these monoline exposures have been a source of valuation uncertainty, given market illiquidity and the contractual terms of these exposures relative to other monoline-related instruments.

CVA amounts related to monoline credit protection are based on a methodology that uses CDS spreads on the monolines as a key input in determining an implied level of expected loss. Where a monoline has no observable CDS spread, a judgment is made on the most comparable monoline or combination of monolines, and the corresponding spreads are used instead. For RMBS CDO, CMBS CDO and CLO asset categories, cash flow projections are used in conjunction with current fair values of the underlying assets to provide estimates of expected future exposure levels. For other asset categories, future exposure is derived from current exposure levels.

To assess the sensitivity of the monoline CVA calculation to alternative assumptions, the impact of a 10% increase in monoline CDS spreads (e.g. from 1,000 basis points to 1,100 basis points for a specific monoline) was considered. On 31 December 2012, such an increase would have resulted in a USD 15 million (CHF 13 million) increase in the reported monoline CVA compared with USD 39 million (CHF 37 million) on 31 December 2011.

The sensitivity of the monoline CVA to a decrease of 1 percentage point in the monoline recovery rate assumptions (e.g. from 30% to 29% for a specific monoline, conditional on default occurring) is estimated to increase the reported figures by approximately USD 3 million (CHF 2 million) compared with USD 11 million (CHF 10 million) on 31 December 2011. The sensitivity to credit spreads and recovery rates is substantially linear.

US reference-linked notes

The US reference-linked notes (RLN) consist of a series of transactions whereby UBS purchased credit protection, predominantly in note form, on a notional portfolio of fixed income assets. The referenced assets are primarily CMBS and subprime RMBS and/or corporate bonds and loans across all rating categories. While the assets in the portfolio are marked-to-market, the credit protection embodied in the RLN is fair valued using a market standard approach to the valuation of portfolio credit protection (Gaussian copula). This approach is intended to effectively simulate correlated defaults within the portfolio, where the expected losses and defaults of the individual assets are closely linked to the observed market prices (spread levels) of those assets. Key assumptions of the model include correlations and recovery rates. We apply fair value adjustments related to potential uncertainty in each of these parameters, which are only partly observable. In addition, we apply fair value adjustments for uncertainties associated with the use of observed spread levels as the primary inputs. These fair value adjustments are calculated by applying shocks to the relevant parameters and revaluing the credit protection. These shocks for correlation, recovery and spreads are set to various levels depending on the asset type and/or region and may vary over time depending on the best judgment of the relevant trading and control personnel. Correlation and recovery shocks are generally in the reasonably possible range of 5 to 15 percentage points. Spread shocks vary more widely and depend on whether the underlying protection is funded or unfunded to reflect cash or synthetic basis effects. These fair value adjustments may also be considered a measurement of sensitivity.

On 31 December 2012, the fair value of the US RLN credit protection was USD 120 million (CHF 110 million) including adjustments described above of USD 11 million (CHF 10 million). This compares with USD 319 million (CHF 299 million) on 31 December 2011, which included an adjustment of USD 22 million (CHF 21 million). The reduction in the fair value was largely due to writedowns in the reference pool assets which led to reductions in the notional exposure and corresponding fair values changes.

Non-US reference-linked notes

The same valuation model and the same approach to the calculation of fair value adjustments are applied to the non-US RLN credit protection and the US RLN credit protection as described above, except that the spread is shocked by 10% for European corporate names.

On 31 December 2012, the fair value of the non-US RLN credit protection was USD 214 million (CHF 195 million) including adjustments of USD 42 million (CHF 39 million). This compares with a fair value of USD 468 million (CHF 439 million) on 31 December 2011, which included adjustments of USD 46 million (CHF 43 million). The reduction of the fair value exposure was mainly due to mark-to-market changes and buybacks.

Option to acquire equity of the SNB StabFund

Our call option to purchase the SNB StabFund's equity is recognized on the balance sheet as a derivative at fair value (positive replacement values) with changes to fair value recognized in profit or loss. On 31 December 2012, the fair value of the call option (after reserves) was USD 2,297 million (CHF 2,103 million). This compares with USD 1,736 million (CHF 1,629 million) on 31 December 2011. The increase in the value of the option is primarily attributable to an increase in the market value of the underlying SNB StabFund assets.

The option valuation model utilizes cash flow projections for assets within the SNB StabFund across various economic scenarios. This model is calibrated to market levels by setting the spread above the one-month LIBOR rates used to discount future cash

Audited flows, such that the model-generated price of the underlying asset pool equals our assessed fair value of the asset pool. The model incorporates a model reserve (fair value adjustment) to address the inherent valuation uncertainty associated with the forecasting process. On 31 December 2012, this adjustment was USD 173 million (CHF 158 million) compared with USD 131 million (CHF 123 million) on 31 December 2011.

On 31 December 2012, a 100-basis-point increase in the discount rate would have decreased the option value by USD 181 million (CHF 166 million) compared with USD 139 million (CHF 130 million) on 31 December 2011. A 100-basis-point decrease would have increased the option value by approximately USD 201 million (CHF 184 million) compared with USD 155 million (CHF 145 million) on 31 December 2011.

Equity investments

Audited Under IFRS, equity investments not in the trading book may be classified as *Financial investments available-for-sale, Financial assets designated at fair value through profit or loss* or *Investments in associates.*

We may make direct investments in a variety of entities or buy equity holdings in both listed and unlisted companies for a variety of purposes, including revenue generation or as part of strategic initiatives. Other investments, such as exchange and clearing house memberships, are held to support our business activities. We may also make investments in funds that we manage, in order to fund or "seed" them at inception, or to demonstrate that our interests concur with those of investors. We also buy, and are sometimes required by agreement to buy, securities and units from funds that we have sold to clients. The fair value of equity investments tends to be dominated by factors specific to the individual stocks, and our equity investments are generally intended to be held for the medium or long term and may be subject to lockup agreements. For these reasons, we generally do not control these exposures using the market risk measures applied to trading activities. Such equity investments are, however, subject to a different range of controls, including pre-approval of new investments by business management and Risk Control and regular monitoring and reporting. They are also included in our firm-wide earnings-at-risk, capital-at-risk and combined stress test frameworks.

Audited Investments made as part of an ongoing business are also subject to our standard controls, including portfolio and concentration limits. Seed money and co-investments in UBS-managed funds made by Global Asset Management are, for example, subject to a portfolio limit. All investments must be approved by delegated authorities and are monitored and reported to senior management.

Composition of equity investments

Audited On 31 December 2012, we held equity investments totaling CHF 1.6 billion, of which CHF 0.7 billion were classified as *Financial investments available-for-sale,* and CHF 0.9 billion as *Investments in associates.*

This compares with 31 December 2011, when we held equity investments totaling CHF 1.5 billion, of which CHF 0.7 billion were classified as *Financial investments available-for-sale* and CHF 0.8 billion as *Investments in associates.*

➔ **Refer to "Note 14 Financial investments available-for-sale" and "Note 15 Investments in associates" in the "Financial information" section of this report for more information**

Treasury risk control

Treasury assumes risks in the process of managing interest rate and structural foreign exchange risks and the funding and liquidity profile of the bank. Our treasury risk control function applies a holistic risk framework which sets the appetite for treasury-related risk-taking activities across the firm. This ensures that the risks remain within parameters defined by the Board of Directors (BoD) and the Group Asset and Liability Management Committee. A key element of the framework is an overarching economic value sensitivity limit, set by the BoD. This limit is linked to the level of Basel III common equity tier 1 capital (CET1) and takes into account risks arising from interest rates, foreign exchange and credit spread risks. In addition, the sensitivity of Net interest income to changes in interest rates is monitored against targets set by the Group Chief Executive Officer in order to analyze the outlook and volatility of Net interest income based on market expected interest rates. Limits are also set by the BoD to balance the impact of foreign exchange movements on our common equity and tier 1 ratio.

Operational risk

Operational risk is the risk resulting from inadequate or failed internal processes, human error and systems failure, or from external causes (deliberate, accidental or natural). Such events may cause direct financial losses or manifest themselves indirectly as revenue forgone due to the suspension of business. They may also result in damage to our reputation and to our franchise, leading to longer-term financial implications.

Operational risk is an inevitable consequence of being in business, and managing it is a core element of our business activities. Our aim is to provide a framework that supports the identification and assessment of material operational risks and their potential concentrations in order to achieve an appropriate balance between risk and reward. We seek to foster a strong firm-wide risk and control culture, which is a pre-requisite for sustainable and improved performance.

Organizational structure and governance

The business division Chief Executive Officers and the Corporate Center function heads are ultimately accountable for the effectiveness of operational risk management and implementation of our operational risk framework. Responsibility for the front-to-back control environment in the business divisions is the responsibility of the respective business divisions' Chief Executive Officers but is delegated to the respective business divisions' Chief Operating Officers. Management in all functions (business, logistics and control functions) is responsible for establishing an appropriate operational risk management environment, including the establishment and maintenance of robust internal controls, effective supervision and a strong risk culture. Controls must be regularly assessed, utilizing evidence to confirm design and operating effectiveness.

Operational risk control provides an independent and objective view on the adequacy of operational risk management in the firm. It is governed by the Operational Risk Management Committee, which is chaired by the Global Head of Operational Risk Control, who reports to the Group Chief Risk Officer and is a member of the Risk Executive Committee. The Operational Risk Management Committee oversees operational risk activities and work streams, ensures oversight of the implementation of the operational risk framework, and provides an effective and independent assessment of the operational risk profile.

Operational risk framework

The operational risk framework describes general requirements for managing and controlling operational risk at UBS. The implementation of the enhanced operational risk framework remained a key focus during 2012. The framework is built on four main pillars:

1. Classification of inherent risks through the operational risk taxonomy
2. Assessment of the design and operating effectiveness of controls through the internal control assessment process
3. Assessment of residual risk through the operational risk assessment process
4. Remediation to address identified deficiencies which are outside accepted levels of residual risk

The operational risk taxonomy provides a clear and logical classification of our inherent operational risks across all business divisions. The operational risk framework requires that for each category of the operational risk taxonomy, core controls are defined. Core controls are the critical controls that, if designed and operating effectively, will materially ensure that our operational risk profile stays within acceptable boundaries. The completeness of core controls is tested using scenarios through which the inherent risk, including stress and tail risk, may materialize. Functions are required to identify key procedural controls relevant to their activities that support the core controls. Full implementation and integration of scenarios, core and key procedural controls and their periodic review is key to ensuring a comprehensive view of the residual risk in the organization. The periodic review is achieved through a quarterly internal control assessment process that requires functions to assess and evidence operating and design effectiveness of their key procedural controls. This also forms the basis for the assessment and testing of controls over financial reporting as required by the Sarbanes-Oxley Act, Section 404 (SOX 404). The enhanced framework facilitates the identification of SOX 404 relevant controls for independent testing and functional assessments, gathering of evidence, management affirmation and remediation tracking. Significant control deficiencies surfaced during the operational risk assessment process must be reported in the operational risk inventory and sustainable remediation instigated. All significant issues are assigned to owners at senior management level and must be reflected in the respective employees' annual performance measurement and management objectives and evaluation to ensure effective remediation.

The aggregated impact of the control deficiencies and the adequacy of remediation efforts are assessed by operational risk control for all relevant operational risk taxonomy categories as part of the operational risk assessment process. This front-to-back process, complemented with internal expert opinion, provides a transparent assessment of the current operational risk exposure for residual operational risk against agreed risk appetite statements and measures.

Risk appetite measures indicate a breach of appetite limits, which requires management to adapt their business activities or adjust the internal control environment accordingly. Risk appetite can be expressed through the establishment of quantitative constraints such as operating limits or qualitative statements in the form of policies. In the third quarter of 2012, Group Internal Audit implemented an enhanced assurance process for issue closure to promote stronger management discipline for identifying, mitigating and sustainably remediating risk control issues. To assist with prioritization of all known operational risk issues irrespective of origin, a common rating methodology was adopted by all internal control functions and both internal and external audit. Assessment of all known issues irrespective of source against the same rating scale supports clear prioritization and appropriate management focus on the key issues. An operational risk communications program was launched in July 2012 to reemphasize the importance of a strong risk control culture and individual responsibility across all levels of the firm to generate sustainable financial performance.

Reporting of significant risk issues and operational effectiveness was extended and strengthened through 2012. Where a particular operational risk issue is considered of strategic concern to the firm it is categorized as a 'Group Significant Operational Risk Issue'. Remediation programs related to these issues are led by members of the Group Executive Board and is subject to independent quality assurance. Completion is assessed against clearly defined success criteria to confirm that an adequate and sustainable standard of control has been achieved. The Group Executive Board members have confirmed their personal and collective commitment to the timely and sustainable remediation of Group Significant Operational Risk Issues.

Remediation of known issues and control deficiencies is a focus of the operational risk framework. In 2012 material progress was made in relation to a number of key remediation activities.

The Investment Bank's unauthorized trading incident (UTI) remediation programme is running to plan and the key issues have been remediated, with all remaining items on plan for implementation by the second quarter 2013. A series of immediate remediation steps were taken, including senior management changes and the remediation of the SOX material weakness.

On 19 December 2012, UBS entered into regulatory settlements concerning LIBOR and other benchmark interest rates. On the same day FINMA issued an order concluding proceedings against UBS concerning the same issues. These settlements and the FINMA order required UBS to pay a total of approximately CHF 1.4 billion in fines and disgorgement. The conduct encompassed by the regulatory settlements and order includes certain UBS personnel engaging in efforts to manipulate submissions for certain benchmark rates to benefit trading positions, colluding with employees at other banks and cash brokers to influence certain benchmark rates to benefit their trading positions, and giving inappropriate directions to UBS submitters. We have undertaken remedial steps that are designed to guard against a recurrence of this conduct, such as strengthening our benchmark submission process, making organizational changes that include transferring responsibility for that process principally to Group Treasury within the Corporate Center, and enhancing applicable policies and procedures.

Operational risk quantification

The enhanced operational risk framework is aligned to the calculation of capital, representing a major step forward in our approach to quantifying operational risk and setting effective management incentives. The processes detailed above are integral to the quantification of operational risk reinforcing integration and alignment of the operational risk framework and the calculation of capital.

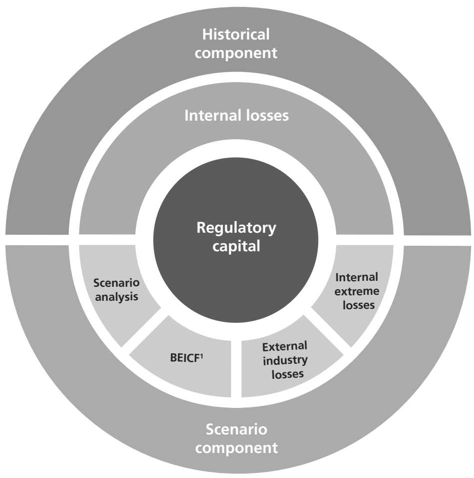
We measure operational risk exposure and calculate operational risk regulatory capital by utilizing the advanced measurement approach (AMA) in accordance with FINMA requirements. For regulated subsidiaries, the basic indicator or standardized approaches are adopted as agreed with local regulators.

Advanced measurement approach model

The AMA model is a hybrid consisting of two main components. The historical component is a retrospective view based on our history of operational risk losses since January 2002, excluding extreme internal losses, which are assigned to the scenario component to avoid duplication. The key assumption within this component is that past events form a reasonable proxy for future events. A distribution of aggregated losses over one year is derived by modeling severities and frequencies separately and then combining them. This is referred to as a loss distribution approach and is used to project future total losses based on historical experience and determine the expected loss portion of our capital requirement.

The scenario component is a forward-looking view of potential operational losses that may occur based on the operational risk issues facing the bank. The aim is to reach a reasonable estimate of unexpected or tail loss exposure (corresponding to a low frequency/high severity event). We use twenty AMA taxonomy categories which are closely aligned to the operational risk taxonomy. For each of these categories three frequency/severity pairs are defined, representing the base, stress and worst case. Calibration is based on internal extreme losses, loss data from peer banks, business environment and internal control factors, as well as extensive annual verification by internal subject matter experts based on their view of our particular exposure to these risk taxonomies. The following chart provides a high-level overview of the model components and their respective inputs into the calculation:

AMA model components and inputs



1 Business environment and internal control factors.

The AMA model adds the sampled losses from the historical and the scenario component to derive the regulatory capital figure which equals the 99.9% quantile of the overall loss distribution. Currently, we do not reflect mitigation through insurance or any other risk transfer mechanism in our AMA model.

Following qualitative and quantitative model-related enhancements, in 2012 we focused on further strengthening the integration of the output of the operational risk framework into the AMA model to ensure efficient leverage of operational risk management and control processes. The AMA taxonomy categories used in the scenario component have been aligned with the operational risk taxonomy. Qualitative adjustments to the parameters of the scenario component utilize the assessments of operational risk exposure resulting from the operational risk assessment process as well as control deficiencies, scenarios and core controls.

Operational risk regulatory capital is allocated to the business divisions based on historical operational risk-related losses. In 2013 we will focus on enhancing the allocation approach to strengthen the linkage between the quality of operational risk management and the resulting capital allocation with the aim of promoting and incentivizing excellence in risk management behavior. Increased leverage of available qualitative indicators and elements will play an integral role for capital allocation purposes and increase the risk sensitivity of the capital allocation approach overall.

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

APPENDIX 5 — OPERATING ENVIRONMENT AND STRATEGY

The information in this Appendix 5 describes the operating environment and strategy of UBS AG and references herein to "**UBS**" or the "**Group**" are to UBS AG and its subsidiaries.

The information in this Appendix 5 has been extracted from our Annual Report 2012 as at and for the year ended 31 December 2012. References to page numbers in this Appendix 5 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 5.

Risk factors

Certain risks, including those described below, may impact our ability to execute our strategy and affect our business activities, financial condition, results of operations and prospects. Because the business of a broad-based international financial services firm such as UBS is inherently exposed to risks that become apparent only with the benefit of hindsight, risks of which we are not presently aware or which we currently do not consider to be material could also impact our ability to execute our strategy and affect our business activities, financial condition, results of operations and prospects. The sequence in which the risk factors are presented below is not indicative of their likelihood of occurrence or the potential magnitude of their financial consequences.

Regulatory and legislative changes may adversely affect our business and ability to execute our strategic plans

Fundamental changes in the laws and regulations affecting financial institutions could have a material and adverse effect on our business. In the wake of the 2007–2009 financial crisis and the continuing instability in global financial markets, regulators and legislators have proposed, have adopted, or are actively considering, a wide range of changes to these laws and regulations. These measures are generally designed to address the perceived causes of the crisis and to limit the systemic risks posed by major financial institutions. They include the following:
- significantly higher regulatory capital requirements;
- changes in the definition and calculation of regulatory capital;
- changes in the calculation of risk-weighted assets (RWA);
- the introduction of a more demanding leverage ratio;
- new or significantly enhanced liquidity requirements;
- requirements to maintain liquidity and capital in jurisdictions in which activities are conducted and booked;
- limitations on principal trading and other activities;
- new licensing, registration and compliance regimes;
- limitations on risk concentrations and maximum levels of risk;
- taxes and government levies that would effectively limit balance sheet growth or reduce the profitability of trading and other activities;
- a variety of measures constraining, taxing or imposing additional requirements relating to compensation;
- adoption of new liquidation regimes intended to prioritize the preservation of systemically significant functions;
- requirements to adopt structural and other changes designed to reduce systemic risk and to make major financial institutions easier to manage, restructure, disassemble or liquidate; and
- requirements to adopt risk governance structures at a local jurisdiction level.

A number of measures have been adopted and will be implemented over the next several years; some are subject to legislative action or to further rulemaking by regulatory authorities before final implementation. As a result, there is a high level of uncertainty regarding a number of the measures referred to above, including whether (or the form in which) they will be adopted, the timing and content of implementing regulations and interpretations and/or the dates of their effectiveness.

Notwithstanding attempts by regulators to coordinate their efforts, the measures adopted or proposed differ significantly across the major jurisdictions, making it increasingly difficult to manage a global institution. The absence of a coordinated approach, moreover, disadvantages institutions headquartered in jurisdictions that impose relatively more stringent standards. Switzerland has adopted capital and liquidity requirements for its major international banks that are the strictest among the major financial centers. This could disadvantage Swiss banks such as UBS when they compete with peer financial institutions subject to more lenient regulation or with unregulated non-bank competitors.

Regulatory and legislative changes in Switzerland

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

The provisions of the revised banking ordinance and capital adequacy ordinance implementing the Swiss "too-big-to-fail" law became effective on 1 January 2013. These ordinances implement capital requirements that increase or decrease in proportion to UBS's (i) market share in Switzerland and (ii) total exposure, a metric that measures balance sheet size. This could in effect result in higher or lower capital adequacy requirements than the 19% of Basel III RWA that has been publicly discussed. As we have previously announced, our total capital requirements are expected to fall to 17.5% reflecting the planned decrease in total exposure as part of the acceleration of our strategy announced in October 2012. Actions and interpretations of governmental authorities may affect the calculation of our capital ratios and increase our effective capital requirements. For example, we expect approximately CHF 2–3 billion to be added to our RWA each year from 2013 through 2019 as a result of FINMA's decision to apply a bank-specific multiplier for banks using the internal ratings-based approach when calculating RWA for Swiss retail mortgages. In addition, a 1% countercyclical buffer on RWA arising from Swiss residential mortgages will be effective from September 2013.

The new banking and capital adequacy ordinances also contain, among other things, provisions regarding emergency plans for systemically important functions, recovery and resolution planning and intervention measures that may be triggered when certain capital thresholds are breached. Those intervention levels may be set at higher capital levels than under current law, and may depend upon the capital structure and type of buffer capital the bank will have to issue to meet the specific Swiss requirements.

If we are not able to demonstrate that our systemically relevant functions in Switzerland can be maintained even in case of a threatened insolvency, FINMA may impose more onerous requirements on us. Although the actions that FINMA may take in such circumstances are not yet defined, we could be required directly or indirectly, for example, to alter our legal structure (e.g. to separate lines of business into dedicated entities, with limitations on intra-group funding and certain guarantees), or in some manner to further reduce business risk levels. The law also provides that the largest banks will be eligible for a capital rebate if they take actions that facilitate recovery and resolvability beyond ensuring that the systematically important functions are maintained in case of insolvency. Such actions would likely include an alteration of the legal structure of a bank group in a manner that would insulate parts of the group from exposure to risks arising from other parts of the group, thereby making it easier to dispose of certain parts of the group in a recovery scenario, or to liquidate or dispose of certain parts of the group in a resolution scenario, without necessarily adversely affecting other parts.

Due to recent changes in Swiss regulatory requirements, and due to liquidity requirements imposed by certain other jurisdictions in which we operate, we have been required to maintain substantially higher levels of liquidity overall than had been our usual practice in the past. Like increased capital requirements, higher liquidity requirements make certain lines of business, particularly in the Investment Bank, less attractive and may reduce our overall ability to generate profits.

Regulatory and legislative changes outside Switzerland

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

Some of these regulatory and legislative changes may subject us to requirements to move activities from UBS AG branches into subsidiaries. Such "subsidiarization" can create operational, capital and tax inefficiencies, increase our aggregate credit exposure to counterparties as they transact with multiple UBS AG affiliates, expose our businesses to higher local capital requirements, and potentially give rise to client and counterparty concerns about the credit quality of the subsidiary. Such changes could also negatively impact our funding model and severely limit our booking flexibility. For example, we have significant operations in the UK and use UBS AG's London branch as a global booking center for many types of products. We are being required by the UK Financial Services Authority and by FINMA to increase very substantially the capitalization of our UK bank subsidiary, UBS Limited, and expect to be required to change our booking practices to reduce or even eliminate our utilization of UBS AG London branch as a global booking center for the ongoing business of the Investment Bank. In addition, the UK Independent Commission on Banking has recommended structural and non-structural reforms of the banking sector, most of which have been endorsed by the UK government. Key measures proposed include the ring-fencing of retail activities in the UK, additional common equity tier 1 capital requirements of up to 3% of RWA for retail banks, and the issuance of debt subject to "bail-in" provisions. The applicability and implications of such changes to offices and subsidiaries of foreign banks are not yet entirely clear, but they could have a material effect on our businesses located or booked in the UK.

The adoption of the Dodd-Frank Act in the US will also affect a number of our activities, as well as those of other banks. The implementation of the Volcker Rule as of July 2012, for example, is one reason for our exiting equities proprietary trading business segments within the Investment Bank. For other trading activity, we expect that we will be required to implement a compliance regime, including the calculation of detailed metrics for each trading book, and may be required to implement a compliance plan globally. Depending on the nature of the final rules, as well as the manner in which they are implemented, the Volcker Rule could have a substantial impact on market liquidity and the economics of market-making activities. The Volcker Rule also broadly limits investments and other transactional activities between banks and covered funds. The proposed implementing regulations both expand the scope of covered funds and provide only a very limited exclusion for activities of UBS outside the US. If adopted as proposed, the regulations could limit certain of our activities in relation to funds, particularly outside the US. Moreover, at the end of 2012, the Federal Reserve issued proposed rules for foreign banking organizations in the US (sections 165 and 166 of Dodd-Frank Act) that include (i) a requirement for an intermediate holding company to hold US subsidiary operations, (ii) risk-based capital and leverage requirements, (iii) liquidity requirements (both substantive and procedural), (iv) single-counterparty credit limits, (v) risk management and risk committee requirements, (vi) stress test requirements, including public disclosure of the results, (vii) a debt-to-equity limit, and (viii) a framework for early remediation of financial weaknesses. The proposal would impose different requirements based on the overall size of the foreign banking organization and the size of its US-based assets. If the rules are adopted as proposed, UBS would be subject to the most stringent requirements based on the current size of its global and US operations.

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

UBS AG registered as a swap dealer in the US at the end of 2012 enabling the continuation of swaps business with US persons. Regulations issued by the Commodity Futures Trading Commission (CFTC) impose substantial new requirements on registered swap dealers for clearing, trade execution, transaction reporting, recordkeeping, risk management and business conduct. The CFTC has granted time-limited relief to initially limit the scope of new requirements to transactions with US persons. Certain of the CFTC's regulations, including those relating to swap data reporting, recordkeeping, compliance and supervision, are expected to apply to UBS AG globally once this time-limited relief expires. Application of these requirements to UBS's swaps business with non-US persons will present a substantial implementation burden, will likely duplicate or conflict with legal requirements applicable to UBS outside of the United States and may place UBS at a competitive disadvantage to firms that are not CFTC-registered swap dealers. The Securities and Exchange Commission (SEC) is expected to propose rules for the extraterritorial application of its regulation of securities-based swaps in the first half of 2013, and to require registration of securities-based swap dealers in the US following adoption of such rules. SEC regulation of securities-based swaps may present similar risks to CFTC rules.

The effect on business booked or conducted by UBS in whole or in part outside the US cannot yet be determined fully because many of the regulations that must be adopted to implement the Dodd-Frank Act have not yet been finalized.

In many instances, UBS provides services on a cross-border basis. Efforts in the European Union (EU) to harmonize the regime for third-country firms to access the European market may have the effect of creating new barriers that adversely affect our ability to conduct business in these jurisdictions from Switzerland. For instance, the proposed harmonization of third-country access provisions under the revised European MiFID II/MiFIR framework would make it materially more difficult for UBS to service wealth management clients in Europe. As these requirements are still being developed and revised, the effect on our business with clients domiciled or booked in the EU is difficult to predict.

Resolution and recovery; bail-in

We are currently required to produce recovery and resolution plans in the US, UK, Switzerland and Germany and are likely to face similar requirements for our operations in other jurisdictions, including our operations in the EU as a whole as part of the proposed EU Recovery and Resolution Directive. Resolution plans may increase the pressure for structural change if our analysis identifies impediments that are not acceptable to regulators. Such structural changes may negatively impact our ability to benefit from synergies between business units, and if they include the creation of separate legal entities may have the other negative consequences mentioned above with respect to "subsidiarization".

In addition a number of jurisdictions, including Switzerland, the US, the UK and the EU, have implemented or are considering implementing changes that would allow resolution authorities to convert debt into equity in a so-called "bail-in". The scope of bail-in authority and the legal mechanisms that would be utilized for the purpose are subject to a great deal of development and interpretation. Depending upon the outcome, bail-in authority may have a significant effect on UBS's funding costs.

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

Our capital strength is important in supporting our strategy, client franchise and competitive position

Our capital position, as measured by the BIS tier 1, core and total capital ratios and the common equity tier 1 ratio under Basel III requirements, is determined by (i) RWA (credit, non-counterparty related, market and operational risk positions, measured and risk-weighted according to regulatory criteria) and (ii) eligible capital. Both RWA and eligible capital are subject to change. Eligible capital would be reduced if we experience net losses or losses through the other comprehensive income account, as determined for the purpose of the regulatory capital calculation, which may also render it more difficult or more costly for us to raise new capital. Eligible capital can also be reduced for a number of other reasons, including certain reductions in the ratings of securitization exposures, adverse currency movements affecting the value of equity, prudential adjustments that may be required due to the valuation uncertainty associated with certain types of positions, and changes in the value of certain pension fund assets recognized in other comprehensive income. RWA, on the other hand, are driven by our business activities and by changes in the risk profile of our exposures. For instance, substantial market volatility, a widening of credit spreads (the major driver of our value-at-risk), adverse currency movements, increased counterparty risk, a deterioration in the economic environment, or increased operational risk could result in a rise in RWA. Any such reduction in eligible capital or increase in RWA could materially reduce our capital ratios.

The required levels and calculation of our regulatory capital and the calculation of our RWA are also subject to changes in regulatory requirements or their interpretation. We are subject to regulatory capital requirements imposed by FINMA, under which we have higher RWA than would be the case under the Basel III guidelines as adopted by the Bank for International Settlements. The changes in the calculation of RWA under Basel III and FINMA requirements (such as the revised treatment of certain securitization exposures under the Basel III framework) have significantly increased the level of our RWA and, therefore, have adversely affected our capital ratios. We have announced plans to reduce RWA very substantially and to mitigate the effects of the changes in the RWA calculation. However, there is a risk that we will not be successful in pursuing our plans, either because we are unable to carry out fully the actions we have planned or because other business or regulatory developments to some degree counteract the benefit of our actions.

In addition to the risk-based capital requirements, we are subject to a minimum leverage ratio requirement for systemically important banks introduced by FINMA. The leverage ratio operates separately from the risk-based capital requirements, and, accordingly, under certain circumstances could constrain our business activities even if we are able to satisfy the risk-based capital requirements.

Changes in the Swiss requirements for risk-based capital or leverage ratios, whether pertaining to the minimum levels required for large Swiss banks or to the calculation thereof (including changes of the banking law under the "too-big-to-fail" measures), could have a material adverse effect on our business and could affect our competitive position internationally compared with institutions that are regulated under different regimes.

We may not be successful in executing our announced strategic plans

In October 2012, we announced a significant acceleration in the implementation of our strategy. The strategy includes transforming our Investment Bank to focus it on its traditional strengths, very significantly reducing Basel III RWA and further strengthening our capital position, and significantly reducing costs and improving efficiency across the Group. There is a risk that we will not be successful in pursuing our plans, including because we are unable to carry out fully the actions we have planned, or that even if we are able to implement our strategy as planned its effects may differ from those intended.

As part of our strategy, we are exiting certain business lines, predominantly those formerly in the fixed income area of our Investment Bank that have been rendered less attractive by changes in regulation and market developments. Our Corporate Center is tasked with managing down the non-core assets previously in the Investment Bank in the most value-accretive way for shareholders. As we wind down these positions and those in the Legacy Portfolio previously transferred to Corporate Center, we will incur losses if exit values are lower than the carrying values of these positions. This could be the result of market price declines or illiquid or volatile market conditions, or the result of other institutions seeking to dispose of similar assets contemporaneously. These same factors may make it impossible or inadvisable for us to effect the wind-downs and the corresponding reduction in RWA and balance sheet size as quickly as we have planned.

We also announced that we intend to achieve incremental cost savings of CHF 3.4 billion above the CHF 2 billion cost savings program announced in August 2011 as a result of the actions we are taking in the Investment Bank and through further Group-wide efficiency measures. The success of our strategy and our ability to reach certain of the targets we have announced depends heavily on the effectiveness of the cost-saving and efficiency measures we are able to carry out. As is often the case with major cost-reduction and efficiency programs, our plans involve significant risks. Included among these are the risks that restructuring costs may be higher and may be recognized sooner than we have projected and that we may not be able to identify feasible cost-saving opportunities at the level of our savings objective that are also consistent with our business goals. In addition, when we implement our cost-saving and efficiency programs we may experience unintended consequences such as the loss or degradation of capabilities that we need in order to maintain our competitive position and achieve our targeted returns.

Our reputation is critical to the success of our business

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

➔ **Refer to the "Certain items affecting our results in 2011" sidebar in our annual report for 2011 for more information on the unauthorized trading incident**

Material legal and regulatory risks arise in the conduct of our business

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

We continue to be subject to government inquiries and investigations, and are involved in a number of litigations and disputes, which arose out of the financial crisis of 2007–2009. We are also subject to a large number of claims, disputes, legal proceedings and government investigations unrelated to the financial crisis, and expect that our ongoing business activities will continue to give rise to such matters in the future. Potentially material matters to which we are currently subject include claims relating to US RMBS and mortgage loan sales, Swiss retrocessions, LIBOR-related matters and the Banco UBS Pactual tax indemnity.

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

The LIBOR-related settlements starkly illustrate the much-increased level of financial risk now associated with regulatory matters and regulatory enforcement in major jurisdictions, particularly in the US and UK. These very large amounts were assessed, and the guilty plea of a UBS subsidiary was required, in spite of our full cooperation with the authorities in their investigations, as a result of which we were granted conditional leniency or conditional immunity with respect to certain benchmark interest rates by antitrust authorities in a number of jurisdictions including the US and Switzerland. We understand that, in determining the consequences to UBS, the US authorities took into account the fact that UBS has in the recent past been determined to have engaged in serious misconduct in a number of other matters. As a result of this history and regulatory perception, UBS's level of risk with respect to regulatory enforcement may be greater than that of peer institutions.

Considering our overall exposures and the current regulatory and political climate affecting financial institutions, we expect charges associated with legal, regulatory and similar matters to remain at elevated levels at least through 2013.

UBS is determined to address the issues that have arisen in the above and other matters in a thorough and constructive manner. We are in active dialogue with our regulators concerning the actions that we are taking to improve our operational risk management and control framework. Ever since our losses in 2007 and 2008, we have been subject to a very high level of regulatory scrutiny and to certain regulatory measures that constrain our strategic flexibility. While we believe that we have remediated the deficiencies that led to the material losses during the 2007–2009 financial crisis, the unauthorized trading incident announced in September 2011 and the LIBOR-related settlements, the effects of these matters on our reputation and relationships with regulatory authorities have proven to be more difficult to overcome. For example, following the unauthorized trading incident FINMA informed us that we would not be permitted to undertake acquisitions in our Investment Bank unit (unless FINMA granted an exception), and that material new business initiatives in that unit would be subject to FINMA oversight. Although we have significantly enhanced our operational risk management and control framework in general and specifically addressed the deficiencies highlighted by the unauthorized trading incident in particular, these special restrictions have not been withdrawn by FINMA to date, pending independent confirmation of the effectiveness of these enhancements to FINMA's satisfaction. As this example illustrates, difficulties associated with our relationships with regulatory authorities have the potential to adversely affect the execution of our business strategy.

➔ **Refer to "Note 23 Provisions and contingent liabilities" in the "Financial information" section of this report for more information on litigation, regulatory and similar matters**

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

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

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

- a general reduction in business activity and market volumes, as we have experienced in the last two years, affects fees, commissions and margins from market-making and client-driven transactions and activities; local or regional economic factors, such as the ongoing eurozone sovereign debt and banking industry concerns, could also have an effect on us;
- a market downturn is likely to reduce the volume and valuations of assets we manage on behalf of clients, reducing our asset- and performance-based fees;
- a further extended period of low interest rates will continue to erode interest margins in several of our businesses;
- reduced market liquidity limits trading and arbitrage opportunities and impedes our ability to manage risks, impacting both trading income and performance-based fees;
- assets we own and account for as investments or trading positions could fall in value;
- impairments and defaults on credit exposures and on trading and investment positions could increase, and losses may be exacerbated by falling collateral values; and
- if individual countries impose restrictions on cross-border payments or other exchange or capital controls, or change their currency (for example, if one or more countries should leave the euro), we could suffer losses from enforced default by counterparties, be unable to access our own assets, or be impeded in – or prevented from – managing our risks.

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

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

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

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

We have announced and are carrying out plans to reduce drastically the RWA associated with our non-core and legacy risk positions. There can be no assurance that we will be able to liquidate them as quickly as our plans suggest, or that we will not incur significant losses in doing so. The continued illiquidity and complexity of many of the legacy risk positions in particular could make it difficult to sell or otherwise liquidate these positions. At the same time, our strategy rests heavily on our ability to reduce sharply the RWA associated with these exposures in order to meet our future capital targets and requirements without incurring unacceptable losses. In addition, if in the future we exercise our option to acquire the equity of the SNB StabFund from subsidiaries of the Swiss National Bank, any positions remaining in that fund could augment our risk exposure and RWA until they can be liquidated.

We hold positions related to real estate in various countries, and we could suffer losses on these positions. These positions include a very substantial Swiss mortgage portfolio. Although management believes that this portfolio has been very prudently managed, we could nevertheless be exposed to losses if the concerns expressed by the Swiss National Bank and others about unsustainable price escalation in the Swiss real estate market come to fruition.

In addition, we are exposed to risk in our prime brokerage, reverse repo and Lombard lending activities, as the value or liquidity of the assets against which we provide financing may decline rapidly.

Our global presence subjects us to risk from currency fluctuations

We prepare our consolidated financial statements in Swiss francs. However, a substantial portion of our assets, liabilities, invested assets, revenues and expenses are denominated in other currencies, particularly the US dollar, the euro and the British pound. Accordingly, changes in foreign exchange rates, particularly between the Swiss franc and the US dollar (US dollar revenues account for the largest portion of our non-Swiss franc revenues) have an effect on our reported income and expenses, and on other reported figures such as invested assets, balance sheet assets, RWA and tier 1 capital. For example, in 2011 the strengthening of the Swiss franc, especially against the US dollar and euro, had an adverse effect on our revenues and invested assets. Because exchange rates are subject to constant change, sometimes for completely unpredictable reasons, our results are subject to risks associated with changes in the relative values of currencies.

We are dependent upon our risk management and control processes to avoid or limit potential losses in our trading and counterparty credit businesses

Controlled risk-taking is a major part of the business of a financial services firm. Credit is an integral part of many of our retail, corporate, wealth management and Investment Bank activities. This includes lending, underwriting and derivatives activities. Changes in interest rates, credit spreads, equity prices, market volatility and liquidity, foreign exchange levels and other market fluctuations can adversely affect our earnings. Some losses from risk-taking activities are inevitable, but to be successful over time, we must balance the risks we take against the returns we generate. We must, therefore, diligently identify, assess, manage and control our risks, not only in normal market conditions but also as they might develop under more extreme (stressed) conditions, when concentrations of exposures can lead to severe losses.

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

- we do not fully identify the risks in our portfolio, in particular risk concentrations and correlated risks;
- our assessment of the risks identified or our response to negative trends proves to be inadequate, insufficient or incorrect;
- markets move in ways that we do not expect – in terms of their speed, direction, severity or correlation – and our ability to manage risks in the resultant environment is, therefore, affected;
- third parties to whom we have credit exposure or whose securities we hold for our own account are severely affected by events not anticipated by our models, and accordingly we suffer defaults and impairments beyond the level implied by our risk assessment; or
- collateral or other security provided by our counterparties proves inadequate to cover their obligations at the time of their default.

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

If we decide to support a fund or another investment that we sponsor in our asset or wealth management businesses (such as the property fund to which Wealth Management has exposure), we might, depending on the facts and circumstances, incur charges that could increase to material levels.

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

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

Where possible, we mark our trading book assets and other positions at their quoted market price in an active market. Such price information may not be available for certain instruments and, therefore, we apply valuation techniques to measure such instruments. Valuation techniques use "market observable inputs" where available, derived from similar instruments in similar and active markets, from recent transaction prices for comparable items or from other observable market data. In the case of positions for which some or all of the inputs required for the valuation techniques are not observable or have limited observability, we use valuation models with non-market observable inputs. There is no single market standard for valuation models of this type. Such models have inherent limitations; different assumptions and inputs would generate different results, and these differences could have a significant impact on our financial results. We regularly review and update our valuation models to incorporate all factors that market participants would consider in setting a price, including factoring in current market conditions. Judgment is an important component of this process. Changes in model inputs or in the models themselves, or failure to make the changes necessary to reflect evolving market conditions, could have a material adverse effect on our financial results.

We are exposed to possible outflows of client assets in our asset-gathering businesses and to changes affecting the profitability of our Wealth Management business division

We experienced substantial net outflows of client assets in our wealth management and asset management businesses in 2008 and 2009. The net outflows resulted from a number of different factors, including our substantial losses, the damage to our reputation, the loss of client advisors, difficulty in recruiting qualified client advisors and developments concerning our cross-border private banking business. Many of these factors have been successfully addressed. Our Wealth Management and Wealth Management Americas business divisions recorded substantial net new money inflows in 2012. Long-term changes affecting the cross-border private banking business model will, however, continue to affect client flows in our Wealth Management business division for an extended period of time. One of the important drivers behind the longer-term reduction in the amount of cross-border private banking assets, particularly in Europe, is the heightened focus of fiscal authorities on cross-border investments. Changes in local tax laws or regulations and their enforcement may affect the ability or the willingness of our clients to do business with us or the viability of our strategies and business model. In 2012, we experienced net withdrawals in our Swiss booking center from clients domiciled elsewhere in Europe, in many cases related to the negotiation of tax treaties between Switzerland and other countries, including the treaty with Germany that was ultimately not ratified by Germany.

The net new money inflows in recent years in our Wealth Management business division have come predominantly from clients in Asia-Pacific and in the emerging markets and in the high net worth segment globally. Over time, inflows from these lower-margin segments and markets have been replacing outflows from higher-margin segments and markets, in particular cross-border European clients. This dynamic, combined with changes in client product preferences as a result of which low-margin products account for a larger share of our revenues than in the past, put downward pressure on our return on invested assets. There can be no assurance that efforts by the business to overcome the effects of the changes in the business mix on gross margin, such as through service improvements and product offerings, will be sufficiently successful to counteract those effects. We are also making changes to our business offerings and pricing practices in line with emerging industry trends favoring price transparency and recent legal and regulatory developments, including the Swiss Supreme Court case concerning "retrocessions". There can be no assurance that we will be successful in our efforts to offset the adverse impact of these trends and developments.

In 2012, Global Asset Management experienced a net outflow of client assets. Further net outflows of client assets are likely over time to adversely affect the results of the business division.

Liquidity and funding management are critical to our ongoing performance

The viability of our business depends upon the availability of funding sources, and its success depends upon our ability to obtain funding at times, in amounts, for tenors and at rates that enable us to efficiently support our asset base in all market conditions. A substantial part of our liquidity and funding requirements is met using short-term unsecured funding sources, including wholesale and retail deposits and the regular issuance of money market securities. The volume of our funding sources has generally been stable, but could change in the future due to, among other things, general market disruptions or widening credit spreads, which could also influence the cost of funding. A change in the availability of short-term funding could occur quickly.

Reductions in our credit ratings can increase our funding costs, in particular with regard to funding from wholesale unsecured sources, and can affect the availability of certain kinds of funding. In addition, as we experienced recently in connection with Moody's downgrading of our long-term rating in June 2012, ratings downgrades can require us to post additional collateral or make additional cash payments under master trading agreements relating to our derivatives businesses. Our credit ratings, together with our capital strength and reputation, also contribute to maintaining client and counterparty confidence and it is possible that ratings changes could influence the performance of some of our businesses.

The more stringent Basel III capital and liquidity requirements will likely lead to increased competition for both secured funding and deposits as a stable source of funding, and to higher funding costs.

➔ **Refer to the "Risk, treasury and capital management" section of this report for more information on our approach to liquidity and funding management**

Operational risks may affect our business

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

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

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

Although we are continuously adapting our capability to detect and respond to the risks described above, if our internal controls fail or prove ineffective in identifying and remedying them we could suffer operational failures that might result in material losses, such as the loss from the unauthorized trading incident announced in September 2011.

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

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

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

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

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

Our competitive strength and market position could be eroded if we are unable to identify market trends and developments, do not respond to them by devising and implementing adequate business strategies, adequately developing or updating our technology, particularly in trading businesses, or are unable to attract or retain the qualified people needed to carry them out.

The amount and structure of our employee compensation are affected not only by our business results but also by competitive factors and regulatory considerations. Constraints on the amount or structure of employee compensation, higher levels of deferral, performance conditions and other circumstances triggering the forfeiture of unvested awards may adversely affect our ability to retain and attract key employees, and may in turn negatively affect our business performance. Reductions in the amount of variable compensation awarded for performance year 2012 have caused our total compensation for certain categories of employees, mainly in the Investment Bank and the Corporate Center, to be lower than is the case for peer institutions. In addition, changes that we have made to the terms of compensation awards may place us ahead of peers in adjusting compensation terms to the demands of various stakeholders, including regulatory authorities and shareholders. These terms include the introduction of a deferred contingent capital plan with many of the features of the loss-absorbing capital that we have issued in the market but with a higher capital ratio writedown trigger, increased average deferral periods for stock awards, and expanded forfeiture provisions for certain awards linked to business performance. These changes, while intended to better align the interests of our staff with those of other stakeholders, increase the risk that key employees will be attracted by competitors and decide to leave UBS, and that we may be less successful than our competitors in attracting qualified employees. The loss of key staff and inability to attract qualified replacements, depending upon which and how many roles are affected, could seriously compromise our ability to execute our strategy and to successfully improve our operating and control environment.

➔ Refer to the "Corporate governance, responsibility and compensation" section of this report for more information on our compensation awards and programs

Our financial results may be negatively affected by changes to accounting standards

We report our results and financial position in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Changes to IFRS or interpretations thereof may cause our future reported results and financial position to differ from current expectations. Such changes also may affect our regulatory capital and ratios. For example, in 2012 UBS adopted the revised international accounting standard IAS 19 Employee Benefits, which affected both our financial position and our regulatory capital. UBS monitors potential accounting changes and when these are finalized by the IASB, UBS determines the potential impact and discloses significant future changes in its financial statements. Currently, there are a number of issued but not yet effective IFRS changes, as well as potential IFRS changes, that are expected to impact our reported results, financial position and regulatory capital in the future.

➔ Refer to the "Financial Information" section of this report for more information on changes in accounting requirements

Our financial results may be negatively affected by changes to assumptions supporting the value of our goodwill

The goodwill we have recognized on the respective balance sheets of our operating segments is tested for impairment at least annually. Our impairment test in respect of the assets recognized as of

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

The effects of taxes on our financial results are significantly influenced by changes in our deferred tax assets and final determinations on audits by tax authorities

The deferred tax assets we have recognized on our balance sheet as of 31 December 2012 in respect of prior years' tax losses are based on future profitability as indicated by the business plans. If the business plan earnings and assumptions in future periods substantially deviate from current forecasts, the amount of recognized deferred tax assets may need to be adjusted in the future. This could include writeoffs of deferred tax assets through the income statement.

In the coming years, our effective tax rate will be highly sensitive both to our performance and to the accuracy of new business plan forecasts. Our results in recent periods have demonstrated that changes in the recognition of deferred tax assets can have a very significant effect on our reported results. If the Group's performance is strong, particularly in the US, UK and Switzerland, we could be expected to recognize additional deferred tax assets in the coming years. The effect of doing so would be to significantly reduce the Group's effective tax rate in years in which additional deferred tax assets are recognized. Conversely, if our performance in those countries is weaker than expected, we may be required to write off all or a portion of currently recognized deferred tax assets through the income statement. This would have the effect of increasing the Group's effective tax rate in the year in which any write offs are taken.

In the first half of 2013, we expect the tax rate to be in the region of 25–30%. The expected tax rate is higher than the normal expected effective tax rate of 20–25% because the net profit for the group in 2013 may reflect losses for some legal entities or parent bank branches for which we may not obtain a tax benefit. In addition, the actual tax rate may fall outside the aforementioned tax rate range to the extent that there are significant book tax adjustments that affect taxable profits. Also, the full year tax rate may depend on the extent to which deferred tax assets are revalued during 2013 and the level of profitability for the year.

Our effective tax rate is also sensitive to any future reductions in statutory tax rates, particularly in the US and Switzerland. Reductions in the statutory tax rate would cause the expected future tax benefit from items such as tax loss carry-forwards in the affected locations to diminish in value. This in turn would cause a writedown of the associated deferred tax assets.

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

Separately, in 2011 the UK government introduced a balance sheet based levy payable by banks operating and / or resident in the UK. An expense for the year of CHF 124 million has been recognized in operating expenses (within pre-tax profit) in the fourth quarter of 2012. The Group's bank levy expense for future years will depend on both the rate and the Group's taxable UK liabilities at each year end; changes to either factor could increase the cost. This expense will likely increase if, for example, we change our booking practices to reduce or eliminate our utilization of UBS AG London branch as a global booking center for the ongoing business of the Investment Bank and consequently book more liabilities into our UK bank subsidiary, UBS Limited. We expect that the annual bank levy expense will continue to be recognized for IFRS purposes as a cost arising in the final quarter of each financial year, rather than being accrued throughout the year, as it is charged by reference to the year-end balance sheet position.

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