UBS Limited

Annual Report and Financial Statements for the year ended 31 December 2015

Company Registration Number: 2035362

Contents

Directors and Officers

Board of Directors

Chairman and Non-Executive
John H Tattersall[1]

Other Non-Executive
Jonathan (Bobby) P A Magee[2]
Michelle M Bereaux[3,4]
The Rt. Hon. the Baroness SCOTLAND of Asthal, QC

Chief Executive
Andrea Orcel

Finance Director
Nigel P Bretton

Chief Operating Officer
Beatriz Martin Jimenez

Other Executive Directors
David C B Soanes

Additional Information

Secretary
John S Mitchell-Hewson, FCIS

Assistant Secretaries
Deborah A Harvey, FCIS
Harriet H L Charles, ACIS

Registered office and principal place of business
1 Finsbury Avenue
London EC2M 2PP

Registered Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

1 Denotes Chairman of the UBS Limited Nomination Committee
2 Denotes Chairman of the UBS Limited Risk Committee
3 Denotes Chairman of the UBS Limited Audit Committee
4 Denotes Chairman of the UBS Limited Remuneration Committee

Strategic Report

Principal activities

UBS Limited ("the Company") is part of UBS Group AG Consolidated group, which includes UBS Group AG and its consolidated subsidiaries, also referred to as "the Group". The Company is a direct wholly owned subsidiary of UBS AG and is included in its consolidated accounts. UBS Group AG, a company incorporated with limited liability in Switzerland, is the ultimate holding company ("the Parent").

During the year, the Company continued to carry on a financial services business as a bank authorised in the UK by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and Prudential Regulation Authority under the provisions of the Financial Services and Markets Act 2000, as amended. The Company's equities business operates a Multilateral Trading Facility, the UBS MTF. The Company also maintains certain exchange memberships in the United Kingdom and elsewhere in order to facilitate or support its business activities.

As a consolidated part of the Group, the Company and its performance have been, and continue to be, closely monitored and overseen by the Parent and UBS AG through Group and divisional governance and business frameworks. Independent governance is maintained through the UBS Limited Board supported by Board Committees to oversee the operation and risk affairs of the Company. Certain financial information is included in the published quarterly results of the Parent. The Company is also required to adhere to relevant Group and divisional policies and codes.

On 24 January 2003 UBS AG issued a deed poll providing a form of guarantee to clients of the Company. This guarantee remains in place. The Company is headquartered in London and the reported results for the year include branches in France, Germany, Poland, Sweden, the Netherlands and Switzerland and the two Representative Offices in Carouge, Geneva and Opfikon, Zurich. In November 2015, the Company established and registered a branch in Milan, Italy for the purposes of a cross-border merger with UBS Italia SIM S.p.A. which was completed on 1 January 2016.

Business review for 2015

The Company conducts business in a broad range of investment banking products and services. Through the Investment Bank, the company provides corporate and institutional clients with expert advice, innovative solutions, execution and comprehensive access to international capital markets. The Company is also an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities. The Company offers advisory services and provides in-depth cross-asset research, along with access to equities, foreign exchange, precious metals and selected rates and credit markets, through our business units, Corporate Client Solutions and Investor Client Services. Corporate Client Solutions includes all advisory and financing solutions businesses, origination, structuring and execution, including equity and debt capital markets in service of corporate, financial institution and sponsor clients. Investor Client Services includes execution, distribution and trading for institutional investors and provides support to Corporate Client Solutions. It includes our equities businesses, including cash, derivatives and financing services, cross-asset class research capabilities, and our foreign exchange franchise, precious metals, rates and credit businesses. The Investor Client Services unit also provides distribution and risk management capabilities required to support all of our businesses.

Corporate Center comprises Core functions and the Non-core and Legacy portfolio. Core functions include treasury services such as funding, collateral and balance sheet and capital management. The Non-core and Legacy business was divisionally re-aligned out of the Investment Bank business division into Corporate Center in 2012, and focuses on reducing exposures, risk weighted assets (RWAs) and exiting its positions while not impairing the client relationships.

Prior to May 2014, the Company conducted its business under a business operating model designed to transfer substantially all credit, market, funding and other risks to UBS AG without recourse.

In response to regulatory developments and in consultation with the UK and Swiss financial services regulators, the Company implemented a modified business operating model during May 2014, under which the Company bears and retains a greater degree of the risk and reward of its business activities. This principally involves the Company retaining and managing credit risk as well as some market and other risks and the Company taking an independent role in managing its funding and liquidity requirements.

During 2015, UBS Limited continued to develop its business model by retaining and managing increased levels of market risk in relation to the over the counter (OTC) derivative positions of the Investment Bank business division. The Company continues to transfer the market risk arising from the remainder of the derivative portfolio within the Investment Bank business division to UBS AG where the risk is managed. The market risk of positions within the Non-core and Legacy business continues to be transferred to and managed in UBS AG.

The Company's regulatory capital (as defined for the purposes of article 77 of Regulation (EU) No. 575/2013 - the Capital Requirements Regulations) was reduced in December 2015 by an aggregate amount of £1,710 million. This reduction consisted of £939 million of Common Equity Tier 1 in the form of a reduction in the Company's share premium account, a repayment of £380 million of Other equity instruments in the form of perpetual subordinated debt and repayments of £391 million (equivalent) in aggregate of Tier 2 Euro and Dollar term subordinated debt.

Results review

The profit on ordinary activities, before taxation, for the year amounted to £189 million (2014: £99 million). After a taxation credit the Company retained a profit of £241 million for the year (2014:£199 million) which resulted in the Company having retained profits at 31 December 2015 of £396 million (2014: £241 million). The 2014 results have been restated to include an upward revision of profit on ordinary activities of £21 million relating to the over payment of operating costs to UBS AG. For more information please refer to Note 1b: Changes in accounting policies, comparability and adjustments.

Profit for the current year reflects the modified business operating model, with the Company's revenues and expenses largely generated from its Cash Equities business and the Advisory, Equity Capital Markets (ECM) and Debt Capital Markets (DCM) businesses within Corporate Client Solutions. The Equities cash business offers investment advisory, liquidity provisioning and trade execution services in both single stock and portfolio trading, generating commission and trading revenues. The Advisory business originates and executes M&A transactions, ECM products including initial public offerings, rights issues, block trades and convertibles and DCM originates, structures and syndicates investment grade and emerging markets primary debt issuances, as well as offering liability management services, with revenues reported as fee and commissions. The Company's revenues include fees generated from UBS AG in relation to market access provided to UBS AG.

The 2015 results include a £66 million upward revaluation of deferred tax assets recognized in respect of tax losses carried forward. Details are provided in Note 9: Deferred tax assets.

Principal risks and uncertainties

Details of the risk management principles adopted by the Directors are provided in Note 33: Risk, treasury and capital management. As a direct wholly-owned subsidiary of UBS AG the Company operates in line with UBS AG and UBS Group AG policies, including environmental and ethical standards.

Going concern

For the purposes of the revised guidance to Directors of UK companies issued in 2009 by the UK Financial Reporting Council on Going Concern and Liquidity Risk, the Directors have, on the basis of their assessment of the Company's financial position and of the enquiries made of the Parent and UBS AG, reasonably concluded that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, the Directors shall continue to adopt the going concern basis in the preparation of its financial statements.

Key performance indicators

The Parent and UBS AG maintain an oversight of the Company's performance under the respective divisional business and governance management structures. The Directors are satisfied that during the year the Company's business has operated and performed in accordance with the business operating plan. The Directors actively monitor the Company's financial soundness including compliance with regulatory limits. The position of the Company is measured against daily capital and liquidity metrics and limits and is evaluated against the Board approved 3 year financial plan.

Governance

As a subsidiary of the Parent, the Company operates within the framework of the broader UBS Group as regards business strategy, resources and overall policy and governance framework. The Company is governed by its Board of Directors and a framework of Committees, including Audit, Nomination, Remuneration and Risk Committees, an Executive Committee, an Operating Committee and an Asset and Liability Committee. The Board of Directors comprises four Non-Executive Directors, including the Chairman, and four Executive Directors, including the Chief Executive, Finance Director and Chief Operating Officer.

The Company continues to achieve its target of having at least 25 per cent female representation on the Board.

The Board reviewed the operation of the Board itself and of its committee governance structures in June 2015 and concluded that these bodies were operating appropriately within their respective remits.

Future developments

The Company is considering opportunities for further expansion of its European branch network which may involve combining with the business of local UBS subsidiaries in such locations.

In considering its strategy, the Company has taken into account a number of potential developments, including the uncertainty of the UK Referendum on EU membership.

Whilst this Strategic Report has been prepared to provide the Company's shareholders with a fair review of the Company's business, a description of the principal risks and uncertainties and the anticipated effect of transactions and strategic initiatives on its business and future development, it may not be relied upon for any other purpose.

The Strategic Report may contain forward-looking statements. While these statements represent the Company's judgments and expectations concerning the matters described, a number of risks, uncertainties and other factors could cause actual developments and results to differ materially from expectations. No assurance can be given that any forward-looking statement will be realized.

Pillar 3 disclosures

The Pillar 3 Disclosures for the Company can be found on the UBS Group AG website under the 'Pillar 3, SEC filings & other disclosures' page accessible through the Investor Relations pages on the UBS Group AG homepage, or by using the following link:
https://www.ubs.com/global/en/about_ubs/investor_relations/other_filings/pillar_3_ubs/pillar_3.html

Approved by the Board of Directors on 24 March 2016 and signed by:

Andrea Orcel
Chief Executive

Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year ended 31 December 2015 ("the year") which have been prepared in accordance with the provisions of the Companies Act 2006.

Strategic report

In accordance with the provisions of Section 414A of the Companies Act 2006, the Directors have prepared a Strategic Report complying with the provisions of Section 414C of the Companies Act 2006. The Strategic Report which is included with this Report and the audited Financial Statements for the year also covers matters relating to the Company's future developments and its network of European branches and representative offices.

Dividends

The Directors do not recommend the declaration of a final dividend in respect of the year (2014: £51 million).

Directors

The names of the current Directors are shown on page 4.

During the year there were four appointments to, and four departures from, the Board. Ms Beatriz Martin Jimenez was appointed a Director, and as Chief Operating Officer, of the Company on 28 January 2015. Mr Jonathan (Bobby) P A Magee was appointed as a Non-Executive Director on 12 March 2015. The Rt. Hon. the Baroness Scotland of Asthal, QC was appointed as a Non-Executive Director on 1 April 2015. Michelle M Bereaux was appointed as a Non-Executive Director on 16 June 2015.

Mr Wayne Lawson-Turnbull resigned as a Director, and as Chief Operating Officer, of the Company on 28 January 2015. Mr Duncan G Rodgers resigned as a Director of the Company on 27 May 2015. Mr Michael J Cassidy, CBE resigned as a Non-Executive Director of the Company on 21 June 2015. Mr Richard W J Hardie resigned as a Non-Executive Director of the Company on 31 December 2015.

The Board wishes to place on record its appreciation of the many years of service as Non-Executive Directors of both Michael Cassidy and Richard Hardie, including several years of distinguished service as Chairman by Richard Hardie.

Share Capital

Pursuant to a Special Resolution passed on 16 December 2015, the Company reduced the amount standing to the credit of the Company's share premium account by an aggregate amount of £939 million (applying that reduction evenly as a fixed amount across all tranches of all shares issued at a premium) and repaying the same to the single member.

Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with those International Financial Reporting Standards as adopted by the European Union (IFRSs).

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present fairly the financial positions, financial performance and cash flows of the Company;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- make judgments and accounting estimates that are reasonable;
- state that the Company has complied with the IFRSs; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the Directors at the date of approval of this Report and Audited Financial Statements has confirmed that:

- so far as he/she is aware, there was no relevant audit information of which the Auditors were unaware; and
- he/she has taken all the steps they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Auditors have been made aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Risk information on use of financial Instruments

Please refer to Note 33: Risk, treasury and capital management in the attached Financial Statements.

Political contributions

There were no charitable donations nor any contributions for political purposes made by the Company during the year (2014: nil).

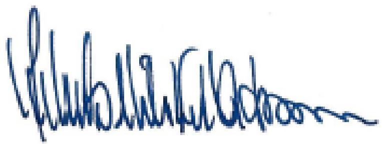
Important Post Balance Sheet Events

Please refer to Note 34: Events occurring after the balance sheet date in the attached Financial Statements.

Auditors

Ernst & Young LLP, Chartered Accountants and Registered Auditor, have indicated their willingness to continue in office and, in the event the Company dispenses with the holding of annual general meetings, as permitted by the Companies Act 2006 ("the Act"), shall continue in office in accordance with Section 487 of the Act or, if annual general meetings are continued with, until the conclusion of the next annual general meeting and in which case a resolution of their re-appointment will be proposed.

Approved by the Board of Directors on 24 March 2016 and signed on their behalf by:



John S Mitchell-Hewson
Secretary
1 Finsbury Avenue, London EC2M 2PP

Independent Auditor's report to the members of UBS Limited

We have audited the financial statements of UBS Limited for the year ended 31 December 2015 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flow and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Ian Baggs (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London, 24 March 2016

Notes:

- The maintenance and integrity of the UBS AG web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement for the year ended 31 December 2015

Income statement

GBP million	Notes	31.12.2015	31.12.2014 (restated)
Interest and similar income	2	289	313
Interest and similar expense	2	(289)	(270)
Net interest (expense)		–	43
Credit loss (expense)/recovery	14	2	(2)
Net interest income after credit loss expense		2	40
Net fee and commission income	3	667	439
Net trading income	2	42	(45)
Net gain on sale of financial investments	4	9	4
Other operating income	4	7	43
Total operating income		727	482
Personnel expenses	5	(5)	(1)
General and other administrative expenses[1]	6	(533)	(382)
Total operating expenses		(538)	(383)
Profit before Tax		189	99
Taxation	8	52	101
Profit for the financial year		241	199

1 Prior period general and other administrative expenses has been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information.

Note: All activities in current/prior year were continuing

The notes on pages 17 to 89 form an integral part of the financial statements.

Statement of other comprehensive income for year ended 31 December 2015

Statement of other comprehensive income

GBP million	31.12.15	31.12.14 (restated)
Net profit[1]	241	199
Other comprehensive income		
Other comprehensive income that may be reclassified to the income statement		
Financial investments available-for-sale		
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	(5)	6
Total other comprehensive income that may be reclassified to the income statement	(5)	6
Total comprehensive income	236	205

1 Prior period net profit has been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information.

The notes on pages 17 to 89 form an integral part of the financial statements.

Balance sheet as at December 2015

Balance sheet

GBP million	Notes	31.12.15	31.12.14 (restated)
Assets			
Cash and balances with central banks		5	9
Due from banks[1]	12	841	900
Cash collateral on securities borrowed[1]	13	3,711	2,486
Reverse repurchase agreements	13	2,973	8,914
Trading portfolio assets	15	3,770	3,937
of which: assets pledged as collateral which may be sold or repledged by counterparties	25	*2,462*	*1,402*
Positive replacement values	16	17,668	30,042
Cash collateral receivable on derivative instruments	13	6,027	7,052
Financial assets designated at fair value	18	666	527
Loans and advances to customers[1]	12	791	364
Other amounts due from group undertakings	31	150	74
Financial investments available-for-sale	17	3,163	5,512
Other assets	19	169	141
Deferred tax assets	9	172	106
Total assets		40,106	60,063
Liabilities			
Due to banks	20	2,309	5,150
Cash collateral on securities lent	13	668	946
Repurchase agreements	13	4,021	7,818
Trading portfolio liabilities	15	4,787	2,447
Negative replacement values	16	18,040	29,929
Cash collateral payable on derivative instruments	13	5,966	7,991
Financial liabilities designated at fair value	21	728	559
Due to customers	20	230	754
Other amounts owed to group undertakings[2]	31	127	126
Other liabilities	23	145	123
Tax provision		14	6
Provisions	22	29	3
Total liabilities		37,064	55,851
Equity			
Share capital	29	227	227
Share premium		2,184	3,123
Revaluation reserve		1	6
Retained earnings[2]		396	241
Other equity instruments		235	615
Total equity		3,042	4,212
Total liabilities and equity		40,106	60,063

1 Prior period due from banks, cash collateral on securities borrowed and loans and advances to customers have been restated for cash margin required by various exchanges/ central clearing counterparties to guarantee settlement. Refer to Note 1b for more information. 2 Prior period other amounts owed to group undertakings and retained earnings have been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information.

These Financial Statements were approved by the Directors on 24 March 2016 and signed on their behalf by:

Nigel Bretton, Finance Director
24 March 2016

The notes on pages 17 to 89 form an integral part of the financial statements.

Statement of changes in equity for year ended 31 December 2015

Statement of changes in equity

GBP million	Share Capital	Share premium	Revaluation reserve	Retained earnings (restated)[1]	Other equity instruments	Total shareholders' funds
Balance as of 1 January 2014	**227**	**3,123**	**–**	**80**	**–**	**3,430**
Profit for the year	–	–	–	199	–	199
Other comprehensive income	–	–	6	–	–	6
Total comprehensive income	**–**	**–**	**6**	**199**	**–**	**204**
Issue of other equity instruments	–	–	–	–	615	615
Interest on other equity instruments	–	–	–	(17)	–	(17)
Dividends	–	–	–	(21)	–	(21)
Balance as of 31 December 2014	**227**	**3,123**	**6**	**241**	**615**	**4,212**
Profit for the year	–	–	–	241	–	241
Other comprehensive income	–	–	(5)	–	–	(5)
Total comprehensive income	**–**	**–**	**(5)**	**241**	**–**	**236**
Capital reduction[2]	–	(939)	–	–	–	(939)
Redemption of other equity instruments[2]	–	–	–	–	(380)	(380)
Interest on other equity instruments	–	–	–	(36)	–	(36)
Dividends	–	–	–	(51)	–	(51)
Balance as of 31 December 2015	227	2,184	1	396	235	3,042

1 Prior period retained earnings has been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information. 2 The Company's regulatory capital was reduced in December 2015 by an aggregate amount of £1,319 million. This reduction consisted of £939 million of Common Equity Tier 1 in the form of a reduction in the Company's share premium account and a repayment of £380 million of Other equity instruments in the form of perpetual subordinated debt.

The notes on pages 17 to 89 form an integral part of the financial statements.

Statement of cash flows for the year ended 31 December 2015

Statement of cash flows

GBP million	31.12.15	31.12.14 (restated)
Profit before tax[1]	189	99
Cash flow from / (used in) operating activities		
Adjustment to reconcile profit before tax to cash flow from / (used in) operating activities		
Non-cash items included in profit before tax and other adjustments:		
Net loss / (gain) from investing activities	(9)	(4)
Net (increase) / decrease in operating assets and liabilities		
Net due from / to banks	(3,922)	5,186
Reverse repurchase agreements and cash collateral on securities borrowed	4,716	9,774
Trading portfolio, net replacement values and financial assets designated at fair value	3,023	(1,116)
Loans/due to customers	(951)	(190)
Accrued income, prepaid expenses and other assets	(72)	(72)
Repurchase agreements and cash collateral on securities lent	(4,075)	(12,381)
Cash collateral on derivative instruments[3]	(1,001)	1,664
Accrued expenses and other liabilities[1]	25	118
Income taxes paid	(9)	(3)
Net cash flow from / (used in) operating activities	(2,087)	3,075
Cash flow from / (used in) investing activities		
Net (investment in) / divestment of financial investments available-for-sale	2,349	(2,101)
Net cash flow from / (used in) investing activities	2,349	(2,101)
Cash flow from / (used in) financing activities		
Capital issuance/ (reduction)	(1,319)	615
Interest on other equity instruments	(36)	(17)
Dividends paid	(51)	(21)
Net cash flow from / (used in) financing activities	(1,406)	577
Net increase / (decrease) in cash and cash equivalents	(1,143)	1,551
Cash and cash equivalents at the beginning of the year[3]	2,793	1,242
Cash and cash equivalents at the end of the year[3]	1,650	2,793
Cash and cash equivalents comprise		
Cash and balances with central banks	5	9
Due from banks with original maturity of less than three months[3]	841	784
Money market paper[2]	804	2,000
Total	1,650	2,793

1 Prior period profit before tax and accrued expenses and other liabilities have been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information. 2 Money market paper is included within financial investments available-for-sale on the balance sheet. 3 Prior period cash and cash equivalents have been restated in accordance with the change in definition. Refer to Note 1b for more information.

Notes to the financial statements for the year ended 31 December 2015

Note 1: Accounting policies

a) Significant accounting policies

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

Basis of accounting

The Financial Statements have been prepared on an historical cost basis except for the valuation of financial instruments and derivatives. This is in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

The Company has adopted all the standards, interpretations and amendments effective for the year ended 31 December 2015. The International Accounting Standards Board (IASB) has issued various standards, interpretations and amendments that are not yet effective and therefore have not yet been adopted by the Company.

Pounds sterling is the functional currency of the Company which is the currency of the primary economic environment in which the Company operates and the currency in which these Financial Statements are presented. The Company continues to adopt the going concern basis in the preparation of its financial statements.

Use of estimates in the preparation of financial statements

Preparation of these Financial Statements under IFRS requires management to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. These estimates and assumptions are based on the best available information.

Actual results in the future could differ from such estimates and such differences may be material to the Financial Statements. Revisions to estimates, based on regular reviews, are recognized in the period in which they occur.

The following notes to the Financial Statements contain information about those areas of uncertainty where estimates require critical judgment and have the most significant effect on the amounts recognized in the Financial Statements: Note 8 Taxation, Note 14 Allowances and provisions for credit losses, Note 22 Provisions, Note 24 Fair value measurement and Note 32 Interests in subsidiaries and other entities.

Recognition and derecognition of financial instruments

The Company recognizes financial instruments on its balance sheet when the Company becomes a party to the contractual provisions of the instruments. Unless the recognition criteria are satisfied, these assets and the related income are excluded from UBS Limited's Financial Statements, as they are not assets of the Company.

Financial assets

The Company enters into certain transactions where it transfers financial assets recognized on its balance sheet but retains either all or a portion of the risks and rewards of the transferred financial assets. If all or substantially all of the risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transactions where transfers of financial assets result in the Company retaining all or substantially all risks and rewards include securities lending and repurchase transactions.

In transactions where substantially all of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS Limited derecognizes the financial asset if control over the asset is surrendered. The rights and obligations retained following the transfer are recognized separately as assets and liabilities, respectively.

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

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

Refer to Note 25: Restricted and transferred financial assets, for more information.

Financial liabilities

The Company 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 has 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.

Balances with UBS AG

The Company has a banking relationship with UBS AG, the parent undertaking. Transactions include, inter alia, current accounts and deposits. In these Financial Statements, such balances are treated as bank accounts and not as amounts owed to and by group undertakings.

Foreign currencies

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.

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 pound sterling (GBP), UBS Limited'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 currency translation differences are recognized directly in foreign currency translation within Equity.

Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Determination of fair value is considered a critical accounting policy for the Company and further details are disclosed in Note 24: Fair value measurement.

Structured entities (SE)

SEs are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. The Company assesses whether an entity is an SE by considering the nature of the activities of the entity as well as the substance of voting or similar rights afforded to other parties, including investors and independent boards or directors. The Company considers rights such as the ability to liquidate the entity or remove the decision maker to be similar to voting rights when the holder has the substantive ability to exercise such rights without cause. In the absence of such rights or in cases where the existence of such rights cannot be fully established, the entity is considered to be an SE.

The Company interacts with SEs for a variety of reasons including allowing clients to obtain or be exposed to particular risk profiles, to provide funding or to sell or purchase credit risk. Many SEs are established as bankruptcy remote, meaning that only the assets in the SE are available for the benefit of the SE's investors and such investors have no other recourse to the Company. Where the Company acts purely as an advisor, administrator or placement agent for an SE created by a third party entity, it is not considered to be sponsored by the Company.

Each individual entity is assessed for consolidation in line with the consolidation principles described above, considering the nature and scope of the Company's involvement. When the Company does not consolidate an SE but has an interest in an SE, additional disclosures are provided in Note 32 on the nature of these interests. The classes of SEs UBS Limited is involved with include the following:

- Securitization structured entities are established to issue securities to investors that are backed by assets held by the SE and whereby (i) significant credit risk associated with the securitized exposures has been transferred to third parties and (ii) there is more than one risk position or tranche issued by the securitization vehicle in line with the Basel III securitization definition. All securitization entities are classified as SEs.
- Client investment structured entities are established predominantly for clients to invest in specific assets or risk exposures through purchasing notes issued by the SE, predominantly on a fixed-term basis.
- Investment fund structured entities have a collective investment objective, are managed by an investment manager and are either passively managed, such that any decision-making does not have a substantive effect on variability, or are actively managed and investors or their governing bodies do not have substantive voting or similar rights.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with an original maturity of 3 months or less including cash, money market paper and balances with central and other banks.

The company holds money on behalf of clients that is retained on the balance sheet, because the Company obtains a benefit or retains control, this money is included within cash and cash equivalents. The return received on managing client money is included within interest income.

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.

Trading portfolio assets and liabilities

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

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

Trading portfolio assets include debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans), equity instruments, assets held under unit-linked contracts and precious metals and other commodities owned by the Company ("long" positions). Trading portfolio liabilities include obligations to deliver financial instruments such as debt and equity instruments which the Company 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 Company 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, the Company recognizes any unrealized profits and losses arising from remeasuring the transaction to fair value in Net trading income. The corresponding receivable or payable is presented on the balance sheet as a Positive replacement value or Negative replacement value, respectively. On settlement date, the resulting financial asset is recognized on the balance sheet at the fair value of the consideration given or received, plus or minus the change in fair value of the contract since the trade date. From the trade date of a sales transaction, unrealized profits and losses are no longer recognized and, on settlement date, the asset is derecognized.

Trading portfolio assets transferred to external parties that do not qualify for derecognition and where the transferee has obtained the right to sell or repledge the assets continue to be classified on the Company's balance sheet as Trading portfolio assets but are identified as Assets pledged as collateral which may be sold or repledged by counterparties. Such assets continue to be measured at fair value.

Refer to Note 15: Trading portfolio for more information.

Financial assets and financial liabilities designated at fair value through profit or loss

A financial instrument may only be designated at fair value through profit or loss upon initial recognition and this designation cannot be changed subsequently. Financial assets and financial liabilities designated at fair value are presented on separate lines on the face of the balance sheet. The fair value option can be applied only if one of the following criteria is met:

- the financial instrument is a hybrid instrument which includes a substantive embedded derivative;
- the financial instrument is part of a portfolio which is risk managed on a fair value basis and reported to senior management on that basis or
- the application of the fair value option eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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. Similarly, the Company 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.

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.

The Company applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments in the trading portfolio.

Refer to Notes 18 and 21 for more information on Financial assets and liabilities designated at fair value.

Financial investments available-for-sale

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

Financial investments available-for-sale include debt securities held as part of the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Treasury and strategic equity investments.

Financial investments available-for-sale are recognized initially at fair value less transaction costs and are measured subsequently at fair value. Unrealized gains and losses are reported in Equity, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. Unrealized gains before tax are presented separately from unrealized losses before tax in Note 17: Financial investments available-for-sale.

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

For debt investments, objective evidence of impairment includes significant financial difficulty for the issuer or counterparty, default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial reorganization. If a financial investment available-for-sale is determined to be impaired, the related cumulative net unrealized loss previously recognized in Other comprehensive income within Equity is reclassified to 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 Other comprehensive income within 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.

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

Refer to Note 17: Financial investments available-for-sale for more information.

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 Company 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

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

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

Allowances and provisions for credit losses

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

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

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 Company will not be able to collect all amounts due (or the equivalent value thereof) based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's character, overall financial condition and capacity, resources and payment record, the prospects for support from any financially responsible guarantors and, where applicable, the realizable value of any collateral. The estimated recoverable amount is the present value, calculated 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 used for calculating the recoverable amount 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.

Collectively: All loans for which no impairment is identified at a counterparty-specific level are grouped on the basis of the Company'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.

Refer to Note 14: Allowances and provisions for more information.

Securities borrowing and lending

Securities borrowing and securities lending transactions are generally entered into on a collateralized basis. In such transactions, the Company typically borrows or lends equity and debt securities in exchange for securities or cash collateral. Additionally, the Company 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 the Company's normal credit risk control processes. The Company 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 the Company's right to receive it back is recorded (Cash collateral on securities borrowed). The securities which have been transferred are not recognized on, or derecognized from, the balance sheet unless the risks and rewards of ownership are also transferred. UBS Limited-owned securities transferred to a borrower that is granted the right to sell or repledge those transferred securities are presented on the balance sheet as Trading portfolio assets, of which: assets pledged as collateral. Securities received in a borrowing transaction are disclosed as off-balance-sheet items if the Company has the right to resell or repledge them, with additional disclosure provided for securities that the Company has actually resold or repledged. The sale of securities which is settled by delivering securities received in a borrowing transaction generally triggers the recognition of a trading liability (short sale). Where securities are either received or delivered in lieu of cash (securities for securities transactions), neither the securities received or delivered nor the obligation to return or right to receive the securities are recognized on the balance sheet, as the derecognition criteria are not met.

Interest is recognized in the income statement on an accrual basis and is recorded as Interest income or Interest expense. Interest income includes interest earned on securities borrowing, and negative interest, including fees, on securities lending. Interest expense includes interest on securities lent and negative interest, including fees, on securities borrowing.

Refer to Note 13: Cash collateral on securities borrowed and lent, repurchase and reverse repurchase agreements and derivative instruments for more information.

Repurchase and reverse repurchase agreements

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 Limited's normal credit risk control processes. The Company 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 the Company's right to receive the cash back. In a repurchase agreement, the cash received is recognized and a corresponding obligation, including accrued interest, is recorded in the balance sheet line Repurchase agreements. Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized on or derecognized from the balance sheet, unless the risks and rewards of ownership are transferred. UBS Limited owned securities transferred to a recipient that is granted the right to resell or repledge them are presented on the balance sheet as Trading portfolio assets, of which: assets pledged as collateral. Securities received in reverse repurchase agreements are disclosed as off-balance-sheet items if the Company has the right to resell or repledge them, with additional disclosure provided for securities that the Company has actually resold or repledged (refer to Note 25 for more information). 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 is recognized in the income statement on an accrual basis and is recorded as Interest income or Interest expense. Interest income includes interest earned on reverse repurchase agreements and negative interest on repurchase agreements. Interest expense includes interest on repurchase agreements and negative interest on reverse repurchase agreements.

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

Refer to Note 13: Cash collateral on securities borrowed and lent, repurchase and reverse repurchase agreements and derivative instruments for more information.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are remeasured subsequently to fair value.

Derivative instruments are generally reported on the balance sheet as Positive replacement values or Negative replacement values. However, exchange-traded derivatives which are economically settled on a daily basis and certain OTC derivatives which qualify for IFRS netting and are in substance net settled on a daily basis are classified as Cash collateral receivables on derivative instruments or Cash collateral payables on derivative instruments. Products that receive this treatment include futures contracts, 100% daily margined exchange-traded options and interest rate swaps transacted with the London Clearing House. Changes in the fair values of derivatives are recorded in Net trading income.

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 the Company 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 advances to customers.

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

– derivative loan commitments, being loan commitments that can be settled net in cash or by delivering or issuing another financial instrument, or loan commitments for which there is evidence of selling loans resulting from similar loan commitments before or shortly after origination;
– loan commitments designated at fair value through profit and loss and
– all other loan commitments. These are not recorded in the balance sheet, but a provision is recognized if it is probable that a loss has been incurred and a reliable estimate of the amount of the obligation can be made. Other loan commitments include irrevocable forward starting reverse repurchase and irrevocable securities borrowing agreements.

Any change in the liability relating to these other loan commitments is recorded in the income statement in Credit loss expense/recovery.

Other operating income

Other operating income relates to charges for the provision of investment banking services to group companies.

Taxation

Corporation 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 corporation 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 at the balance sheet date.

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

Current and deferred taxes are recognized as a tax benefit or expense in the income statement except for current and deferred taxes recognized for unrealized gains or losses on financial investments available-for-sale, and for certain foreign currency translations of foreign operations where such taxes are recognized in other comprehensive income.

Refer to Note 8: Income taxes and Note 9: Deferred tax assets for more information.

Defined contribution pension plan

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity from which post-employment and other benefits are paid. The Company 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 Limited'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.

Provisions

Provisions are liabilities of uncertain timing or amount, and are recognized when the Company 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 Limited's provisions relate to litigation, regulatory and similar matters. 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.

The Company 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 Company 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.

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 the Company 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 the Company.

Refer to Note 22: Provisions for more information.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Revenue comprises fees for corporate finance advisory services which are taken to the income statement at the point in time when, under the terms of the contract, the conditions have been met such that the company is entitled to the fees specified. Revenue also comprises profits on dealing operations, being gains less losses, both realized and unrealized, on financial assets, arrived at after taking into account attributable dividends and directly related interest, together with commission income receivable.

Interest income is recognized at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Fee income

UBS Limited 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 advisory fees) and fees earned from providing transaction-type services (for example, underwriting fees, corporate finance fees and brokerage fees). Fees earned from services that are provided over a certain period of time are recognized ratably over the service period, with the exception of performance-linked fees or fee components with specific performance criteria. Such fees are recognized when the performance criteria are fulfilled and when collectability is reasonably assured. Fees earned from providing transaction-type services are recognized when the service has been completed. Generally, fees are presented in the income statement in line with the balance sheet classification of the underlying instruments.

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

Refer to Note 3: Net fee and commission income for more information.

Netting

The Company nets financial assets and liabilities on its balance sheet if it has the unconditional and legally enforceable right to set-off the recognized amounts, both in the normal course of business and in the event of default, bankruptcy or insolvency of the entity and all of the counterparties and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Netted positions include repurchase and reverse repurchase transactions entered into with the London Clearing House netted by counterparty, currency, central securities depository and maturity, as well as transactions with various other counterparties, exchanges and clearing houses.

In assessing whether the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously, emphasis is placed on the effectiveness of operational settlement mechanics in eliminating substantially all credit and liquidity exposure between the counterparties. This condition precludes offsetting on the balance sheet for substantial amounts of the Company's financial assets and liabilities, even though they may be subject to enforceable netting arrangements. For derivative contracts, balance sheet offsetting is generally only permitted in circumstances in which a market settlement mechanism exists via an exchange or clearing house which effectively accomplishes net settlement through a daily cash margining process. For repurchase arrangements and securities financings, balance sheet offsetting may be permitted only to the extent that the settlement mechanism eliminates or results in insignificant credit and liquidity risk and processes the receivables and payables in a single settlement process or cycle.

Refer to Note 1b and Note 26 for more information on offsetting financial assets and financial liabilities.

Negative interest

Negative interest income arising on a financial asset does not meet the definition of interest income. Therefore negative interest on financial assets and negative interest on financial liabilities is presented within interest expense and interest income respectively.

b) Changes in accounting policies, comparability and other adjustments

Statement of cash flows – definition of cash and cash equivalents

In 2015, UBS Limited refined its definition of cash and cash equivalents presented in the statement of cash flows to exclude cash collateral receivables on derivative instruments with bank counterparties. The refined definition is consistent with the treatment of these receivables in UBS Limited's liquidity and funding management framework and with liquidity and funding regulations, which became effective in 2015, and is considered to result in the presentation of more relevant information. Comparative period information was restated accordingly. As a result, cash and cash equivalents as of 31 December 2014 and 31 December 2013 were reduced by £4,199 million and £8,016 million, respectively.

Valuation methodology for the own credit component of fair value of financial liabilities designated at fair value

In 2015, UBS Limited further enhanced its valuation methodology for the own credit component of fair value of financial liabilities designated at fair value. This change in accounting estimate resulted in a gain of GBP 12million. Prior to the fourth quarter of 2015, own credit was estimated using a funds transfer pricing curve (FTP), which was derived by discounting UBS new issuance senior debt curve spreads, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS debt and the levels at which UBS medium-term notes (MTN) were issued. A decline in long-dated UBS MTN issuance volumes, following UBS's business transformation, resulted in a reduction in the observable market data available to benchmark the FTP. From the fourth quarter of 2015 onwards, own credit is estimated using an own credit adjustment curve (OCA), which incorporates more observable market data, including market-observed secondary prices for UBS senior debt, UBS credit default swap (CDS) spreads and senior debt curves of our peers.

This change in accounting estimate was finalized in the fourth quarter of 2015, following a multi-period implementation project to develop an enhanced fair value approach and related infrastructure enhancements. The change was implemented on a prospective basis in the fourth quarter of 2015 and resulted in a gain of £12 million on a total carrying amount of £730 million in financial liabilities designated at fair value.

Cash margin at exchanges

During 2015, the disclosure of cash margin at exchanges required to guarantee settlement has been included within due from banks and loans and advances to customers, rather than cash collateral on securities borrowed. The comparative balance sheet as of 31 December 2014 was restated to reflect this presentational change, this totaled £157 million; with £116 million and £40 million within due from banks and loans and advances to customers respectively.

General and other administrative expenses

During 2015 it was established that the payment of operating costs to UBS AG from UBS Limited was overstated by £21million, this has resulted in prior period adjustment of a reduction of £21 million to administrative expenses. The impact of this revision also affected balance sheet reporting lines: Other liabilities and Retained earnings. All affected prior period notes and disclosures have been restated.

c) International Financial Reporting Standards and Interpretations to be adopted in 2015 and later

IFRS 9, *Financial Instruments*

In July 2014, the IASB published the final version of IFRS 9, Financial Instruments. The standard reflects the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement.

The standard requires all financial assets, except equity instruments, to be classified at fair value through profit or loss, fair value through other comprehensive income (OCI) or amortized cost on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. If a financial asset meets the criteria to be measured at amortized cost or at fair value through OCI, 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 OCI, while all other equity instruments will be accounted for at fair value through profit or loss.

The accounting guidance for financial liabilities is unchanged with one exception: any gain or loss arising out of a financial liability designated at fair value through profit or loss that is attributable to changes in the credit risk of that liability (own credit) is presented in OCI and not recognized in the income statement. There is no subsequent recycling of realized gains or losses on own credit from OCI to the income statement.

The standard introduces a single forward-looking expected credit loss impairment model, replacing the incurred loss model of IAS 39. Furthermore, the standard incorporates a reformed approach to hedge accounting that introduces substantial changes to hedge effectiveness and eligibility requirements as well as new disclosures. The mandatory effective date of the new standard is 1 January 2018, with earlier adoption permitted subject to EU endorsement.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which establishes principles for revenue recognition that apply to all contracts with customers. The standard requires an entity to recognize revenue as goods or services are transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also establishes a cohesive set of disclosure requirements regarding information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. Once approved, the standard is effective for UBS Limited reporting periods beginning on 1 January 2018, with early adoption permitted subject to EU endorsement. Entities can choose to apply the standard retrospectively or use a modified approach in the year of adoption. The Company is currently assessing the impact of the new standard on the Financial Statements.

Annual Improvements to IFRSs 2012 – 2014 Cycle

In September 2014, the IASB issued *Annual Improvements to IFRSs 2012 – 2014 Cycle* that resulted in amendments to three IFRSs. Generally, the amendments are effective for the Company on 1 January 2016, with early adoption permitted. UBS Limited expects that the adoption of these amendments will not have a material impact on the Financial Statements.

Amendments to IAS 1, *Presentation of Financial Statements*

In December 2014, the IASB issued amendments to IAS 1 to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements and in determining where and in what order information is presented in the financial disclosures. The amendments have a mandatory effective date of 1 January 2016 for the Company, with earlier adoption permitted. The Company expects that the adoption of these amendments will not have a material impact on the financial statements.

Amendments to IAS 12, *Income Taxes:*

In January 2016, the IASB issued narrow scope amendments to IAS 12*, Income Taxes,* clarifying how to account for deferred tax assets related to debt instruments measured at fair value. Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017 subject to EU endorsement. The Company expects the adoption of the amendments will not have a material impact on the financial statements.

Amendments to IAS 7, *Statement of Cash Flows*

In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows,* which inter-alia requires companies to provide information about changes in their financial liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017 subject to EU endorsement.

Note 2 Net interest and trading income

GBP million	31.12.15	31.12.14
Net interest income	–	43
Net trading income	42	(45)
Total net interest and trading income	42	(2)

Interest income

GBP million	31.12.15	31.12.14
Interest and similar income		
Interest earned on loans and advances	42	43
Interest earned on securities financing agreements[1]	62	94
Interest and dividend income from trading portfolio	124	113
Interest income on assets designated at fair value	39	47
Interest and dividend income from financial investments available-for-sale	21	17
Total	289	313
Interest and similar expense		
Interest on amounts due to banks and customers	(69)	(58)
Interest expense on securities financing agreements[2]	(78)	(100)
Interest and dividend expense from trading portfolio	(102)	(66)
Interest expense on liabilities designated at fair value	(40)	(47)
Total	(289)	(270)
Net interest income/ (expense)	–	43

1 Includes interest income on securities borrowed and reverse repurchase agreements and negative interest, including fees, on securities lent and repurchase agreements. 2 Includes interest expense on securities lent and repurchase agreements and negative interest, including fees, on securities borrowed and reverse repurchase agreements.

Net trading income

GBP million	31.12.15	31.12.14
Net trading income	42	(45)
of which: net gains/(losses) from financial assets designated at fair value	*14*	*101*
of which: net gains/(losses) from financial liabilities designated at fair value	*(13)*	*(101)*

Note 3 Net fee and commission income

GBP million	31.12.15	31.12.14
Equity underwriting fees	123	89
Debt underwriting fees	68	70
Total underwriting fees	191	159
M&A and corporate finance fees	103	80
Brokerage fees earned	571	318
Portfolio management and advisory fees	1	–
Insurance-related and other fees	(1)	–
Total securities trading and investment activity fees	673	398
Credit-related fees and commissions	5	10
Commission income from other services	77	60
Total fee and commission income	947	627
Brokerage fees paid	(229)	(137)
Other	(52)	(51)
Total fee and commission expense	(280)	(188)
Net fee and commission income	667	439
of which: brokerage fees	*342*	*181*

Note 4 Other income

GBP million	31.12.15	31.12.14
Financial investments available-for-sale		
Net gains from disposals	9	4
Other operating income	7	43
Total	17	47

Note 5 Personnel expenses

GBP 000's	Note	31.12.15	31.12.14
Salaries		2,143	568
Compensation		1,775	97
Contractors		145	11
Social security		435	97
Pension plans	28	53	41
Other personnel expenses		647	115
Total expenses		5,198	930

The personnel expenses above relate to the employees in the Netherlands branch, representative offices, and the Polish branch which are reported under 'Personnel expenses' in the income statement. There was an average of 24 employees during the year (2014: 4).

The Company has 27 employees of its own: 23 are resident in the Netherlands as staff of the Netherlands Branch, 2 are resident in Switzerland as the Managers of its Representative Offices and 2 are resident in Poland in the Poland Branch (2014: 24). UBS AG Group has made, and continues to make, available a number of its employees to be engaged either on a full-time or part-time basis in the performance of certain functions or operations in connection with the Company's business.

Note 6 General and administrative expenses

GBP million	31.12.15	31.12.14 (restated)
Administration[1,2]	500	370
Marketing and public relations	1	–
Travel and entertainment	2	1
Professional fees	2	1
Litigation	27	9
Total general and administrative expenses	533	382

1 Administration costs represent an expense to UBS AG for direct costs relating to employees made available to the Company of £218 million (2014: £198 million). 2 Prior period administration has been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information.

Note 7 Directors' emoluments

GBP 000's	31.12.15	31.12.14 (restated)
Remuneration charged in the Company	682	369

Additional Directors' remuneration in respect of qualifying services borne by UBS AG were as follows:

GBP 000's	31.12.15	31.12.14
Aggregate remuneration of the Directors for the year[1]	1,415	1,409
Total remuneration of the highest paid Director	789	249

1 Prior period aggregate remuneration of directors' has been restated resulting in an increase of £96 thousand.

The highest paid director did not accrue any pension under the UBS AG defined benefit pension scheme or any time apportioned Employer Defined Benefits under the UBS AG scheme during 2015 or 2014. The table above is prepared based on compensation awarded for the performance year.

Note 8 Income taxes

GBP million	31.12.15	31.12.14
Current taxation		
UK corporation tax - current year	14	5
Total current tax charge for the year	14	5
Deferred taxation		
UK charge / (credit) for the year	(66)	(106)
Total tax charge / (credit)	(52)	(101)

Factors affecting tax charge for year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 20.25% (2014: 21.5%). The differences are explained below:

GBP million	31.12.15	31.12.14 (restated)
Profit on ordinary activities before tax[1]	189	99
Current tax charge at 20.25% (2014: 21.5%)	38	21
Effects of:		
Utilisation of previously unrecognized tax losses	*(31)*	*(22)*
Recognition of previously unrecognized tax losses	*(71)*	*(106)*
Expenses not deductible for tax purposes	*7*	*6*
Change in UK taxation rates	*5*	–
Total tax charge / (credit)	(52)	(101)

1 Prior period profit has been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information.

Note 9 Deferred tax assets

GBP million	31.12.15	31.12.14
At beginning of the year	106	–
Credit/ (charge) to income statement for current year (note 8)	66	106
At end of the year	172	106
Comprising		
Tax losses carried forward	172	106
Total deferred tax assets	172	106

The Company has recognized a deferred tax asset of £172 million (2014: £106 million) in relation to UK tax losses carried forward from UBS AG, and this is based on expected profitability using business plan assumptions as adjusted to take into account the recognition criteria of IAS 12, Income Taxes.

A deferred tax asset has not been recognized in respect of UK tax losses carried forward of approximately £1,200 million (2014: £1,550 million), being a figure that is still subject to agreement by HM Revenue & Customs. These UK tax losses are not subject to expiry and can be carried forward indefinitely.

On 16 March 2016, the UK Government announced a proposed change in law which would reduce the proportion of banks' annual taxable profits that can be offset by UK tax losses carried forward from 50% to 25% with effect from 1 April 2016. To the extent that this change is enacted in 2016, we would expect to incur a reduction in recognized deferred tax assets of approximately £83 million.

Note 10 Auditors remuneration

During the year, fees of £544 thousand (2014: £277 thousand) in connection with the audit of the Company's annual Financial Statements and £123 thousand (2014: £9 thousand) in connection with audit related assurance services and £452 thousand (2014: £117 thousand) in respect of other assurance services were paid by UBS AG on the Company's behalf. No recharge will be made to the Company.

Note 11 Bank levy

For the year ended 31 December 2015, the UK bank levy cost of £17.4 million (2014: £11.7 million) was incurred in connection with the Company’s equity and liabilities. This was borne by UBS AG, which as the responsible member of the Group is liable for the bank levy arising in respect of the chargeable equity and liabilities of all Group companies. A recharge of £5.9 million (2014: £3.6 million) has been made to the Company in relation to its risk bearing activity.

Balance sheet notes: assets

Note 12 Due from banks and loans (held at amortized cost)

GBP million	31.12.15	31.12.14 (restated)
Due from banks gross[2]	841	900
Due from banks net	841	900
Loans and advances to customers, net[1,2]	791	364
Total due from banks and loans, net[3]	1,632	1,264

1 Includes £474 million (2014: £239 million) relating to the Clearing and Execution business contributing to membership funds, that are required by various exchanges / central clearing counterparties to cover losses from any clearing member defaulting. 2 Prior period due from banks and loans and advances to customers have been restated for cash margin required by various exchanges/ central clearing counterparties to guarantee settlement. Refer to Note 1b for more information. 3 Due from banks and Loans and advances to customers include £177 million (2014: £91 million) and £50 million (2014: £40 million) respectively relating to the Equity Financing business for cash margin required by various exchanges / central clearing counterparties to guarantee settlement.

Note 13 Cash collateral on securities borrowed and lent, repurchase and reverse repurchase agreements and derivative instruments

UBS Limited 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 Company 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 UBS Limited when deemed necessary.

GBP million	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral receivable on derivative instruments	Cash collateral on securities borrowed[1]	Reverse repurchase agreements	Cash collateral receivable on derivative instruments
	31.12.15	31.12.15	31.12.15	31.12.14 (restated)	31.12.14	31.12.14
By counterparty						
Banks	3,676	1,023	3,760	2,464	5,876	4,199
Customers	34	1,950	2,267	23	3,033	2,853
Public Authorities	–	–	–	–	4	–
Total	3,711	2,973	6,027	2,486	8,914	7,052

GBP million	Cash collateral on securities lent	Repurchase agreements	Cash collateral payable on derivative instruments	Cash collateral on securities lent	Repurchase agreements	Cash collateral payable on derivative instruments
	31.12.15	31.12.15	31.12.15	31.12.14	31.12.14	31.12.14
By counterparty						
Banks	668	3,489	5,017	945	5,271	6,820
Customers	–	532	949	–	2,547	1,171
Total	668	4,021	5,966	946	7,818	7,991

1 Prior period cash collateral on securities borrowed has been restated for cash margin required by various exchanges/ central clearing counterparties to guarantee settlement. Refer to Note 1b for more information.

Note 14 Allowances and provisions

GBP million

By movement	31.12.15	31.12.14
Balance at the beginning of the year	–	15
Write-offs / usage of provisions	(1)	(18)
Recoveries	3	–
Increase / (decrease) recognized in the income statement	(2)	2
Foreign currency translation	–	1
Balance at the end of the year	–	–

Refer to Note 33: Risk, treasury and capital management for more information.

Note 15 Trading portfolio

GBP million	31.12.15	31.12.14
Trading portfolio assets by issuer type		
Debt instruments		
Government and government agencies	967	1,412
of which: Italy	*298*	*129*
of which: France	*218*	*383*
of which: Germany	*162*	*388*
of which: Spain	*142*	*55*
of which: UK	*50*	*170*
of which: Other	97	288
Banks	242	452
Corporates and other	379	565
Total debt instruments	1,587	2,429
Equity instruments	2,183	1,508
Total trading portfolio assets	3,770	3,937
Trading portfolio liabilities by issuer type		
Debt instruments		
Government and government agencies	1,084	1,151
of which: Italy	*493*	*249*
of which: France	*48*	*252*
of which: Germany	*281*	*203*
of which: Spain	*140*	*143*
of which: UK	*60*	*145*
of which: Other	62	*157*
Banks	203	*169*
Corporates and other	311	381
Total debt instruments	1,598	1,701
Equity instruments	3,189	745
Total trading portfolio liabilities	4,787	2,447

GBP million	31.12.15	31.12.14
Trading portfolio assets by product type		
Debt instruments		
Government bills / bonds	945	1,263
Corporate bonds and municipal bonds, including bonds issued by financial institutions	581	1,060
Loans	27	27
Investment fund units	33	62
Asset-backed securities	1	16
of which: mortgage-backed securities	–	*8*
Total debt instruments	1,587	2,429
Equity instruments	2,183	1,508
Total trading portfolio assets	3,770	3,937
Trading portfolio liabilities by product type		
Debt instruments		
Government bills / bonds	1,080	1,095
Corporate bonds and municipal bonds, including bonds issued by financial institutions	497	532
Loans	19	11
Investment fund units	1	64
Total debt instruments	1,598	1,701
Equity instruments	3,189	745
Total trading portfolio liabilities	4,787	2,447

Note 16 Derivative instruments

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 agreement between the Company and its counterparties. Terms are negotiated directly with counterparties and the contracts will have industry-standard settlement mechanisms prescribed by ISDA. The industry continues to promote the use of central counterparties (CCP) to clear OTC trades. The trend toward CCP clearing and settlement will generally facilitate the reduction of systemic credit exposures. Other derivative contracts are standardized in terms of their amounts and settlement dates, and are bought and sold on organized exchanges. These are commonly referred to as exchange-traded derivatives (ETD) contracts. Exchanges offer the benefits of pricing transparency, standardized daily settlement of changes in value, and consequently reduced credit risk.

For presentation purposes, the Company is subject to the IFRS netting provisions for derivative contracts. Derivative instruments are measured at fair value and generally classified as Positive replacement values and Negative replacement values on the face of the balance sheet. However, ETD derivatives which are economically settled on a daily basis and certain OTC derivatives which qualify for IFRS netting and are in substance net settled on a daily basis are classified as Cash collateral receivables on derivative instruments or Cash collateral payables on derivative instruments. Changes in the replacement values of derivatives are recorded in Net trading income.

Valuation principles and techniques applied in the measurement of derivative instruments are discussed in Note 24: Fair value measurement. Positive replacement values represent the estimated amount the Company would receive if the derivative contract were sold on the balance sheet date. Negative replacement values indicate the value the Company would pay to transfer its obligations in respect of the underlying contract, were it required or entitled to do so on the balance sheet date.

Derivatives embedded in other financial instruments are not included in the table Derivative instruments within this note. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract. In cases where the Company 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 18: Financial assets designated at fair value, Note 21: Financial liabilities designated at fair value and Note 24: Fair value measurement for more information.

Types of derivative instruments

The Company uses the following derivative financial instruments for trading purposes, through the use of the products listed below. Measurement techniques applied to determine the fair value of each product type are described in Note 24: Fair value measurement. The main types of derivative instruments used by the Company are:

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

The main products and underlyings used by the Company are:

- Interest rate contracts: Interest rate products include interest rate swaps, forward rate agreements, swaptions and caps and floors.
- Credit derivative contracts: credit default swaps (CDS) are the most common form of a credit 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 (TRS) are structured with one party making payments based on a set

rate, either fixed or variable, plus any negative changes in fair value of an underlying asset, and the other party making payments based on the return of the asset, which includes both income it generates and any positive changes in its fair value.

– Foreign exchange contracts: Foreign exchange contracts include spot, forward and cross-currency swaps and options and warrants. Forward purchase and sale currency contracts are typically executed to meet client needs and for trading and hedging purposes.
– Equity / index contracts: The Company 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 the Company. The product types traded include vanilla listed derivatives, both options and futures, total return swaps, forwards and exotic OTC contracts.
– Commodities contracts: The Company's commodity derivatives trading business includes the commodity index business, the flow business and the structured commodities business. The index and structured business are client facilitation businesses trading exchange-traded funds, OTC swaps and options on commodity indices. The flow business is investor led and products include ETD, vanilla OTC and certain non-vanilla OTC. The vanilla OTC are in swaps and options.

Risk 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 Company's approach to market risk is described in Note 33: Risk, treasury and capital management.

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 Company's overall credit exposure to each counterparty. The Company's approach to credit risk is described in Note 33: Risk, treasury and capital management. It should be noted that, although the positive replacement values shown on the balance sheet can be an important component of the Company's credit exposure, the positive replacement values for a counterparty are rarely an adequate reflection of the Company's credit exposure in its derivatives business with that counterparty. This is, for example, because replacement values can increase over time (potential future exposure), while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with other counterparties. Both the exposure measures used internally by the Company to control credit risk and the capital requirements imposed by regulators reflect these additional factors.

The replacement values presented on UBS Limited's balance sheet include netting in accordance with IFRS requirements (refer to Note 1a: Basis of accounting).

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 Company.

The maturity profile of OTC interest rate contracts held as of 31 December 2015, based on notional values, was: approximately 30% mature within one year, 45% within one to five years and 25% after five years. Notional values of interest rate contracts cleared with a clearing house that qualify for IFRS balance sheet netting are presented under other notional values and are categorized into maturity buckets on the basis of contractual maturities of the cleared underlying derivative contracts.

Replacement values

	31.12.15[0]					31.12.14[0]				
GBP million	Total PRV[1]	Notional values related to PRVs[3]	Total NRV[2]	Notional values related to NRVs[3]	Other notional values[3,4]	Total PRV[1]	Notional values related to PRVs[3]	Total NRV[2]	Notional values related to NRVs[3]	Other notional values[3,4]
Interest rate contracts										
Over-the-counter (OTC) contracts										
Forward contracts[6]	16	5,182	14	4,368	1	22	13,201	19	11,794	-
Swaps	6,234	106,758	6,514	123,238	77,623	12,487	200,866	12,549	212,335	-
Options	2,793	76,423	2,775	74,834	–	5,411	128,959	5,406	126,178	-
Exchange-traded contracts										
Futures	–	–	–	–	4,306	-	-	-	-	870
Agency transactions[5]	8	–	8	–	–	23	-	23	-	-
Total	9,051	188,363	9,311	202,439	81,931	17,943	343,026	17,996	350,307	870
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	210	5,215	222	5,693	–	679	19,592	677	19,861	-
Total rate of return swaps	12	400	16	57	–	14	631	16	12	-
Total	222	5,615	238	5,750	–	693	20,222	694	19,873	
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	246	7,958	244	7,260	–	252	7,383	252	7,221	-
Interest and currency swaps	3,936	64,724	4,085	65,773	–	6,530	114,521	6,514	110,919	-
Options	211	14,853	212	10,749	–	230	8,945	234	7,900	-
Exchange-traded contracts										
Agency transactions[5]	2	–	2	–	–	8	-	8	-	-
Total	4,395	87,534	4,543	83,783	–	7,020	130,849	7,007	126,040	
Equity / index contracts										
Over-the-counter (OTC) contracts										
Forwards[6]	34	5,028	65	3,629	–	64	5,063	54	3,812	-
Swaps	172	3,863	119	3,111	–	155	4,395	155	4,251	-
Options and warrants	831	6,234	797	5,867	–	1,451	13,645	1,306	14,008	-
Exchange-traded contracts										
Futures	–	–	–	–	854	-	-	-	-	26
Options	24	147	26	197	–	-	-	-	-	-
Agency transactions[5]	1,970	–	1,970	–	–	1,980	-	1,980	-	-
Total	3,030	15,271	2,978	12,804	854	3,651	23,103	3,495	22,071	26
Precious metal contracts										
Over-the-counter (OTC) contracts										
Forwards	4	26	4	22	-	-	-	-	-	-
Options	18	179	18	179	–	8	195	8	193	-
Exchange-traded contracts										
Agency transactions[5]	13	–	13	–	–	15	-	15	-	-
Total	34	205	34	201	–	22	195	22	193	-
Commodities contracts, excluding precious metals contracts										
Over-the-counter (OTC) contracts										
Swaps	3	168	3	168	–	19	486	19	486	-
Options	2	68	2	64	–	1	63	1	63	-
Exchange-traded contracts										
Futures	–	–	–	–	–	–	–	–	–	–
Options	–	–	–	–	–	–	–	–	–	–
Agency transactions[5]	930	–	930	–	–	693	-	693	-	-
Total	935	236	935	232	–	714	549	714	549	-
Total replacement values	17,668	297,225	18,040	305,209	82,784	30,042	517,944	29,929	519,032	896

1 PRV: Positive replacement values. 2 NRV: Negative replacement values. 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 Other notional values relate to derivatives which are cleared through either a central clearing counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and were not material for the periods presented. 5 Notional values of exchange-traded agency transactions are not disclosed due to their significantly different risk profile. 6 Changes in the fair value of purchased and sold non-derivative financial investments between trade date and settlement date are recognized as replacement values 2015 includes PRV £39 million, NRV £69 million (2014: PRV £71 million, NRV £58 million). Notional amounts related to these replacement values are PRV £6,595 million, NRV £4,382 million (2014: PRV £7,386 million, NRV £4,728 million).

Note 17 Financial investments available-for-sale

Financial investments available-for-sale by issuer type

GBP million	31.12.15	31.12.14
Debt instruments		
Government and government agencies	2,418	3,684
of which: UK	*1,292*	*1,428*
of which: France	*504*	*568*
of which: USA	*204*	*257*
of which: Sweden	*141*	*386*
of which: Netherlands	*101*	*477*
of which: other	*176*	*568*
Banks	742	1,826
Total debt instruments	3,161	5,510
Equity instruments	2	2
Total financial investments available-for-sale	3,163	5,512
Unrealized gains - before tax	4	10
Unrealized (losses) - before tax	(2)	(3)
Net unrealized gains - before tax	1	6
Net unrealized gains - after tax	1	6

Financial investments available-for-sale by product type

GBP million	31.12.15	31.12.14
Government bills/bonds	2,357	3,417
Corporate bonds and municipal bonds	804	2,093
Total debt instruments	3,161	5,510
Equity instrument	2	2
Shares	2	2
Total financial investments available-for-sale	3,163	5,512

Note 18 Financial assets designated at fair value

GBP million	31.12.15	31.12.14
Loans	33	9
Structured loans	110	210
Structured reverse repos and securities borrowing arrangements	249	280
of which: banks	*233*	*270*
of which: customers	*16*	*8*
Equity instruments	275	28
Financial assets designated at fair value	666	527

Note 19 Other assets

GBP million	31.12.15	31.12.14
Accrued income	65	29
Settlement accounts	24	48
Other tax receivables	7	15
Other[1]	72	49
Total other assets	169	141

1 Other includes receivables from third parties relating to the risk taking businesses within the Company.

Balance sheet notes: liabilities

Note 20 Due to banks and customers

GBP million	31.12.15	31.12.14
Due to banks	2,309	5,150
Due to customers: demand deposits	30	4
Due to customers: time deposits	200	750
Total due to customers	230	754
Total due to banks and customers	2,539	5,904

Due to banks include £587 million (2014: £997 million) of subordinated loans against UBS AG. These comprise of EUR 528 million and USD 292 million (2014: EUR 798 million and USD 589 million), both are 10 year floating rate loans due to expire in May 2024.

Note 21 Financial liabilities at fair value

GBP million	31.12.15	31.12.14
Structured OTC debt instruments[1]	417	247
Equity linked	275	28
Other	142	219
Structured repurchase agreements[1]	311	312
Financial liabilities designated at fair value	728	559

1 Figures in the 2014 financials may differ from those originally published due to changes in the reported product classifications.

As of 31 December 2015, the contractual redemption amount at maturity of Financial liabilities designated at fair value through profit and loss was £11 million higher than the carrying value. As of 31 December 2014, the contractual redemption amount at maturity of Financial liabilities designated at fair value through profit and loss was £50 million higher than the carrying value.

Refer to Note 27b Maturity analysis of financial liabilities for maturity information on an undiscounted cash flow basis.

Note 22 Provisions

a) Provisions

GBP million	Litigation matters[1]	Operational risks[2]	Other	Total 31.12.15	Total 31.12.14
Balance at the beginning of the year	1	–	1	3	17
Increase in provisions recognized in the income statement	27	2	–	29	2
Release in provisions recognized in the income statement	–	–	(1)	(1)	(15)
Provisions used	(1)	–	(1)	(1)	-
Foreign currency translation	–	–	–	–	(1)
Balance at the end of the year	27	2	–	29	3

1 Comprises provisions for losses resulting from legal, liability and compliance risks. 2 Comprises provisions for losses resulting from transcation processing risks.

During the year, the Company booked a provision relating to litigation, regulatory and similar matters, totaling £27 million. In relation to this provision, the Company has claimed the disclosure exemption in IAS 37 paragraph 92, since the Company expects that disclosure of the details of this provision would seriously prejudice the position of the Company in relation to the other party/parties to the proceedings which are the subject matter of the provision, and the details of which are confidential to the parties. Any charges that may ultimately be made against this provision are expected to be recoverable pursuant to an indemnity provided by UBS AG, described in Note 33: Risk, treasury and capital management.

b) Litigation, regulatory and similar matters

The Company 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, the Company 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 Company 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 Company 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 Company 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 Company 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. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against the Company, but are nevertheless expected to be, based on the Company's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

UBS Group AG, the Company's ultimate parent, provides information relating to provisions and contingent liabilities in respect of litigation, regulatory and similar matters in relation to itself and/or its subsidiaries in its regular public filings. This includes regulatory investigations and enquiries and related litigation relating to various matters concerning the UBS Group's business and operations, which may be relevant to the Company.

In the event that any of the matters described in this section result in an outflow of funds, the Company may have the benefit of an indemnity provided by UBS AG. The circumstances in which this indemnity will be applicable are described at Note 33: Risk, treasury and capital management.

Parmalat claim by institutional investors

In February 2011, UBS Limited (together with UBS AG and five other Italian and international banks) was served with a civil damages claim brought in the Courts of Milan, Italy, on behalf of 16 institutional investors in Parmalat securities and a bank. The claimants sought recovery of alleged damages totaling EUR 128.8 million plus interest, revaluation and legal costs on a joint and several basis against all the banks. The basis of the allegations was that by entering into various transactions with Parmalat between 1998 and 2003, the banks contributed to the continued existence of Parmalat when it was insolvent, and that the banks must have known this but proceeded to execute trades in the pursuit of profits regardless. It is alleged that if Parmalat had not been able to raise further funds then investors in Parmalat securities in the 1998 – 2003 period would not have ultimately suffered the loss they did when Parmalat subsequently collapsed.

A non-appealable decision handed down by the Italian Court of Cassation in 2014 confirmed the jurisdiction of the Italian courts. In January 2015, the Tribunal of Milan issued judgment dismissing all of the claimants' claims against UBS Limited and UBS AG and the other defendant banks. The parties entered into settlements in respect of this matter in the third quarter 2015 and the matter is now at an end. UBS Limited made no payment pursuant to the settlements.

Kommunale Wasserwerke Leipzig GmbH (KWL)

In 2006 and 2007, KWL entered into a series of Credit Default Swap (STCDO/CDS) transactions with bank swap counterparties, including UBS AG. UBS Limited entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc (Depfa) and Landesbank Baden-Württemberg (LBBW), in relation to their respective swaps with KWL. The transaction with LBBW was subsequently novated from UBS Limited to UBS AG. KWL retained UBS Global Asset Management (UK) Limited ("UBS Global AM") to act as portfolio manager under the STCDOs. UBS AG, UBS Limited and the intermediating banks terminated the STCDO/CDS with KWL following non-payment by KWL. UBS AG claimed approximately USD 236.5 million, plus interest, from KWL and LBBW, and UBS Limited claimed USD 83.3 million plus interest from Depfa.

In 2010, UBS AG and UBS Global AM issued proceedings in the English High Court against KWL, UBS AG issued proceedings against LBBW, and UBS Limited issued proceedings against Depfa, in each case seeking declarations and/or to enforce the terms of the STCDO/CDS contracts, and each of KWL, LBBW and Depfa filed counterclaims. Following trial in 2014, the Court ruled that the STCDO/CDS contracts entered into with KWL, LBBW and Depfa have been rescinded and cannot be enforced by the UBS parties, granted the fraudulent misrepresentation claims made by LBBW against UBS AG and by Depfa against UBS Limited, ruled that UBS Global AM breached its duty in the management of the underlying portfolios and dismissed KWL's monetary counterclaim against UBS AG. These rulings have been implemented and additional claims relating to interest on collateral and the costs of separate proceedings in Germany have been deferred. The UBS parties have been ordered to pay part of the other parties' costs in the proceedings, which have not been fully determined. On 16 October 2015, UBS AG, UBS Limited and UBS Global AM were granted permission by the Court of Appeal to appeal against the judgment of the trial judge, and on 13 November 2015 KWL sought permission to cross-appeal. The appeal hearing has been listed for ten days commencing on 15 May 2017.

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

LBI hf

In the period 2004-08, UBS AG and UBS Limited entered into derivatives transactions with LBI hf (LBI) (formerly Landsbanki hf) under their respective ISDA Master Agreements with LBI (the Master Agreements). Following the appointment of a Resolution Committee over LBI on 7 October 2008, the Master Agreements terminated in accordance with their terms, UBS AG and UBS Limited calculated the amounts due, and set-off the amount due to LBI from UBS Limited against the amount due from LBI to UBS AG.

In March 2015, LBI issued proceedings in the High Court in London against UBS Limited seeking payment of USD 22–24 million (i) on the grounds that the set-off was not effective under Icelandic law, and (ii) disputing UBS Limited's calculation of the amount due under the Master Agreement. UBS Limited disputes the claim in its entirety. The Court has ordered that the effectiveness of the set-off under Icelandic law should be determined as a preliminary issue, at a hearing due to commence on 4 July 2016.

Land Salzburg

Between 2003 and 2012, the Austrian state Land Salzburg (LS) concluded a large number of trades with various financial institutions, including UBS Limited.

In December 2012, LS issued a press release alleging that fraudulent trades conducted by an official at LS on its behalf with various financial institutions had caused losses to LS of approximately EUR 340 million. The relevant official subsequently pleaded guilty to, inter alia, forging the signature of a colleague on 22 trades.

LS has meanwhile issued proceedings in the Austrian and Luxembourg Courts against a number of banks in relation to trades entered into by this official on its behalf. In December 2015, LS threatened to bring proceedings against UBS Limited before the Regional Court of Frankfurt. LS claims that UBS entered into a large number of trades with LS which were invalid under Austrian law and which were unsuitable for LS, that UBS failed to properly advise LS, and asserts a net loss of approximately EUR 85 million.

Note 23 Other liabilities

GBP million	31.12.15	31.12.14
Accrued expenses	98	95
Deferred income	8	9
Settlement accounts	32	4
Other tax payables	7	6
Other liabilities	–	8
Total other liabilities	145	123

Note 24 Fair value measurement

This note provides fair value measurement information for both financial and non-financial instruments and is structured as follows:
a) Valuation principles
b) Valuation governance
c) Valuation techniques
d) Valuation adjustments
e) Fair value measurements and classification within the fair value hierarchy
f) Transfers between Level 1 and Level 2 in the fair value hierarchy
g) Movements of Level 3 instruments
h) Valuation of assets and liabilities classified as Level 3
i) Sensitivity of fair value measurements to changes in unobservable input assumptions
j) Financial instruments not measured at fair value

a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market (or most advantageous market, in the absence of a principal market) as of the measurement date. In measuring fair value, the Company utilizes various valuation approaches and applies a hierarchy for prices and inputs that maximizes the use of observable market data, if available.

All financial and non-financial assets and liabilities measured or disclosed at fair value are categorized into one of three fair value hierarchy levels. In certain cases, the inputs used to measure fair value may fall within different levels of the fair value hierarchy. For disclosure purposes, the level in the hierarchy within which the instrument is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurement:
- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – valuation techniques for which all significant inputs are, or are based on, observable market data or
- Level 3 – valuation techniques for which significant inputs are not based on observable market data.

If available, fair values are determined using quoted prices in active markets for identical assets or liabilities. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing data on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price multiplied by the number of units of the instrument held.

Where the market for a financial instrument or non-financial asset or liability is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve the use of estimates, the extent of which depends on the complexity of the instrument and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model, liquidity, credit and funding risks, which are not explicitly captured within the valuation technique, but which would nevertheless be considered by market participants when establishing a price. The limitations inherent in a particular valuation technique are considered in the determination of an asset or liability's classification within the fair value hierarchy.

Many cash instruments and over-the-counter (OTC) derivative contracts have bid and offer prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Offer prices represent the lowest price that a party is willing to accept for an asset. In general, long positions are measured at a bid price and short positions at an offer price, reflecting the prices at which the instruments could be transferred under normal market conditions. Offsetting positions in the same financial instrument are marked at the mid-price within the bid-offer spread.

Generally, the unit of account for a financial instrument is the individual instrument, and the Company applies valuation adjustments at an individual instrument level, consistent with that unit of account. However, if certain conditions are met, the Company may estimate the fair value of a portfolio of financial assets and liabilities with substantially similar and offsetting risk exposures on the basis of the net open risks.

For transactions where the valuation technique used to measure fair value requires significant inputs that are not based on observable market data, the financial instrument is initially recognized at the transaction price. This initial recognition amount may differ from the fair value obtained using the valuation technique. Any such difference is deferred and not recognized in the income statement and referred to as deferred day-1 profit or loss. Refer to Note 24d for more information.

b) Valuation governance

UBS Limited's fair value measurement and model governance framework includes numerous controls and other procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products and valuation techniques must be reviewed and approved by key stakeholders from risk and finance control functions. Responsibility for the ongoing measurement of financial and non-financial instruments at fair value resides with the business divisions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market data and to provide justification and rationale for their fair value estimates.

The fair value estimates provided by the businesses are validated by risk and finance control functions, which are independent of the business divisions. Independent price verification is performed by finance through benchmarking the business divisions' fair value estimates with observable market prices and other independent sources. Controls and governance are in place to ensure the quality of third-party pricing sources where used. For instruments where valuation models are used to determine fair value, independent valuation and model control groups within finance and risk evaluate UBS Limited's models on a regular basis, including valuation and model input parameters as well as pricing. As a result of the valuation controls employed, valuation adjustments may be made to the business divisions' estimates of fair value to align with independent market data and the relevant accounting standard.

Refer to Note 24d for more information.

c) Valuation techniques

Valuation techniques are used to value positions for which a market price is not available from market sources. This includes certain less liquid debt and equity instruments, certain exchange-traded derivatives and all derivatives transacted in the OTC market. The Company uses widely recognized valuation techniques for determining the fair value of financial and non-financial instruments that are not actively traded and quoted. The most frequently applied valuation techniques include discounted value of expected cash flows, relative value and option pricing methodologies.

Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and / or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. When using such valuation techniques, expected future cash flows are estimated using an observed or implied market price for the future cash flows or by using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models.

Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued.

Option pricing models incorporate assumptions regarding the behavior of future price movements of an underlying referenced asset or assets to generate a probability-weighted future expected payoff for the option. The resulting probability-weighted expected payoff is then discounted using discount factors generated from industry standard yield curve modeling techniques and models. The option pricing model may be implemented using a closed-form analytical formula or other mathematical techniques (e.g., binomial tree or Monte Carlo simulation).

Where available, valuation techniques use market-observable assumptions and inputs. If such data is not available, inputs may be derived by reference to similar assets in active markets, from recent prices for comparable transactions or from other observable market data. In such cases, the inputs selected are based on historical experience and practice for similar or analogous instruments, derivation of input levels based on similar products with observable price levels and knowledge of current market conditions and valuation approaches.

For more complex instruments and instruments not traded in an active market, fair values may be estimated using a combination of observed transaction prices, consensus pricing services and relevant quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services. The Company also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry. Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation. Refer to Notes 24e and 24h for more information. The discount curves used by the Company incorporate the funding and credit characteristics of the instruments to which they are applied

d) Valuation adjustments

The output of a valuation technique is always an estimate of a fair value that cannot be measured with complete certainty. As a result, valuations are adjusted, where appropriate and when such factors would be considered by market participants in estimating fair value, to reflect close-out costs, credit exposure, model-driven valuation uncertainty, funding costs and benefits, trading restrictions and other factors. Valuation adjustments are an important component of fair value for assets and liabilities that are measured using valuation techniques. Such adjustments are applied to reflect uncertainties within the fair value measurement process, to adjust for an identified model simplification or to incorporate an aspect of fair value that requires an overall portfolio assessment rather than an evaluation based on an individual instrument level characteristic.

The major classes of valuation adjustments are discussed in further detail below.

Credit valuation adjustments

In order to measure the fair value of OTC derivative instruments, including funded derivative instruments which are classified as Financial assets designated at fair value, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in these instruments. This amount represents the estimated fair value of protection required to hedge the counterparty credit risk of such instruments. A CVA is determined for each counterparty, considering all exposures to that counterparty, and is dependent on the expected future value of exposures, default probabilities and recovery rates, applicable collateral or netting arrangements, break clauses and other contractual factors.

Own credit adjustments on financial liabilities designated at fair value

In addition to considering the valuation of the derivative risk component, the valuation of fair value option liabilities also requires consideration of the funded component and specifically the own credit component of fair value. Own credit risk is reflected in the valuation of our fair value option liabilities where this component is considered relevant for valuation purposes by our counterparties and other market participants. On the other hand, own credit risk is not reflected in the valuation of our liabilities that are fully collateralized or for other obligations for which it is established market practice not to include an own credit component.

In 2015, UBS Limited made enhancements to its valuation methodology for the own credit component of fair value of financial liabilities designated at fair value. Prior to the fourth quarter of 2015, own credit was estimated using a funds transfer pricing curve (FTP), which was derived by discounting UBS new issuance senior debt curve spreads, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS debt and the levels at which UBS medium-term notes (MTN) were issued. A decline in long-dated UBS MTN issuance volumes, following UBS's business transformation, resulted in a reduction in the observable market data available to benchmark the FTP. From the fourth quarter of 2015 onwards, own credit is estimated using an own credit adjustment curve (OCA) which incorporates more observable market data, including market-observed secondary prices for UBS senior debt, UBS credit default swap (CDS) spreads and senior debt curves of our peers.

This enhancement was implemented on a prospective basis in the fourth quarter of 2015 as a change in accounting estimate and resulted in a gain of £12 million on a total carrying amount of £730 million in financial liabilities designated at fair value.

OCA is generally a Level 2 pricing input. However, certain long-dated exposures that are beyond the tenors that are actively traded are classified as Level 3.

The effects of own credit adjustments related to financial liabilities designated at fair value (predominantly issued structured products) as of 31 December 2015 and 2014, respectively, are summarized in the table below, however please note that given the market access nature of these trades, own credit is reported within UBS Group.

Life-to-date amounts reflect the cumulative change since initial recognition. The change in own credit for the period consists of changes in fair value that are attributable to the change in UBS's credit spreads, as well as the effect of changes in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay and changes in interest and other market rates.

Own credit on financial liabilities designated at fair value

GBP 000s	31.12.15	31.12.14
Gain/ (loss) for the year ended	21,903	321
Life-to-date gain/ (loss)	22,989	429

Funding valuation adjustments

Funding valuation adjustments (FVA) reflect the costs and benefits of funding associated with uncollateralized and partially collateralized derivative receivables and payables and are calculated as the valuation impact from moving the discounting of the uncollateralized derivative cash flows from LIBOR to OCA curve using the existing CVA infrastructure and framework.

In the fourth quarter of 2015, as mentioned above, UBS replaced the FTP curve with the OCA curve for purposes of valuing its liabilities carried at fair value. As applied to the FVA associated with uncollateralized and partially collateralized derivative payables, the change resulted in a charge to the income statement of £6 million.

A FVA is also applied to collateralized derivative assets in cases where the collateral cannot be sold or repledged.

Debit valuation adjustments

A debt valuation adjustment (DVA) is estimated to incorporate own credit in the valuation of derivatives, effectively consistent with the CVA framework. DVA is determined for each counterparty, considering all exposures with that counterparty and taking into account collateral netting agreements, expected future mark-to-market movements and UBS Limited's credit default spreads. Upon the implementation of FVA in the second half of 2014, the Company reversed DVA to the extent it overlapped with FVA.

Other valuation adjustments

Instruments that are measured as part of a portfolio of combined long and short positions are valued at mid-market levels to ensure consistent valuation of the long and short component risks. A liquidity valuation adjustment is then made to the overall net long or short exposure to move the fair value to bid or offer as appropriate, reflecting current levels of market liquidity. The bid-offer spreads used in the calculation of this valuation adjustment are obtained from market transactions and other relevant sources and are updated periodically.

Uncertainties associated with the use of model-based valuations are incorporated into the measurement of fair value through the use of model reserves. These reserves reflect the amounts that the Company estimates should be deducted from valuations produced directly by models to incorporate uncertainties in the relevant modeling assumptions, in the model and market inputs used, or in the calibration of the model output to adjust for known model deficiencies. In arriving at these estimates, the Company considers a range of market practices, including how it believes market participants would assess these uncertainties. Model reserves are reassessed periodically in light of data from market transactions, consensus pricing services and other relevant sources.

Other valuation adjustments on financial instruments

Life-to-date gain / (loss), GBP million	31.12.15	31.12.14
Credit valuation adjustments	(32)	(43)
of which: other instruments	*(32)*	*(43)*
Funding valuation adjustments	(32)	(33)
Debit valuation adjustments	1	2
Other valuation adjustments	(2)	(2)
of which: Bid-offer/liquidity adjustments	*(1)*	*(2)*

e) Fair value measurements and classification within the fair value hierarchy

The fair value hierarchy classification of financial and non-financial assets and liabilities measured at fair value is summarized in the table below. The narrative that follows describes the significant valuation inputs and assumptions for each class of assets and liabilities measured at fair value, the valuation techniques, where applicable, used in measuring their fair value, and the factors determining their classification within the fair value hierarchy.

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

Government bills and bonds

Government bills and bonds include fixed-rate, floating-rate and inflation-linked bills and bonds issued by sovereign governments, as well as interest and principal strips based on these bonds. Such instruments are generally traded in active markets and prices can be obtained directly from these markets, resulting in classification as Level 1, while the majority of the remaining positions are classified as Level 2. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques that incorporate market data for similar government instruments converted into yield curves. These yield curves are used to project future index levels, and to discount expected future cash flows. The main inputs to valuation techniques for these instruments are bond prices and inputs to estimate the future index levels for floating or inflation index-linked instruments. Instruments classified as Level 3 are limited and are generally classified as such due to the requirement to extrapolate yield curve inputs outside the range of active market trading.

Corporate and municipal bonds

Corporate bonds include senior, junior and subordinated debt issued by corporate entities. Municipal bonds are issued by state and local governments. While most instruments are standard fixed or floating-rate securities, some may have more complex coupon or embedded option features. Corporate and municipal bonds are generally valued using prices obtained directly from the market. In cases where no directly comparable price is available, instruments may be valued using yields derived from other securities by the same issuer or benchmarked against similar securities, adjusted for seniority, maturity and liquidity. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques incorporating the credit spread of the issuer, which may be derived from other issuances or CDS data for the issuer, estimated with reference to other equivalent issuer price observations or from credit modeling techniques. Corporate bonds are typically classified as Level 2 because, although market data is readily available, there is often insufficient third-party trading transaction data to justify an active market and corresponding Level 1 classification. Municipal bonds are generally classified as Level 1 or Level 2 depending on the depth of trading activity behind price sources. Level 3 instruments have no suitable price available and also cannot be referenced to other securities issued by the same issuer. Therefore, these instruments are measured based on price levels for similar issuers adjusted for relative tenor and issuer quality.

Convertible bonds are generally valued using prices obtained directly from market sources. In cases where no directly comparable price is available, issuances may be priced using a convertible bond model, which values the embedded equity option and debt components and discounts these amounts using a curve that incorporates the credit spread of the issuer. Although market data is readily available, convertible bonds are typically classified as Level 2 because there is insufficient third-party trading transaction data to justify a Level 1 classification.

Traded loans and loans designated at fair value

Traded loans and loans designated at fair value are valued directly using market prices that reflect recent transactions or quoted dealer prices where available. For illiquid loans where no market price data are available, alternative valuation techniques are used, which include relative value benchmarking using pricing derived from debt instruments in comparable entities or different products in the same entity. The corporate lending portfolio is valued using either directly observed market prices typically from consensus providers, or by using a credit default swap valuation technique, which requires inputs for credit spreads, credit recovery rates and interest rates. Even though price data are generally available for these instruments, corporate loans typically do not satisfy Level 1 classification criteria insofar as the price data may not be directly observable, and moreover the market for these instruments is not actively traded. Instruments with suitably deep and liquid price data available will be classified as Level 2, while any positions requiring the use of valuation techniques or for which the price sources have insufficient trading depth are classified as Level 3. Recently originated commercial real estate loans that are classified as Level 3 are measured using a securitization approach based on rating agency guidelines.

Investment fund units

Investment fund units are predominantly exchange-traded, with readily available quoted prices in liquid markets. Where market prices are not available, fair value may be measured using net asset values (NAV), taking into account any restrictions imposed upon redemption. Listed units are classified as Level 1, provided there is sufficient trading to justify active market classification, while other positions are classified as Level 2. Positions where NAV is not available or which are not redeemable at the measurement date or in the near future are classified as Level 3.

Equity instruments
The majority of equity securities are actively traded on public stock exchanges where quoted prices are readily and regularly available, resulting in their classification as Level 1. Units held in hedge funds are also classified as equity instruments. Fair value for these units is measured based on their published NAV, taking into account any restrictions imposed upon redemption. These units are classified as Level 2, except for positions where published NAV is not available or which are not redeemable at the measurement date or in the near future, in which case they are classified as Level 3.

Unlisted equity holdings, including private equity positions, are initially marked at their transaction price and are revalued to the extent reliable evidence of price movements becomes available or the position is deemed to be impaired.

Structured repurchase agreements and structured reverse repurchase agreements
Structured repurchase agreements and structured reverse repurchase agreements designated at fair value are measured using discounted expected cash flow techniques. The discount rate applied is based on funding curves that are specific to the collateral eligibility terms for the contract in question. Collateral terms for these positions are not standard and therefore funding spread levels used for valuation purposes cannot be observed in the market. As a result, these positions are mostly classified as Level 3.

Replacement values

Collateralized and uncollateralized instruments
The curves used for discounting expected cash flows in the valuation of collateralized derivatives reflect the funding terms associated with the relevant collateral arrangement for the instrument being valued. These collateral arrangements differ across counterparties with respect to the eligible currency and interest terms of the collateral. The majority of collateralized derivatives are measured using a discount curve that is based on funding rates derived from overnight interest in the cheapest eligible currency for the respective counterparty collateral agreement.

Uncollateralized and partially collateralized derivatives are discounted using the LIBOR (or equivalent) curve for the currency of the instrument. As described in Note 24d, the fair value of uncollateralized and partially collateralized derivatives is then adjusted by CVA, DVA and FVA as applicable, to reflect an estimation of the impact of counterparty credit risk, UBS's own credit risk and funding costs and benefits.

Interest rate contracts
Interest rate swap contracts include interest rate swaps, basis swaps, cross-currency swaps, inflation swaps and interest rate forwards, often referred to as forward-rate agreements (FRA). These products are valued by estimating future interest cash flows and discounting those cash flows using a rate that reflects the appropriate funding rate for the position being measured. The yield curves used to estimate future index levels and discount rates are generated using market standard yield curve models using interest rates associated with current market activity. The key inputs to the models are interest rate swap rates, FRA rates, short-term interest rate futures prices, basis swap spreads and inflation swap rates. In most cases, the standard market contracts that form the inputs for yield curve models are traded in active and observable markets, resulting in the majority of these financial instruments being classified as Level 2.

Interest rate option contracts include caps and floors, swaptions, swaps with complex payoff profiles and other more complex interest rate options. These contracts are valued using various market standard option models, using inputs that include interest rate yield curves, inflation curves, volatilities and correlations. The volatility and correlation inputs within the models are implied from market data based on market observed prices for standard option instruments trading within the market. Option models used to value more exotic products have a number of model parameter inputs that require calibration to enable the exotic model to price standard option instruments to the price levels observed in the market. Although these inputs cannot be directly observed, they are generally treated as Level 2, as the calibration process enables the model output to be validated to active market levels. Models calibrated in this way are then used to revalue the portfolio of both standard options as well as more exotic products. In most cases, there are active and observable markets for the standard market instruments that form the inputs for yield curve models as well as the financial instruments from which volatility and correlation inputs are derived, resulting in the majority of these products being classified as Level 2. Within interest rate option contracts, exotic options for which appropriate volatility or correlation input levels cannot be implied from observable market data are classified as Level 3. These options are valued using volatility and correlation levels derived from non-market sources.

Interest rate swap and option contracts are classified as Level 3 when the maturity of the contract exceeds the term for which standard market quotes are observable for a significant input parameter. Such positions are valued by extrapolation from the last observable point using standard assumptions or by reference to another observable comparable input parameter to represent a suitable proxy for that portion of the term.

Credit derivative contracts
Credit derivative contracts based on a single credit name include credit default swaps (CDS) based on corporate and sovereign single names, CDS on loans and certain total return swaps (TRS). These contracts are valued by estimating future default probabilities using industry standard models based on market credit spreads, upfront pricing points and implied recovery rates. These default and recovery assumptions are used to generate future expected cash flows that are then discounted using

market standard discounted cash flow models and a discount rate that reflects the appropriate funding rate for that portion of the portfolio. TRS and certain single-name CDS contracts for which a derivative-based credit spread is not directly available are valued using a credit spread derived from the price of the cash bond that is referenced in the credit derivative, adjusted for any funding differences between the cash and synthetic product. Loan CDS for which a credit spread cannot be observed directly may be valued, where possible, using the corporate debt curve for the entity, adjusted for differences between loan and debt default definitions and recovery rate assumptions. Inputs to the valuation models used to value single-name and loan CDS include single-name credit spreads and upfront pricing points, recovery rates and funding curves. In addition, corporate bond prices are used as inputs to the valuation model for TRS and certain single-name or loan CDS as described. Many single-name credit default swaps are classified as Level 2 because the credit spreads and recovery rates used to value these contracts are actively traded and observable market data are available. Where the underlying reference name is not actively traded, these contracts are classified as Level 3.

Credit derivative contracts based on a portfolio of credit names include credit default swaps on a credit index, credit default swaps based on a bespoke portfolio or first to default swaps (FTD). The valuation of these contracts is similar to that described above for single-name CDS and includes an estimation of future default probabilities using industry standard models based on market credit spreads, upfront pricing points and implied recovery rates. These default and recovery assumptions are used to generate future expected cash flows that are then discounted using market standard discounted cash flow models based on an estimation of the funding rate for that portion of the portfolio. Tranche products and FTD are valued using industry standard models that, in addition to default and recovery assumptions as above, incorporate implied correlations to be applied to the credits within the portfolio in order to apportion the expected credit loss at a portfolio level across the different tranches or names within the overall structure. These correlation assumptions are derived from prices of actively traded index tranches or other FTD baskets. Inputs to the valuation models used for all portfolio credit default swaps include single-name or index credit spreads and upfront pricing points, recovery rates and funding curves. In addition, models used for tranche and FTD products have implied credit correlations as inputs. Credit derivative contracts based on a portfolio of credit names are classified as Level 2 when credit spreads and recovery rates are determined from actively traded observable market data, and when the correlation data used to value bespoke and index tranches are based on actively traded index tranche instruments. These correlation data undergo a mapping process that takes into account both the relative tranche attachment / detachment points in the overall capital structure of the portfolio and portfolio composition. Where the mapping process requires extrapolation beyond the range of available and active market data, the position is classified as Level 3. This relates to a small number of index and all bespoke tranche contracts. FTD are classified as Level 3 as the correlations between specific names in the FTD portfolio are not actively traded. Also classified as Level 3 are several older credit index positions, referred to as off-the-run indices, due to the lack of any active market for the index credit spread.

Credit derivative contracts on securitized products have an underlying reference asset that is a securitized product and include credit default swaps and certain TRS. These credit default swaps are valued using a similar valuation technique to the underlying security, with an adjustment made to reflect the funding differences between cash and synthetic form. Inputs to these contracts are those used to value the underlying security (prepayment rates, default rates, loss severity, discount margin / rate and other inputs) and those used to capture the funding basis differential between cash and synthetic form. The classification of these credit derivative contracts follow the characteristics of the underlying security and are therefore distributed across Level 2 and Level 3.

Foreign exchange (FX) contracts

Open spot FX contracts are valued using the FX spot rate observed in the market. Forward FX contracts are valued using the FX spot rate adjusted for forward pricing points observed from standard market-based sources. As the markets for both FX spot and FX forward pricing points are both actively traded and observable, FX contracts are generally classified as Level 2.

OTC FX option contracts include standard call and put options, options with multiple exercise dates, path-dependent options, options with averaging features, options with discontinuous pay-off characteristics and options on a number of underlying FX rates. OTC FX option contracts are valued using market standard option valuation models. The models used for shorter-dated options (i.e., maturities of five years or less) tend to be different than those used for longer-dated options because the models needed for longer-dated OTC FX contracts require additional consideration of interest rate and FX rate interdependency. Inputs to the option valuation models include spot FX rates, FX forward points, FX volatilities, interest rate yield curves, interest rate volatilities and correlations. The inputs for volatility and correlation are implied through the calibration of observed prices for standard option contracts trading within the market.

As inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of OTC FX option contracts are classified as Level 2. OTC FX option contracts classified as Level 3 include long-dated FX exotic option contracts for which there is no active market from which to derive volatility or correlation inputs. The inputs used to value these OTC FX option contracts are calculated using consensus pricing services without an underlying principal market, historical asset prices or by extrapolation.

Cross-currency balance guaranteed swaps are classified as foreign exchange contracts. Details of the fair value classification can be found under the interest rate contracts section above.

Equity / index contracts

Equity / index contracts include equity forward contracts and equity option contracts. Equity forward contracts have a single stock or index underlying and are valued using market standard models. The key inputs to the models are stock prices, estimated dividend rates and equity funding rates (which are implied from prices of forward contracts observed in the market). Estimated cash flows are then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. As inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of equity forward contracts are classified as Level 2. Positions classified as Level 3 have no market data available for the instrument maturity and are valued by some form of extrapolation of available data, use of historical dividend data, or use of data for a related equity.

Equity option contracts include market standard single or basket stock or index call and put options as well as equity option contracts with more complex features including option contracts with multiple or continuous exercise dates, option contracts for which the payoff is based on the relative or average performance of components of a basket, option contracts with discontinuous payoff profiles, path-dependent options and option contracts with a payoff calculated directly upon equity features other than price (i.e., dividend rates, volatility or correlation). Equity option contracts are valued using market standard models that estimate the equity forward level as described above for equity forward contracts and incorporate inputs for stock volatility and for correlation between stocks within a basket. The probability-weighted expected option payoff generated is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. Positions for which inputs are derived from standard market contracts traded in active and observable markets are classified as Level 2. Level 3 positions are those for which volatility, forward or correlation inputs are not observable and are therefore valued using extrapolation of available data, historical dividend, correlation or volatility data, or the equivalent data for a related equity.

Commodity derivative contracts

Commodity derivative contracts include forward, swap and option contracts on individual commodities and on commodity indices. Commodity forward and swap contracts are measured using market standard models that use market forward levels on standard instruments. Commodity option contracts are measured using market standard option models that estimate the commodity forward level as described above for commodity forward and swap contracts, incorporating inputs for the volatility of the underlying index or commodity. The option model produces a probability-weighted expected option payoff that is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. For commodity options on baskets of commodities or bespoke commodity indices, the valuation technique also incorporates inputs for the correlation between different commodities or commodity indices. Individual commodity contracts are typically classified as Level 2 because active forward and volatility market data are available.

Determination of fair values from quoted market prices or valuation techniques

	31.12.15				31.12.14			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
GBP million	Quoted market price	Market observable inputs	Non–market observable inputs		Quoted market price	Market observable inputs	Non–market observable inputs	
Financial assets held for trading	3,011	752	7	3,770	2,603	1,329	5	3,937
of which:								
Government bills/bonds	*811*	*134*	*–*	*945*	*1,050*	*213*	*–*	*1,263*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*1*	*580*	*–*	*581*	*5*	*1,053*	*2*	*1,060*
Loans	*–*	*21*	*6*	*27*	*–*	*27*	*1*	*27*
Investment fund units	*21*	*12*	*–*	*33*	*47*	*16*	*–*	*62*
Asset-backed securities	*–*	*1*	*–*	*1*	*–*	*16*	*–*	*16*
Equity instruments	*2,178*	*4*	*1*	*2,183*	*1,501*	*5*	*2*	*1,508*
Positive replacement values	39	17,028	601	17,668	70	29,189	783	30,042
of which:								
Interest rate contracts	*–*	*8,920*	*125*	*9,045*	*–*	*17,781*	*154*	*17,935*
Credit derivative contracts	*–*	*118*	*104*	*222*	*–*	*583*	*110*	*693*
Foreign exchange contracts	*1*	*4,146*	*248*	*4,395*	*4*	*6,700*	*316*	*7,020*
Equity / Index contracts	*–*	*2,874*	*123*	*2,997*	*–*	*3,385*	*202*	*3,587*
Precious metal	*–*	*34*	*–*	*34*	*–*	*22*	*–*	*22*
Commodities contracts	*–*	*934*	*1*	*935*	*–*	*713*	*1*	*714*
Unsettled purchases/sales of non-derivative fin. assets	*37*	*2*	*–*	*39*	*67*	*5*	*–*	*71*
Financial assets designated at fair value	–	414	252	666	–	227	301	527
of which:								
Loans (including structured loans)[1]	*–*	*142*	*–*	*142*	*–*	*205*	*14*	*219*
Structured reverse repurchase agreements and securities borrowing agreements	*–*	*1*	*248*	*249*	*–*	*–*	*279*	*280*
Equity instruments[1]	*–*	*271*	*4*	*275*	*–*	*21*	*7*	*28*
Financial investments available-for-sale	2,560	601	2	3,163	3,175	2,335	2	5,512
of which:								
Government bills / bonds	*2,277*	*80*	*–*	*2,357*	*2,969*	*448*	*–*	*3,417*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*283*	*520*	*–*	*804*	*205*	*1,888*	*–*	*2,093*
Equity instruments	*–*	*–*	*2*	*2*	*-*	*-*	*2*	*2*
Total financial assets	5,610	18,794	862	25,266	**5,848**	**33,081**	**1,089**	**40,018**

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

	31.12.15				31.12.14			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
GBP million	Quoted market price	Market observable inputs	Non–market observable inputs		Quoted market price	Market observable inputs	Non–market observable inputs	
Trading portfolio liabilities	4,194	586	6	4,787	1,673	770	3	2,447
of which:								
Government bills/bonds	*1,003*	*77*	*–*	*1,080*	*904*	*192*	*–*	*1,095*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*2*	*495*	*–*	*497*	*9*	*522*	*–*	*532*
Investment fund units	*1*	*1*	*–*	*1*	*19*	*44*	*–*	*64*
Loans	*–*	*13*	*6*	*19*	*–*	*10*	*1*	*11*
Equity instruments	*3,188*	*–*	*–*	*3,188*	*741*	*2*	*2*	*745*
Negative replacement values	69	17,370	601	18,040	59	29,088	782	29,929
of which:								
Interest rate contracts	*–*	*9,182*	*125*	*9,307*	*–*	*17,838*	*154*	*17,992*
Credit derivative contracts	*–*	*134*	*103*	*238*	*–*	*585*	*109*	*694*
Foreign exchange contracts	*1*	*4,294*	*248*	*4,543*	*4*	*6,688*	*316*	*7,007*
Equity / Index contracts	*–*	*2,790*	*123*	*2,913*	*–*	*3,240*	*202*	*3,441*
Precious metal	*–*	*34*	*–*	*34*	*–*	*22*	*–*	*22*
Commodities contracts	*–*	*934*	*1*	*935*	*–*	*713*	*1*	*714*
Unsettled purchases/sales of non-derivative fin. assets	*68*	*1*	*–*	*69*	*55*	*3*	*–*	*58*
Financial liabilities designated at fair value	–	470	258	728	–	229	330	559
of which:								
Structured over-the-counter debt instruments[1]	*–*	*413*	*4*	*417*	*–*	*227*	*21*	*247*
Structured repurchase agreements[1]	*–*	*57*	*254*	*311*	*–*	*2*	*310*	*312*
Total financial liabilities	4,263	18,427	865	23,555	**1,732**	**30,088**	**1,115**	**32,934**

1 Figures in the 2014 financials may differ from those originally published due to changes in the reported product classifications.

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

There have been no material movements between level 1 and level 2 for the period ending December 2015.

g) Movements of Level 3 instruments

Significant changes in Level 3 instruments

The table on the following pages presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis. Level 3 assets and liabilities may be hedged with instruments classified as Level 1 or Level 2 in the fair value hierarchy, and, as a result, realized and unrealized gains and losses included in the table may not include the effect of related hedging activity. Further, the realized and unrealized gains and losses presented within the table are not limited solely to those arising from Level 3 inputs, as valuations are generally derived from both observable and unobservable parameters.

Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the year.

As of 31 December 2015, financial instruments measured with valuation techniques using significant non-market-observable inputs (Level 3) were mainly comprised of:

- structured reverse repurchase and securities borrowing agreements;
- foreign exchange contracts
- credit derivative contracts;
- equity / index contracts;
- interest rate contracts
- loans (including structured loans).

Significant movements in Level 3 instruments during the year ended 31 December 2015 were as follows.

Financial assets held for trading

Financial assets held for trading increased from £5 million to £7 million. Issuances of £27 million and purchases of £20 million mainly comprised of loans and equity instruments, respectively, were more than offset by sales of £75 million, also primarily comprised of loans and equity instruments. Transfers into Level 3 during the year amounted to £36 million and were mainly comprised of equity instruments due to decreased observability of the respective equity volatility inputs.

Financial assets designated at fair value

Financial assets designated at fair value decreased to £252 million from £301 million during the year, mainly reflecting net losses of £22 million included in comprehensive income and settlements of £29 million, partly offset by issuances of £10 million, primarily comprised of structured reverse repurchase and securities borrowing agreements.

Financial investments classified as available-for-sale

Financial investments classified as available-for-sale remained at £2 million during the year.

Positive replacement values

Positive replacement values decreased to £601 million from £783 million during the year, primarily due to settlements of £322 million, primarily related to equity / index contracts and interest rate contracts, partly offset by issuances totaling £44 million and net gains of £29 million, primarily related to equity / index contracts. Transfers into and out of Level 3 amounted to £77 million and £52 million, respectively, and were mainly comprised of equity / index contracts due to changes in the correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Trading portfolio liabilities

Trading portfolio liabilities increased to £6 million from £3 million during the year. Issuances of £27 million and purchases of £57 million mainly comprised of loans and corporate bonds, respectively, were more than offset by sales of £82 million, also primarily comprised of loans and corporate bonds.

Negative replacement values

Negative replacement values decreased to £601 million from £782 million during the year, primarily due to settlements of £322 million, primarily related to equity / index contracts and interest rate contracts, partly offset by issuances totaling £37 million and net losses of £31 million, primarily related to equity / index contracts. Transfers into and out of Level 3 amounted to £77 million and £47 million, respectively, and were mainly comprised of equity / index contracts due to 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 decreased to £258 million from £331 million during the year mainly reflecting net gains of £57 million included in comprehensive income. Issuances of £16 million were more than offset by settlements of £21 million, primarily comprised of structured-over-the-counter debt instruments. Transfers into and out of Level 3 amounted to £12 million and £15 million, respectively, primarily comprised of structured repurchase agreements.

Movements of level 3 instruments

GBP million	Balance as at 31 December 2014	Total gains/losses included in the income statement: Net income	*of which: related to Level 3 instruments held at the end of the reporting period*	Purchases
Financial assets held for tading	5	(4)	*(25)*	20
of which:				
Government bills / bonds	*–*	*–*	*–*	*–*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*2*	*–*	*–*	*2*
Loans	*1*	*–*	*(1)*	*–*
Investment fund units	*–*	*–*	*–*	*–*
Equity instruments	*2*	*(5)*	*(24)*	*18*
Positive replacement values	783	29	*(22)*	–
of which:				
Interest rate contracts	*154*	*24*	*26*	*–*
Credit derivative contracts	*110*	*12*	*8*	*–*
Foreign Exchange contracts	*316*	*(47)*	*(9)*	*–*
Equity/Index contracts	*202*	*40*	*(47)*	*–*
Commodities contracts	*1*	*–*	*1*	*–*
Financial assets designated at fair value	301	(22)	*(13)*	–
of which:				
Loans (including structured loans)	*14*	*–*	*–*	*–*
Structured reverse repurchase agreements and securities borrowing agreements	*279*	*(23)*	*(14)*	*–*
Equity instruments	*7*	*2*	*1*	*–*
Financial investments available-for-sale	2	–	–	–
of which:				
Equity instruments	*2*	*–*	*–*	*–*
Total financial assets	1,089	3	*(60)*	20
Trading portfolio liabilities	3	1	–	57
of which:				
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*–*	*–*	*–*	*53*
Loans	*1*	*1*	*–*	*–*
Equity instruments	*2*	*–*	*–*	*4*
Negative replacement values	782	31	*(22)*	–
of which:				
Interest rate contracts	*154*	*28*	*28*	*–*
Credit derivative contracts	*109*	*11*	*7*	*–*
Foreign Exchange contracts	*316*	*(50)*	*(11)*	*–*
Equity/Index contracts	*202*	*41*	*(47)*	*–*
Commodities contracts	*1*	*–*	*1*	*–*
Financial liabilities designated at fair value	330	(57)	*(61)*	–
of which:				
Structured over-the-counter debt instruments	*21*	*(12)*	*1*	*–*
Structured repurchase agreements	*310*	*(45)*	*(62)*	*–*
Total financial liabilities	1,115	(25)	*(83)*	57

Sales	Issuances	Settlements	Transfers into level 3	Transfers out of Level 3	Foreign Currency Translation	Balance as at 31 December 2015
(75)	27	–	36	(1)	(1)	7
–	–	–	–	–	–	–
(4)	–	–	–	*(1)*	–	–
(21)	*27*	–	–	–	*(1)*	*6*
–	–	–	–	–	–	–
(50)	–	–	*35*	–	–	*1*
–	44	(322)	77	(52)	42	601
–	–	(69)	6	(5)	15	125
–	*6*	*(17)*	*9*	*(15)*	–	*104*
–	–	*(46)*	–	–	*25*	*248*
–	*38*	*(190)*	*62*	*(32)*	*3*	*123*
–	–	–	–	–	–	*1*
–	10	(29)	1	–	(10)	252
–	*7*	*(19)*	–	–	*(1)*	–
–	–	–	–	–	*(9)*	*248*
–	*4*	*(9)*	*1*	–	–	*4*
–	–	–	–	–	–	2
–	–	–	–	–	–	*2*
(75)	81	(351)	114	(53)	31	862
(82)	27	–	1	–	(1)	6
(54)	–	–	–	–	–	–
(21)	*27*	–	–	–	*(1)*	*6*
(7)	–	–	*1*	–	–	–
–	37	(322)	77	(47)	43	601
–	–	*(83)*	*6*	–	*20*	*125*
–	*6*	*(16)*	*9*	*(15)*	–	*103*
–	–	*(40)*	–	–	*21*	*248*
–	*31*	*(183)*	*62*	*(32)*	*3*	*123*
–	–	–	–	–	–	*1*
–	16	(21)	12	(15)	(7)	258
–	*16*	*(21)*	*1*	–	*(1)*	*4*
–	–	–	*11*	*(15)*	*(6)*	*254*
(82)	79	(342)	91	(63)	35	865

h) Valuation of assets and liabilities classified as Level 3

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

	Fair value						Range of inputs				
	Assets		Liabilities		Valuation technique(s)	Significant unobservable input(s)	31.12.15		31.12.14		units[1]
GBP million	31.12.15	31.12.14	31.12.15	31.12.14			low	high	low	high	
Financial assets held for trading/ Trading portfolio assets, Financial assets/liabilities designated at fair value and Financial investments available-for-sale											
Reverse repurchase and securities borrowing agreements	248	279	254	310	Discounted expected cash flows	Funding spread	51	157	45	152	basis points
Replacement values											
Interest rate derivative contracts, net	125	154	125	154	Option model	Volatility of interest rates	16	130	19	82	%
						Rate to rate correlation	84	94	84	94	%
Credit derivative contracts, net	104	110	103	109	Discounted expected cash flow based on modelled defaults and recoveries	Credit spread	97	461	0	963	basis points
						Upfront price points[2]	25	25	–	–	%
						Recovery rates[2]	20	55	–	–	%
						Credit Index correlation[3]	–	–	41	78	%
						Credit pair correlation	57	94	57	94	%
Foreign exchange contracts, net	248	316	248	316		Rate to FX correlation	(57)	60	(57)	60	%
						FX to FX correlation	(70)	80	(70)	80	%
Equity/index derivative contracts, net	123	202	123	202	Option Model	Equity dividend yields	0	13	0	10	%
						Volatility of equity stocks, equity & other Indices	0	52	1	106	%
						Equity - FX correlation	(44)	64	(55)	84	%
						Equity to equity correlation	16	93	18	97	%

1 The ranges of significant unobservable inputs are represented in percentages and basis points. 2 The range of inputs is not disclosed as of 31 December 2014 because this unobservable input parameter was not significant to the respective valuation technique as of that date. 3 The range of inputs is not disclosed as of 31 December 2015 because this unobservable input parameter was not significant to the respective valuation technique as of that date.

The table on the previous page presents the assets and liabilities recognized at fair value and classified as Level 3, together with the valuation techniques used to measure fair value, the significant inputs used in the valuation technique that are considered unobservable and a range of values for those unobservable inputs.

The range of values represents the highest and lowest level input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities. The ranges will therefore vary from period to period and parameter to parameter based on characteristics of the instruments held at each balance sheet date. Further, the ranges of unobservable inputs may differ across other financial institutions due to the diversity of the products in each firm's inventory.

Significant unobservable inputs in Level 3 positions

This section discusses the significant unobservable inputs identified in the table on the following pages and assesses the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown. Relationships between observable and unobservable inputs have not been included in the summary below.

Funding spread: Structured financing transactions are valued using synthetic funding curves that best represent the assets that are pledged as collateral to the transactions. They are not representative of where UBS can fund itself on an unsecured basis, but provide an estimate of where UBS can source and deploy secured funding with counterparties for a given type of collateral. The funding spreads are expressed in terms of basis points over or under LIBOR, and if funding spreads widen this increases the impact of discounting. The range of 51-157 basis points for both structured repurchase agreements and structured reverse repurchase agreements represents the range of asset funding curves, where wider spreads are due to a reduction in liquidity of underlying collateral for funding purposes.

A small proportion of structured debt instruments and non-structured fixed-rate bonds within financial liabilities designated at fair value had an exposure to funding spreads that was longer in duration than the actively traded market. Such positions are within the range of 51-157 basis points reported above.

Volatility: Volatility measures the variability of future prices for a particular instrument and is generally expressed as a percentage, where a higher number reflects a more volatile instrument for which future price movements are more likely to occur. The minimum level of volatility is 0% and there is no theoretical maximum. Volatility is a key input into option models, where it is used to derive a probability-based distribution of future prices for the underlying instrument. The effect of volatility on individual positions within the portfolio is driven primarily by whether the option contract is a long or short position. In most cases, the fair value of an option increases as a result of an increase in volatility and is reduced by a decrease in volatility. Generally, volatility used in the measurement of fair value is derived from active market option prices (referred to as implied volatility). A key feature of implied volatility is the volatility "smile" or "skew," which represents the effect of pricing options of different option strikes at different implied volatility levels.

- Volatility of interest rates – the range of 16-130% reflects the range of unobservable volatilities across different currencies and related underlying interest rate levels. Volatilities of low interest rates tend to be much higher than volatilities of high interest rates. In addition, different currencies may have significantly different implied volatilities.
- Volatility of equity stocks, equity and other indices – the range of 0-52% is reflective of the range of underlying stock volatilities.

Correlation: Correlation measures the inter-relationship between the movements of two variables. It is expressed as a percentage between (100)% and +100%, where +100% are perfectly correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the same direction), and (100)% are inversely correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the opposite direction). The effect of correlation on the measurement of fair value depends on the specific terms of the instruments being valued, due to the range of different payoff features within such instruments.

- Rate-to-rate correlation – the correlation between interest rates of two separate currencies. The range of 84–94% results from the different pairs of currency involved.
- Credit pair correlation is particularly important for first to default credit structures. The range of 57–94% reflects the difference between credits with low correlation and similar highly correlated credits.
- Rate-to-FX correlation – captures the correlation between interest rates and FX rates. The range for the portfolio is (57)–60%, which represents the relationship between interest rates and foreign exchange levels. The signage on such correlations depends on the quotation basis of the underlying FX rate (e.g., EUR / USD and USD / EUR correlations to the same interest rate will have opposite signs).
- FX-to-FX correlation is particularly important for complex options that incorporate different FX rates in the projected payoff. The range of (70)–80% reflects the underlying characteristics across the main FX pairs to which UBS has exposure.
- Equity-to-FX correlation is important for equity options based on a currency different than the currency of the underlying stock. The range of (44)–64% represents the range of the relationship between underlying stock and foreign exchange volatilities.

– Equity-to-equity correlation is particularly important for complex options that incorporate, in some manner, different equities in the projected payoff. The closer the correlation is to 100%, the more related one equity is to another. For example, equities with a very high correlation could be from different parts of the same corporate structure. The range of 16–93% reflects this.

Credit spread: Valuation models for many credit derivatives require an input for the credit spread, which is a reflection of the credit quality of the associated referenced underlying. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either US Treasury or LIBOR, and is generally expressed in terms of basis points. An increase / (decrease) in credit spread will increase / (decrease) the value of credit protection offered by CDS and other credit derivative products. The income statement impact from such changes depends on the nature and direction of the positions held. Credit spreads may be negative where the asset is more creditworthy than the benchmark against which the spread is calculated. A wider credit spread represents decreasing creditworthiness. The range of 97-461 basis points in credit derivatives represents a diverse set of underlyings, with the lower end of the range representing credits of the highest quality (e.g., approximating the risk of LIBOR) and the upper end of the range representing greater levels of credit risk.

Upfront price points: A component in the price quotation of credit derivative contracts, whereby the overall fair value price level is split between the credit spread (basis points running over the life of the contract as described above) and a component that is quoted and settled upfront on transacting a new contract. This latter component is referred to as upfront price points and represents the difference between the credit spread paid as protection premium on a current contract versus a small number of standard contracts defined by the market. Distressed credit names frequently trade and quote CDS protection only in upfront points rather than as a running credit spread. An increase / (decrease) in upfront points will increase / (decrease) the value of credit protection offered by CDS and other credit derivative products. The effect of increases or decreases in upfront price points depends on the nature and direction of the positions held. Upfront pricing points may be negative where a contract is quoting for a narrower premium than the market standard, but are generally positive, reflecting an increase in credit premium required by the market as creditworthiness deteriorates. The range of 25-25% within the table represents the variety of current market credit spread levels relative to the benchmarks used as a quotation basis. Upfront points of 25% represent a distressed credit.

Loss severity / recovery rate: The projected loss severity / recovery rate reflects the estimated loss that will be realized given expected defaults. Loss severity is generally applied to collateral within asset-backed securities while the recovery rate is the analogous pricing input for corporate or sovereign credits. Recovery is the reverse of loss severity, so a 100% recovery rate is the equivalent of a 0% loss severity. Increases in loss severity levels / decreases in recovery rates will result in lower expected cash flows into the structure upon the default of the instruments. In general, a significant decrease / (increase) in the loss severity in isolation would result in significantly higher / (lower) fair value for the respective asset-backed securities. The impact of a change in recovery rate on a credit derivative position will depend on whether credit protection has been bought or sold.

Loss severity is ultimately driven by the value recoverable from collateral held after foreclosure occurs relative to the loan principal and possibly unpaid interest accrued at that point. For credit derivatives, the loss severity range of 0–100% applies to derivatives on asset-backed securities. The recovery rate range of 20–55% represents a wide range of expected recovery levels on credit derivative contracts within the Level 3 portfolio.

Equity dividend yields: The derivation of a forward price for an individual stock or index is important for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price is based on a combination of expected future dividend levels and payment timings, and, to a lesser extent, the relevant funding rates applicable to the stock in question. Dividend yields are generally expressed as an annualized percentage of the share price with the lowest limit of 0% representing a stock that is not expected to pay any dividend. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price. The range of 0–13% reflects the expected range of dividend rates for the portfolio.

i) Sensitivity of fair value measurements to changes in unobservable input assumption

The information below summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof. As of 31 December 2015, the total favorable and unfavorable effects of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions for financial instruments classified as Level 3 were £562 thousand and £574 thousand, respectively (31 December 2014: £338 thousand and £210 thousand, respectively).

The sensitivity data presented represents an estimation of valuation uncertainty based on reasonably possible alternative values for Level 3 inputs at the balance sheet date and do not represent the estimated effect of stress scenarios. Typically, these financial assets and liabilities are sensitive to a combination of inputs from Levels 1–3. Although well-defined interdependencies may exist between Levels 1–2 and Level 3 parameters (e.g., between interest rates, which are generally Level 1 or Level 2, and prepayments, which are generally Level 3), these have not been incorporated in the data. Further, direct inter-relationships between the Level 3 parameters discussed below are not a significant element of the valuation uncertainty.

Sensitivity data is determined using a number of techniques including the estimation of price dispersion among different market participants, variation in modeling approaches and reasonably possible changes to assumptions used within the fair value measurement process. The sensitivity ranges are not always symmetrical around the fair values as the inputs used in valuations are not always precisely in the middle of the favorable and unfavorable range.

Sensitivity data is determined at a product or parameter level and then aggregated assuming no diversification benefit. The calculated sensitivity is applied to both the outright position and any related Level 3 hedge. The main interdependencies across different Level 3 products to a single unobservable input parameter have been included in the basis of netting exposures within the calculation. Aggregation without allowing for diversification involves the simple summation of individual results with the total sensitivity, therefore representing the impact of all unobservable inputs which, if moved to a reasonably possible favorable or unfavorable level at the same time, would result in a significant change in the valuation. Diversification would incorporate estimated correlations across different sensitivity results and, as such, would result in an overall sensitivity that would be less than the sum of the individual component sensitivities. The Company believes that, while there are diversification benefits within the portfolios representing these sensitivity numbers, they are not significant to this analysis.

j) Financial instruments not measured at fair value

The following table reflects the estimated fair values for UBS Limited's financial instruments not measured at fair value.

Financial instruments not measured at fair value

	31.12.15					31.12.14 (restated)				
	Carrying value	Fair value				Carrying value	Fair value			
GBP million	Total	Total	Level 1	Level 2	Level 3	Total	Total	Level 1	Level 2	Level 3
Assets										
Cash and balances with central banks	5	5	5	–	–	9	9	9	-	-
Due from banks[2]	841	841	841	–	–	900	900	-	900	-
Cash collateral on securities borrowed[2]	3,711	3,711	–	3,711	–	2,486	2,486	-	2,486	-
Reverse repurchase agreements	2,973	2,973	–	2,973	–	8,914	8,914	-	8,914	-
Cash collateral receivable on derivative instruments	6,027	6,027	–	6,027	–	7,052	7,052	-	7,052	-
Loans and advances to customers[2]	791	788	–	533	255	364	364	-	318	44
Other amounts due from group undertakings	150	150	–	150	–	74	74		74	-
Other assets	144	144	–	144	–	126	126	-	126	-
Liabilities										
Due to banks	2,309	2,404	1,465	–	940	5,150	5,339	-	4,104	1,235
Cash collateral on securities lent	668	668	–	668	–	946	946	-	946	-
Repurchase agreements	4,021	4,021	–	4,021	–	7,818	7,818	-	7,818	-
Cash collateral payables on derivative instruments	5,966	5,966	–	5,966	–	7,991	7,991	-	7,991	-
Due to customers	230	233	–	233	–	754	754	-	754	-
Other amounts owed to group undertakings[1]	127	127	–	127	–	126	126	-	126	-
Other liabilities	107	107	–	107	–	84	84	-	84	-

1 Prior period other amounts owed to group undertakings have been restated by £21 million relating to the payment of operating costs to UBS AG. 2 Prior period cash collateral on securities borrowed, due from banks and loans and advances to customers have been restated for cash margin required by various exchanges/ central clearing counterparties to guarantee settlement. Refer to Note 1b for more information.

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 the fair value of UBS Limited's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another. UBS Limited applies significant judgments and assumptions to arrive at these fair values, which are more holistic and less sophisticated than the Company's established fair value and model governance policies and processes applied to financial instruments accounted for at fair value whose fair values impact the Company's balance sheet and net profit. The following principles were applied when determining fair value estimates for financial instruments not measured at fair value:

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, if available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS's own credit.
- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value. The following financial instruments not measured at fair value had remaining maturities of three months or less as of 31 December 2015: 100% of cash and balances with central banks, 100% of amounts due from banks, 100% of cash collateral on securities borrowed, 91% of reverse repurchase agreements, 100% of cash collateral receivables on derivatives, 67% of loans, 63% of amounts due to banks, 100% of cash collateral on securities lent, 66% of repurchase agreements, 100% of cash collateral payable on derivatives and 97% of amount due to customers.
- 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.

Note 25 Restricted and transferred financial assets

a) Restricted financial assets

Restricted financial assets consist of assets pledged as collateral against an existing liability or contingent liability and other assets which are otherwise explicitly restricted such that they cannot be used to secure funding.

Financial assets are mainly pledged as collateral in securities lending transactions, in repurchase transactions. The Company generally enters into repurchase and securities lending arrangements under standard market agreements, with a market based haircut applied to the collateral, which results in the associated liabilities having a carrying value below the carrying value of the assets.

Other restricted financial assets include assets protected under client asset segregation rules. The carrying value of the liabilities associated with these other restricted financial assets is generally equal to the carrying value of the assets.

The Company holds £1,840 million of client money under client segregation rules of which £232 million is included in cash and cash equivalents, (2014: £1,462 million, of which £85 million is included in cash and cash equivalents).

Restricted financial assets

GBP million	31.12.15	31.12.14
Financial assets pledged as collateral		
Trading portfolio assets	2,463	1,417
of which: assets pledged as collateral which may be sold or repledged by counterparties	*2,462*	*1,402*
Total financial assets pledged as collateral	2,463	1,417
Other restricted financial assets		
Due from banks	232	85
Cash collateral receivables on derivative instruments	1,607	1,376
Total other restricted financial assets	1,840	1,462
Total financial assets pledged and other restricted financial assets	4,303	2,879

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

The table below 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

	31.12.15		31.12.14	
GBP million	Carrying value of transferred assets	Carrying value of associated liabilities recognized on balance sheet	Carrying value of transferred assets	Carrying value of associated liabilities recognized on balance sheet
Trading portfolio assets pledged transferred which may be sold or repledged by counterparties				
relating to securities lending and repurchase agreements in exchange for cash received	*822*	*810*	*1,061*	*1,035*
relating to securities lending agreements in exchange for securities received	*1,631*	–	*305*	-
relating to other financial asset transfers	*9*	–	*36*	-
Total financial assets transferred	2,462	810	**1,402**	**1,035**

Transactions whereby financial assets are transferred, but continue to be recognized in their entirety on the Company's balance sheet include securities lending and repurchase agreements as well as other financial asset transfers. Repurchase agreements and securities lending agreements are discussed in Note 1a: Basis of accounting. Repurchase and securities lending arrangements are, for the most part, conducted under standard market agreements, and are undertaken with counterparties subject to the Company's normal credit risk control processes. As of 31 December 2015, approximately 33% (2014: 75%) of the transferred financial assets were 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 the Company. 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 the Company's balance sheet as the risks and rewards of ownership are not transferred to the Company. In cases where such financial assets received are subsequently sold or repledged in another transaction, this is not considered to be a transfer of financial assets.

Other financial asset transfers primarily include securities transferred to collateralize derivative transactions, for which the carrying value of associated liabilities is not provided in the table above because those replacement values are managed on a portfolio basis across counterparties and product types, and therefore is not a direct relationship between the specific collateral pledged and the associated liability.

c) Off balance sheet assets received

The table below presents assets received that can be sold or repledged, that are not recognized on the balance sheet, but that are held as collateral, including amounts that have been sold or repledged.

Off balance sheet assets received

GBP million	31.12.15	31.12.14
Fair value of securities and gold received which can be sold or repledged	31,755	27,499
received as collateral under reverse repurchase, securities borrowing and lending arrangement, derivative transactions and other transactions[1]	*30,209*	*27,499*
received in unsecured borrowings	*1,546*	–
Thereof sold or repledged:	28,284	23,599
In connection with financing activities	19,406	19,222
To satisfy commitments under short sale transactions	4,640	2,173
In connection with derivative transactions[1]	4,239	2,204

1 Includes securities received as initial margin from its clients that the Company is required to remit to central clearing counterparties, brokers and deposit banks through its exchange-traded derivative (ETD) clearing and execution services.

Note 26 Offsetting financial assets and liabilities

The Company enters into netting agreements with counterparties to manage the credit risks associated primarily with repurchase and reverse repurchase transactions, securities borrowing and lending and over-the-counter and exchange-traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to offset liabilities against available assets received in the ordinary course of business and / or in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The right to offset is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

From a balance sheet presentation perspective, the criteria for offsetting financial assets and financial liabilities are highly restrictive. UBS Limited offsets financial assets and financial liabilities on its balance sheet only when it has a currently enforceable legal right to offset the respective recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. In assessing the criteria for a relevant set of facts and circumstances, emphasis is placed on the effectiveness of the operational mechanics of net or simultaneous settlements in eliminating all credit and liquidity exposure between counterparties at the time of settlement. These criteria preclude offsetting on the balance sheet for substantial amounts of the Company's financial assets and liabilities, even if these amounts may be subject to enforceable netting arrangements. For derivative contracts, balance sheet offsetting is generally only permitted in circumstances in which a market settlement mechanism (e.g., an exchange or clearing house) exists which effectively accomplishes net settlement through a daily cash margining process. Bilateral OTC derivatives and exchange traded derivatives that are not margined on a daily basis are commonly precluded from offsetting on the balance sheet unless a mechanism exists to provide for net settlement of the cash flows arising from these contracts. For repurchase arrangements and securities financings, balance sheet offsetting may be permitted only to the extent that financial assets and liabilities with a counterparty have the same maturity date and are settled through a clearing process by which intra-day credit and liquidity exposures are substantially eliminated. Thus, repurchase and securities financing arrangements that are not cleared through a formal mechanism, such as a clearing house or exchange, are generally not offset on the balance sheet.

The Company engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangement. Therefore the net amounts presented in the tables on the following pages do not purport to represent the Company's actual credit exposure.

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

The table below provides a summary of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements, as well as financial collateral received to mitigate credit exposures for these financial assets. The gross financial assets of the Company that are subject to offsetting, enforceable netting arrangements and similar agreements are reconciled to the net amounts presented within the associated balance sheet line, after giving effect to financial liabilities with the same counterparties that have been offset on the balance sheet and other financial assets not subject to an enforceable netting arrangement or similar agreement. Further, related amounts for financial liabilities and collateral received that are not offset on the balance sheet are shown to arrive at financial assets after consideration of netting potential.

Offsetting financial assets

	31.12.15							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
GBP million	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[2]	Assets recognized on the balance sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arrangements or similar agreements[4]	Total assets recognized on the balance sheet
Cash collateral on securities borrowed	3,622	–	3,622	(663)	(2,959)	–	89	3,711
Reverse repurchase agreements	10,677	(7,902)	2,775	(1,405)	(1,371)	–	198	2,973
Positive replacement values	17,832	(696)	17,136	(13,964)	(1,878)	1,294	532	17,668
Cash collateral receivables on derivative instruments[1]	6,384	(1,299)	5,085	(1,747)	(1,792)	1,546	942	6,027
Financial assets designated at fair value	399	–	399	–	(198)	201	267	666
Total assets	38,914	(9,897)	29,017	(17,779)	(8,198)	3,041	2,028	31,045

	31.12.14 (restated)							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
GBP million	Gross assets before balance sheet netting	Balance sheet netting with gross liabilities[2]	Assets recognized on the balance sheet, net	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets not subject to enforceable netting arrangements or similar agreements[4]	Total assets recognized on the balance sheet
Cash collateral on securities borrowed[5]	2,455	–	2,455	(917)	(1,409)	129	32	2,486
Reverse repurchase agreements	13,626	(5,074)	8,552	(4,910)	(3,624)	18	362	8,914
Positive replacement values	30,409	(1,330)	29,079	(23,520)	(3,952)	1,607	963	30,042
Cash collateral receivables on derivative instruments[1]	6,425	–	6,425	(3,038)	(2,495)	893	627	7,052
Financial assets designated at fair value	492	–	492	–	(232)	260	35	527
Total assets	53,407	(6,404)	47,003	(32,385)	(11,712)	2,906	2,019	49,021

1 The net amount of Cash collateral receivables on derivatives instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS32 and ETD derivatives which are econmically settled on a daily basis. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral pledged, reflected on the Negative replacement values line in the table presented on the opposite page. 2 The logic of the table results in amounts presented in the 'Netting with gross liabilities' column corresponding directly to the amounts present in the 'Netting with gross assets' column in the liabilities table presented on the following page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral not set off in the balance sheet have been capped by relevant netting agreement so as not to exceed the net amount of financial assets presented on the balance shet, i.e. over-collateralization, where it exists, is not reflected in the table. 4 Includes assets not subject to enforeceable netting arrangements and other out-of-scope items. 5 Prior period cash collateral on securities borrowed has been restated for cash margin required by various exchanges/ central clearing counterparties to guarantee settlement. Refer to Note 1b for more information.

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

Offsetting financial liabilities

	31.12.15							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
GBP million	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[2]	Liabilities recognized on the balance sheet, net	Financial assets	Collateral pledged	Liabilities after consideration of netting potential[4]	Liabilities not subject to enforceable netting arrangements or similar agreements	Total liabilities recognized on the balance sheet
Cash collateral on securities lent	668	–	668	(663)	–	5	–	668
Repurchase agreements	11,767	(7,902)	3,866	(1,405)	(2,461)	–	156	4,021
Negative replacement values	18,038	(696)	17,342	(13,964)	(1,877)	1,501	698	18,040
Cash collateral payables on derivative instruments[1]	6,214	(1,299)	4,915	(1,678)	(2,429)	808	1,051	5,966
Financial liabilities designated at fair value	595	–	595	–	(276)	319	133	728
Total liabilities	37,281	(9,897)	27,385	(17,709)	(7,042)	2,634	2,038	29,423

	31.12.14							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet[3]				
GBP million	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets[2]	Liabilities recognized on the balance sheet, net	Financial assets	Collateral pledged	Liabilities after consideration of netting potential[4]	Liabilities not subject to enforceable netting arrangements or similar agreements	Total liabilities recognized on the balance sheet
Cash collateral on securities lent	946	–	946	(917)	(22)	7	–	946
Repurchase agreements	12,607	(5,074)	7,533	(4,910)	(2,375)	248	285	7,818
Negative replacement values	30,173	(1,330)	28,843	(23,520)	(3,038)	2,285	1,086	29,929
Cash collateral payables on derivative instruments[1]	6,392	–	6,392	(3,952)	(2,440)	–	1,599	7,991
Financial liabilities designated at fair value	400	–	400	–	(261)	138	160	559
Total liabilities	50,517	(6,404)	44,113	(33,300)	(8,136)	2,678	3,130	47,243

1 The net amount of Cash collateral payables on derivatives instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS32 and ETD derivatives which are economically settled on a daily basis. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral received, reflected on the Positive replacement values line in the table presented on the previous page. 2 The logic of the table results in amounts presented in the 'Netting with gross assets' column corresponding directly to the amounts presented in the 'Netting with gross liabilities' column in the assets table presented on the previous page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral not set off in the balance sheet have been capped by relevant netting agreement so as not to exceed the net amount of financial liabilities presented on the balance sheet, i.e. over-collateralization, where it exists, is not reflected in the table. 4 Includes liabilities not subject to enforceable netting arrangements and other out-of-scope items.

Note 27 Financial assets and liabilities – additional information

a) Measurement categories of financial assets and liabilities

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

Refer to Note 24: Fair value measurement for more information on how fair value of financial instruments is determined

Measurement categories of financial assets and liabilities

GBP million	31.12.15	31.12.14 (restated)
Financial assets		
Fair value through profit or loss, held for trading		
Trading portfolio assets	3,770	3,937
Positive replacement values	17,668	30,042
Total	21,438	33,979
Fair value through profit or loss		
Financial assets designated at fair value	666	527
Financial assets at amortized cost		
Cash and balances with central banks	5	9
Due from banks[2]	841	900
Cash collateral on securities borrowed[2]	3,711	2,486
Reverse repurchase agreements	2,973	8,914
Cash collateral receivables on derivative instruments	6,027	7,052
Loans and advances to customers[2]	791	364
Other amounts due from group undertakings	150	74
Other assets	144	126
Total	14,642	19,924
Available-for-sale		
Financial investments available-for-sale	3,163	5,512
Total financial assets	39,909	59,942
Financial liabilities		
Fair value through profit or loss, held for trading		
Trading portfolio liabilities	4,787	2,447
Negative replacement values	18,040	29,929
Total	22,827	32,376
Fair value through profit or loss, other		
Financial liabilities designated at fair value	728	559
Financial liabilities at amortized cost		
Due to banks	2,309	5,150
Cash collateral on securities lent	668	946
Repurchase agreements	4,021	7,818
Cash collateral payables on derivative instruments	5,966	7,991
Due to customers	230	754
Other amounts owed to group undertakings[1]	127	126
Other liabilities	107	84
Total	13,428	22,869
Total financial liabilities	36,983	55,804

1 Prior period other amounts owed to group undertakings has been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information. 2 Prior period cash collateral on securities borrowed, due from banks and loans and advances to customers have been restated for cash margin required by various exchanges/ central clearing counterparties to guarantee settlement. Refer to Note 1b for more information.

b) Maturity analysis of financial liabilities

The contractual maturities of non-derivative and non-trading financial liabilities as of 31 December 2015 are based on the earliest date on which UBS Limited could be contractually required to pay. The total amounts that contractually mature in each time-band are also shown for 31 December 2014. Derivative positions and trading liabilities, predominantly made up of short sale transactions, are assigned to the column 'Due within 1 month', as this provides a conservative reflection of the nature of these trading activities. The contractual maturities may extend over significantly longer periods.

Only financial instruments are required to be disclosed in the maturity analysis therefore certain items including deferred income, deferred tax liabilities and provisions are excluded from the table above.

Trading and derivative positions are presented in the 'On demand' column. Management believes that such presentation most accurately reflects the short term nature of trading activities. The contractual maturity of the instruments may, extend over significantly longer periods.

The analysis for the current year is based on undiscounted cash flows and includes future interest payments.

Maturity analysis of financial liabilities

	31.12.15						
GBP million	On demand	Due within 1 month	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Liabilities							
Due to banks	708	377	380	49	177	635	2,326
Cash collateral on securities lent	668	–	–	–	–	–	668
Repurchase agreements	475	1,238	928	1,385	–	–	4,026
Trading portfolio liabilities	4,787	–	–	–	–	–	4,787
Negative replacement values	18,040	–	–	–	–	–	18,040
Cash collateral payable on derivative instruments	5,966	–	–	–	–	–	5,966
Financial liabilities designated at fair value	–	–	11	32	550	110	704
Due to customers	231	–	–	–	–	–	231
Other amounts owed to group undertakings	–	127	–	–	–	–	127
Other liabilities	2	87	–	–	–	–	89
Total	30,875	1,829	1,320	1,466	727	745	36,963
Financial liabilities not recognized on the balance sheet							
Commitments							
Loan commitments	1,646	–	–	–	–	–	1,646
Guarantees	2	–	–	–	–	–	2
Forward starting transactions							
Reverse repurchase agreements	–	3,671	–	–	–	–	3,671
Securities borrowing agreements	–	1	–	–	–	–	1
Total	1,649	3,672	–	–	–	–	5,321

	31.12.14 (restated)						
GBP million	On demand	Due within 1 month	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Liabilities							
Due to banks	754	1,828	-	1,540	35	1,004	5,160
Cash collateral on securities lent	941	5	-	-	-	-	946
Repurchase agreements	3,997	3,597	77	149	-	-	7,819
Trading portfolio liabilities	2,447	-	-	-	-	-	2,447
Negative replacement values	29,929	-	-	-	-	-	29,929
Cash collateral payable on derivative instruments	7,991	-	-	-	-	-	7,991
Financial liabilities designated at fair value	-	19	–	42	289	176	526
Due to customers	628	111	-	-	17	-	756
Other amounts owed to group undertakings[1]	-	126	-	-	-	-	126
Other liabilities[2]	1	70	-	-	-	-	71
Total	**46,688**	**5,755**	**77**	**1,731**	**340**	**1,180**	**55,771**
Financial liabilities not recognized on the balance sheet							
Commitments							
Loan commitments	1,677	-	-	-	-	-	1,677
Underwriting	-	209	-	-	-	-	209
Guarantees	3	-	-	-	-	-	3
Forward starting transactions							
Reverse repurchase agreements	-	3,425	-	-	-	-	3,425
Securities borrowing agreements	-	1	-	-	-	-	1
Total[3]	**1,680**	**3,636**	**–**	**–**	**–**	**–**	**5,316**

1 Prior period other amounts owed to group undertakings has been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information. 2 These amounts differ to those reported in the 2014 Financial Statements due to a correction to other liabilities. 3 Non-financial liabilities such as deferred income, deferred tax liabilities and provisions are not included in this analysis.

The financial assets recorded on the balance sheet are expected to settle or mature within the next 12 months with the exception of the following amounts which are due after greater than 1 year; Financial investments £784 million (2014: £2,781 million), Financial assets at fair value £617 million (2014: £461 million) and Loans £209 million (2014: £34 million).

Note 28 Retirement benefit plan

Defined contribution plan

A defined contribution plan is a pension plan under which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the Company in a fund under the control of trustees. The total expense charged to income of £53 thousand (2014: £41 thousand) represents contributions payable to these plans by the Company at rates specified in the rules of the plan.

Note 29 Share capital

Regulated share capital

GBP million	31.12.15	31.12.14
Allotted, called up and fully paid[1]		
226,619,765 ordinary shares of £1 each	227	227

1 The Company removed the limit on its authorised share capital in accordance with the Companies Act 2006 with effect from 18 March 2011.

The primary objectives of the Company's capital management are to ensure that the Company has sufficient resources to support the Company's existing and planned business and in doing so complies with the PRA's capital requirements. The Company determines its capital requirements through a comprehensive planning approach that takes account of projected business activity and after performing stress and scenario testing in accordance with internal and PRA requirements. The mix of instruments comprising regulatory capital is periodically reviewed to ensure the efficient allocation of resources from a Company and broader group perspective.

From the 1 January 2014 the Company has been subject to the Capital Requirements Directive 2013/48/EC and calculates minimum capital requirements under the Capital Requirements Regulation 575/2013, the supporting technical standards of the directive and the regulation and the relevant regulations of the PRA. These requirements set out the capital a firm has to hold to underpin the solvency requirements related to credit, market and operational risk. The Company has met its regulatory obligations throughout the year.

The regulatory capital of the Company comprises the following:

Basel III capital information UBS Limited

GBP million, except where indicated	31.12.15	31.12.14
Tier 1 capital	2,803	4,004
of which: common equity tier 1 capital	*2,568*	*3,389*
Tier 2 capital	587	997
Total capital	3,390	5,001

The regulatory capital of UBS Limited is comprised of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital less any deductions specified under the Capital Requirements Regulation. Further details of the components of the regulatory capital of the Company and any relevant deductions made can be found in the UBS Limited Pillar 3 disclosures. Tier 1 capital includes a subordinated loan. The loan has no fixed maturity and will not be repayable at any time at the option of UBS AG and therefore is treated as equity and is classified as Additional Tier 1 capital for regulatory purposes.

As part of the ongoing review of capital requirements against planned and existing business the Company executed a £1.7 billion capital reduction in December 2015 following Board and regulatory approval. For Tier 1 capital this involved a reduction in Common Equity Tier 1 share premium together with a repurchase of part of the perpetual subordinated loan. The reduction comprised of £939 million and £380 million respectively. The capital reduction further included the repurchase of £391 million of the Tier 2 subordinated loans.

Note 30 Dividends

Dividends paid and proposed

GBP million	31.12.15	31.12.14
Declared and paid during the year:		
Dividends on ordinary shares:		
Final dividend for 2014: 22.3 pence per share (2013: 9.3 pence per share)	51	21
Total dividend declared and paid during the year	51	21
Proposed for approval at the annual general meeting (not recognized as a liability as at 31 December):		
Dividends on ordinary shares:		
Final dividend for 2015: 0 pence per share (2014: 22.3 pence per share)	0	51

Note 31 Related party transactions

The Company has significant related party balances and transactions with UBS AG and its subsidiaries. The Company enters into these transactions in the ordinary course of business on market terms. Transactions with related parties are made at arm's length.

The Company is a wholly owned subsidiary of UBS AG and is included in its group accounts. UBS AG, a Company incorporated with limited liability in Switzerland, is the immediate parent undertaking.

UBS AG has made, and continues to make, available a number of its employees to be engaged either on a full-time or part-time basis in the performance of certain functions or operations in connection with the Company's business and recharges those costs under administrative expenses.

The related party balances and transactions included under various captions within the Balance Sheet and Income Statement are as follows:

Balance sheet

	31.12.15		
GBP million	UBS AG	Other group companies	Total
Assets			
Due from banks	350	155	504
Cash collateral on securities borrowed	3,296	59	3,355
Reverse repurchase agreements	889	–	889
Trading portfolio assets	15	3	18
Positive replacement values	8,432	818	9,250
Cash collateral receivable on derivative instruments	1,698	1,213	2,911
Financial assets at fair value	165	–	165
Other amounts due from group undertakings	149	1	150
Other assets	28	1	29
Total	15,022	2,250	17,273
Liabilities			
Due to banks	1,976	155	2,131
Cash collateral for securities lent	497	–	497
Repurchase agreements	3,119	7	3,127
Trading portfolio liabilities	12	–	12
Negative replacement values	8,027	647	8,674
Cash collateral payable on derivative instruments	2,834	391	3,224
Financial liabilities at fair value	503	–	503
Due to customers	–	197	197
Other amounts owed to group undertakings	117	10	127
Other liabilities	134	17	150
Total	17,219	1,423	18,642

Balance sheet (continued)

	31.12.14 (restated)		
GBP million	UBS AG	Other group companies	Total
Assets			
Due from banks	479	7	485
Cash collateral on securities borrowed	2,226	105	2,331
Reverse repurchase agreements	3,549	2,081	5,629
Trading portfolio assets	88	-	88
Positive replacement values	15,359	977	16,336
Cash collateral receivable on derivative instruments	1,682	1,155	2,837
Financial assets at fair value	219	-	219
Other amounts due from group undertakings[1]	73	-	73
Other assets	1	-	1
Total	**23,678**	**4,324**	**28,002**
Liabilities			
Due to banks	5,036	-	5,036
Cash collateral for securities lent	850	21	871
Repurchase agreements	4,347	452	4,800
Negative replacement values	14,103	685	14,788
Cash collateral payable on derivative instruments	3,590	457	4,047
Financial liabilities at fair value	288	-	288
Due to customers	-	630	630
Other amounts owed to group undertakings	121	5	126
Other liabilities	3	8	11
Total	**28,340**	**2,258**	**30,598**

Income statement

	31.12.2015		
GBP million	UBS AG	Other group companies	Total
Interest and similar income	63	23	86
Interest and similar expense	(98)	(20)	(118)
Net fee and commission expense	13	(55)	(42)
Net trading income	78	–	78
Other operating income	35	(27)	8
Other administrative expenses	(488)	(4)	(492)
Total	(396)	(83)	(479)

	31.12.2014 (restated)		
GBP million	UBS AG	Other group companies	Total
Interest and similar income	102	2	104
Interest and similar expense	(139)	(13)	(153)
Net fee and commission expense	26	(58)	(32)
Net trading income	45	–	45
Other operating income	91	(32)	58
Other administrative expenses[1]	(363)	(4)	(367)
Total	**(239)**	**(106)**	**(344)**

1 Prior period other amounts owed to group undertakings and other administrative expenses have been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information.

UBS AG has not granted any new loans or had any outstanding loans to the UBS Limited Board of Directors during the year.

Note 32 Interests in subsidiaries and other entities

a) Interests in subsidiaries, associates and joint ventures

As at December 2015 and December 2014, the Company did not hold any subsidiaries nor did it have any investments in associates or joint ventures.

b) Interests in unconsolidated structured entities

The table below presents the Company's interests in and maximum exposure to loss from unconsolidated structured entities as at 31 December 2015. In addition, the total assets held by the structured entity in which the Company had an interest as of 31 December 2015 are provided, except for investment funds sponsored by third parties, for which the carrying value of the Company's interest has been disclosed.

The maximum exposure to loss disclosed in the table below does not reflect the Company's risk management activities, including effects from financial instruments that the Company may utilize to economically hedge the risks inherent in the unconsolidated structured entity or the risk reducing effects of collateral or other credit enhancements.

During the year UBS Limited did not provide support, financially or otherwise, to an unconsolidated structured entity, nor has UBS Limited an intention to do so in the future. The Company did not sponsor the creation of any structured entities during 2015 (2014: nil).

Interest in unconsolidated structured entities

	31.12.2015				
GBP million	Securitization vehicles	Client vehicles	Investment funds	Total	Maximum exposure to loss[4]
Trading portfolio assets	–	5	29	33	33
Positive replacement values	15	–	–	15	15
Total assets	15	5	29	48	
Negative replacement values	2	–	–	2	2
Total liabilities	2	–	–	2	
Assets held by the unconsolidated strcutured entities in which UBS had an interest	1,038[1]	2,808[2]	29[3]		

	31.12.2014				
GBP million	Securitization vehicles	Client vehicles	Investment funds	Total	Maximum exposure to loss
Trading portfolio assets	2	23	59	84	84
Total assets	2	23	59	84	
Assets held by the unconsolidated strcutured entities in which UBS had an interest	2,996[1]	11,094[2]	59[3]		

1 Represents principal amount outstanding. 2 Represents the market value of total assets. 3 Represents the carrying value of UBS Limited interest in the investment funds not sponsored by the Company. 4 For purposes of this disclosure, maximum exposure to loss amounts do not consider the risk reducing effects of collateral of other credit enhancements.

Note 33: Risk, treasury and capital management

Risk management and control

Risk categories

The key financial and other significant risks faced by the Company are described below.

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 and loan underwriting risk. Settlement risk is the risk of loss resulting from transactions involving exchange of value where we must fulfill our obligation to deliver without first being able to determine with certainty that we will receive the counter value. Loan underwriting risk is the risk of loss arising during the holding period of financing transactions which are intended for further distribution.

Market risk is the risk of loss resulting from changes in general market risk factors (e.g., interest rates, equity index levels, exchange rates, commodity prices and general credit spreads) and changes in prices of debt and equity instruments which result from factors and events specific to individual companies or entities. Market risk includes issuer risk and investment risk. Issuer risk is the risk of loss from changes in fair value resulting from credit-related events affecting an issuer or group of related issuers, including sovereigns, to which we are exposed through tradable securities or derivatives referencing the issuer. Investment risk refers to the issuer risk associated with positions held as financial investments.

Country risk is the risk of losses resulting from country-specific events. It includes transfer risk, whereby a country's authorities prevent or restrict the payment of an obligation, as well as systemic risk events arising from country-specific political or macroeconomic developments.

Liquidity risk is the risk of being unable to generate sufficient funds from assets to meet payment obligations when they fall due, including in times of stress.

Funding risk is the risk of higher than expected funding costs due to higher than expected UBS credit spreads when existing funding positions mature and need to be rolled over, or replaced by other more expensive funding sources. If a shortage of available funding sources is expected in a stress event, funding risk also covers potential additional losses from forced asset sales.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes legal risk and compliance risk.

Legal risk is the risk of (i) the financial risk resulting from the non-enforceability of a contract or the failure to assert non-contractual rights, or (ii) the financial or reputational risk resulting from UBS being held liable for a contractual or legal claim, or otherwise being subject to a penalty or liability in a legal action, based on a contractual or other legal claim, violation of law, or regulation, or infringement of intellectual property rights, or failing to manage litigation or other actions appropriately or effectively. Compliance risk refers to the financial or reputational risk incurred by the Company by not adhering to the applicable laws, rules and regulations, local and international best practice (including ethical standards) and the Company's own internal standards.

Risk governance

The Company falls within the broader risk governance framework of the UBS Group, which operates along three lines of defence. Business management, as the first line of defence, own their risk exposures and are required to maintain effective processes and systems to manage their risks, including robust and comprehensive internal controls and documented procedures. Business management must also have in place appropriate supervisory controls and review processes to highlight control weaknesses, inadequate processes and unexpected events. Control functions act as the second line of defence, providing independent oversight of primary and consequential risks. This includes setting risk limits and protecting against non-compliance with applicable laws and regulations. Group Internal Audit (GIA) forms the third line of defence, evaluating the overall effectiveness of governance, risk management and the control environment, including consideration of how the first and second lines of defence meet their objectives.

The Board has established a Risk Committee of the Board. The Risk Committee is comprised only of Non-Executive Directors and is responsible for overseeing and supporting the Board in fulfilling its duty to supervise and set appropriate risk management and control principles. The CRO is responsible for the implementation and enforcement of the risk governance framework for the Company, including review and approval of any policies deemed necessary to supplement the UBS Group risk governance framework. The Committee met eight times in 2015 (2014: three times).

Risk appetite framework

The Company's risk appetite is defined as the aggregate level and types of risk that it is willing to accept or intends to avoid. It is established via a complementary set of qualitative and quantitative objectives.

The qualitative risk appetite statements have been established for the UBS Group as a whole, reflected in the Group's Risk Management and Control Principles, and various policies and initiatives, and these ensure the UBS Group maintains the desired risk culture. They apply at all levels of the UBS Group, including the Company.

The Board has established quantitative risk appetite objectives for the Company covering capital, liquidity and funding, and these are reviewed and approved at least annually by the Board. These objectives aim to ensure that the Company maintains sufficient capital, liquidity and funding such that it can continue to meet regulatory requirements and operate as a going concern following severe adverse economic or geopolitical events. The framework is comprehensive in aggregating all material risks across the Company.

The combination of the qualitative and quantitative risk appetite statements aims to protect the Company's business and reputation in both normal and stressed environments.

These objectives are complemented by operational risk appetite objectives, comprised of top-down financial thresholds which, if breached, require a senior management response to investigate the nature and underlying cause of the control failures and ensure that appropriate remediation is put in place.

The status of the Company's risk appetite objectives is evaluated and reported to the Risk Committee each quarter and to the Audit Committee annually. The Company's risk appetite may change over time and, as a consequence, portfolio limits and risk authorities are subject to periodic reviews and changes, in particular in the context of the annual business planning process. In addition, primary day to day management and oversight of the liquidity and funding situation of the Company is delegated to the Company's Treasurer. This includes measuring the liquidity and funding position of the Company and monitoring regulatory and internal limits and targets to ensure compliance at all times.

Risk measurement

A variety of methodologies and measurements are employed to quantify the risks of the Company's portfolios and potential risk concentrations. Risks that are not fully reflected within standard measures are subject to additional controls, which may include pre-approval of specific transactions and the application of specific restrictions.

Stress testing

Stress testing is used to quantify the loss that could result from extreme yet plausible macroeconomic and geopolitical stress events, enabling identification, better understanding and management of potential vulnerabilities and risk concentrations. The stress testing framework incorporates three pillars: (i) combined stress tests, (ii) a comprehensive range of portfolio- and risk-type-specific stress tests and (iii) reverse stress testing.

The combined stress test (CST) framework is scenario-based and aims to quantify overall entity-wide losses which could result from a number of potential global systemic events. The framework captures all material primary and consequential risks, as well as business risks. Portfolio specific stress tests, which are tailored to the risks of specific portfolios, may be subject to limits to explicitly control risk taking, or may be monitored without limits to identify vulnerabilities. Reverse stress testing starts from a defined stress outcome and works backwards to identify the economic or financial scenarios that could result in such an outcome. As such, reverse stress testing is intended to complement forward stress tests by assuming "what if" outcomes that extend beyond the range normally considered, and thereby potentially challenge assumptions regarding severity and plausibility.

The identification, measurement, testing, limitation and reporting of stress risks for the Company is subject to the same process and governance as applied more broadly for the UBS Group, with regular review by the Risk Committee. The Risk Committee may recommend new scenarios and changes to existing scenarios to address Company specific factors.

Portfolio and position limits

In addition to entity-wide risk appetite objectives, exposures are subject to entity-specific portfolio limits, which require Board approval, as well as other credit and market risk limits. The status of key risk limits are reported on a frequency appropriate for each individual metric, and utilization against portfolio limits is formally reported to the Risk Committee quarterly. The limits are reviewed at least annually by the Board or the appropriate authority and adjusted where necessary to be consistent with business plans and confirmed risk appetite.

Limit excesses are monitored by Risk Control and escalated for action where appropriate to Risk Officers.

Further information on the measurement, monitoring and management of credit risk and market risk is provided in the sections below.

Risk concentrations

A risk concentration exists where (i) a position is affected by changes in a group of correlated factors, or a group of positions are affected by changes in the same risk factor or a group of correlated factors, and (ii) the exposure could, in the event of large but plausible adverse developments, result in significant losses. The categories in which risk concentrations may occur include counterparties, industries, legal entities, countries, products and businesses.

The identification of risk concentrations requires judgement, as potential future developments cannot be accurately predicted and may vary from period to period. In determining whether the Company has a risk concentration, a number of elements are considered, both individually and collectively.

These elements include the shared characteristics of the positions and our counterparties, the size of the position or group of positions, the sensitivity of the position or group of positions to changes in risk factors and the volatility and correlations of those factors. Also important in our assessment is the liquidity of the markets where the positions are traded, and the availability and effectiveness of hedges or other potential risk-mitigating factors. The value of a hedge instrument may not always move in line with the position being hedged, and this mismatch is referred to as basis risk.

Risk concentrations are subject to increased monitoring by Risk Control and are assessed to determine whether they should be reduced or mitigated depending on the available means to do so. Risk concentrations are monitored and reported for all counterparties, including UBS affiliate companies in general, and UBS AG specifically, and across various dimensions, including single name /counterparty, industry /sector, country and region.

Credit risk

Main sources of credit risk

Credit risk arises primarily 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. Credit risk from banking products (such as loans, loan commitments and guarantees) relates primarily to unfunded loan commitments which are sub-participated to the Company's parent, UBS AG, or third parties, and amounts due from banks.

Overview of measurement, monitoring and management techniques

Credit risk framework

The Company applies the same framework for measuring, monitoring and managing credit risk as the UBS Group. Credit risk arising from transactions with individual counterparties is measured according to internal estimates of probability of default, exposure at default and loss given default. Limits are established for individual counterparties and groups of counterparties covering banking and traded products as well as settlement amounts. Limits apply not only to the current outstanding amount, but also to contingent commitments and the potential future exposure of traded products. The Company also establishes portfolio level limits at these levels. For the Investment Bank, the monitoring, measurement and limit framework distinguishes between exposures intended to be held to maturity (take-and-hold exposures) and those which are intended to be held for a short term, pending distribution or risk transfer (temporary exposures). Within this framework, credit limits for the Company are approved in accordance with delegated credit authority, giving due consideration to the Company's risk capacity, risk appetite and large exposure requirements. Limits are monitored, and exposures relative to key limits are formally reported to the Risk Committee on a quarterly basis. 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, the Company may, where appropriate, establish limits and/or operational controls to constrain risk concentrations at portfolio and sub-portfolio levels with regard to sector exposure, country risk and specific product exposures.

Credit risk models

Models are used to estimate future credit losses that may be implicit in our current portfolio.

Exposures to individual counterparties are measured based on three generally accepted parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). For a given credit facility, the product of these three parameters results in the 12 months' expected loss. These parameters are the basis for the majority of our internal measures of credit risk. We also use models to derive the portfolio credit risk measures of expected loss, statistical loss and stress loss.

Credit risk mitigation

Credit risk is actively managed by taking collateral against exposures, through the use of netting agreements, and through the utilization of credit hedging.

Securities financing transactions are secured against the pledge of eligible market securities which primarily include transferable securities (such as bonds and equities), which are liquid and actively traded. Haircuts are applied to cover the possible change in market value of the collateral over a given close-out period.

OTC derivatives trading is conducted through central counterparties (CCP) where practicable. Where CCP are not used, we have clearly defined processes for entering into netting and collateral arrangements, including the requirement to have a legal opinion on the enforceability of contracts in relevant jurisdictions in the case of insolvency. Trading is generally conducted under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master netting agreements, which allow for the close-out and netting of all transactions in the event of default. For certain major market participant counterparties, we may in addition use two-way collateral agreements under which either party can be required to provide collateral in the form of cash or marketable securities, typically limited to well-rated government debt, when the exposure exceeds specified levels.

Single-name credit default swaps CDS, credit index CDS, bespoke protection, and other instruments are used to actively manage credit risk in the Investment Bank. This is aimed at reducing concentrations of risk from specific counterparties, sectors or portfolios.

Strict guidelines are applied for taking credit hedges into account for credit risk mitigation purposes. For example, when monitoring exposures against limits, the Company does not usually recognize credit risk mitigants such as proxy hedges (credit protection on a correlated but different name) or credit index CDS. Buying credit protection also creates credit exposure against the protection provider. The Company monitors exposures to credit protection providers and the effectiveness of credit hedges as part of the overall credit exposures to the relevant counterparties. In addition, the Company identifies and monitors positions where it believes there is significant exposure and correlation between the counterparty and the hedge provider (so-called wrong-way risk). The policy is to discourage such activity, and in any event or as market correlations may change, not to recognize hedge benefits subject to wrong-way risk within counterparty limits and credit exposure-related calculations.

The Company also utilizes sub-participation arrangements to transfer the risk of funded loans to its parent, UBS AG, or third parties. Collateral taken is generally in the form of cash or marketable securities, is subject to haircuts and monitored for concentration risks. The Company has a concentration of exposure against its parent, UBS AG, and its affiliates. This exposure is largely collateralized, with strict terms as to the quality of collateral that can be pledged. The Company has Letters of Credit worth £2.3 million (2014: £2.6 million) which are covered by the guarantee.

Maximum exposure to credit risk

The table on the next page represents the IFRS view of the Company'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.

Collateral is presented at fair value and capped at the maximum exposure to credit risk for which it serves as security.

Maximum exposure to credit risk

	31.12.15						
		Collateral				Credit enhancements	
GBP millions	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Secured by real estate	Other collateral	Netting	Guarantees
Financial assets measured at amortized cost on the balance sheet							
Balances with central banks[1]	5	–	–	–	–	–	–
Due from banks	841	–	–	–	–	–	–
Cash collateral on securities borrowed	3,711	–	3,711	–	–	–	–
Reverse repurchase agreements	2,973	–	2,973	–	–	–	–
Cash collateral receivables on derivative instruments	6,027	1,792	–	–	–	1,747	–
Loans and advances to customers	791	–	–	–	55	–	–
Other amounts owed to group undertakings	150	–	–	–	–	–	–
Other assets	169	–	–	–	–	–	–
Total financial assets measured at amortized cost	14,666	1,792	6,684	–	55	1,747	0
Financial assets measured at fair value on the balance sheet							
Trading portfolio assets- debt instruments	1,554	–	–	–	56	–	0
Positive replacement values	17,668	1,678	200	–	–	13,964	–
Financial assets designated at fair value- debt instruments	666	–	249	–	33	–	–
Financial investments available-for-sale- debt instruments	3,161	–	–	–	–	–	–
Total financial assets measured at fair value	23,049	1,678	449	–	89	13,964	0
Total maximum exposure to credit risk reflected on the balance sheet	37,715	3,470	7,133	–	144	15,711	0
Guarantees	2	–	–	–	2	–	–
Loan commitments	1,646	–	–	–	897	–	749
Forward starting transactions, reverse repurchase and securities borrowing agreements	3,672	–	3,672	–	–	–	–
Total maximum exposure to credit risk not reflected on the balance sheet	5,321	–	3,672	–	900	–	749
Total at the year-end	43,036	3,470	10,805	–	1,043	15,711	749

	31.12.14 (restated)						
		Collateral				Credit enhancements	
GBP millions	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Secured by real estate	Other collateral	Netting	Guarantees
Financial assets measured at amortized cost on the balance sheet							
Balances with central banks[1]	9	–	–	–	–	–	–
Due from banks[2]	900	–	–	–	–	–	–
Cash collateral on securities borrowed[2]	2,486	–	2,486	–	–	–	–
Reverse repurchase agreements	8,914	–	8,914	–	–	–	–
Cash collateral receivables on derivative instruments	7,052	2,495	–	–	–	3,038	–
Loans and advances to customers[2]	364	–	–	–	50	–	–
Other amounts owed to group undertakings	74	–	–	–	–	–	–
Other assets	141	–	2	–	–	–	–
Total financial assets measured at amortized cost	19,939	2,495	11,402	–	50	3,038	–
Financial assets measured at fair value on the balance sheet							
Trading portfolio assets- debt instruments	2,335	–	–	–	59	–	–
Positive replacement values	30,042	4,325	–	–	–	23,520	–
Financial assets designated at fair value- debt instruments	527	–	280	–	–	–	9
Financial investments available-for-sale- debt instruments	5,510	–	–	–	–	–	–
Total financial assets measured at fair value	38,414	4,325	280	–	59	23,520	9
Total maximum exposure to credit risk reflected on the balance sheet	58,353	6,820	11,681	–	109	26,558	9
Guarantees	3	–	–	–	2	–	–
Loan commitments	1,677	–	–	–	264	–	1,413
Forward starting transactions, reverse repurchase and securities borrowing agreements	3,427	–	3,427	–	–	–	–
Total maximum exposure to credit risk not reflected on the balance sheet	5,106	–	3,427	–	266	–	1,413
Total at the year-end	63,460	6,820	15,108	–	375	26,558	1,422

1 Due to banks includes £232 million (2014: £85 million) of balances held with third-party banks on behalf of clients. The credit risk associated with these balances may be bourne by the clients. 2 Prior period cash collateral on securities borrowed, due from banks and loans and advances to customers have been restated for cash margin required by various exchanges/ central clearing counterparties to guarantee settlement. Refer to Note 1b for more information. 3 In addition the Company holds £4,418 million (2014: £4,318 million) of securities to collateralize the exposure to UBS AG.

Credit risk exposures arising from traded products are predominantly investment grade and are concentrated with clearing houses and financial services counterparties, including banks. Banking products credit exposures are relatively well diversified across sectors. As of 31 December 2015 there were no financial assets past due but not impaired, or individually impaired (2014: none).

Financial assets subject to credit risk by internal UBS rating scale

GBP million	31.12.15						
Rating category	0 - 1	2 - 3	4 - 5	6 - 8	9 - 13	Defaulted	Total
Balances with central banks	4	1	–	–	–	–	5
Due from banks	–	834	6	–	–	–	841
Cash collateral on securities borrowed	12	3,535	114	49	–	–	3,711
Reverse repurchase agreements	465	2,243	229	36	–	–	2,973
Cash collateral on receivables on derivative instruments	647	4,173	1,014	140	54	–	6,027
Loans and advances to customers	165	211	267	98	50	–	791
Other amounts due from group undertakings[2]	–	150	–	–	–	–	150
Other assets	–	11	1	–	150	–	162
Financial instruments recognized at amortized cost on the balance sheet	**1,292**	**11,160**	**1,631**	**323**	**254**	**–**	**14,660**
Trading portfolio assets- debt instruments	238	484	614	134	84	–	1,554
Positive replacement values	919	14,373	1,986	224	167	–	17,668
Financial assets designated at fair value	–	198	242	226	–	–	666
Financial investments available-for-sale - debt instruments	1,272	1,889	–	–	–	–	3,161
Financial instruments recognized at fair value on the balance sheet	**2,428**	**16,944**	**2,842**	**584**	**251**	**–**	**23,049**
Guarantees[2]	–	–	–	–	2	–	2
Loan commitments[2]	–	664	632	43	307	–	1,646
Forward starting reverse repos agreements[2]	–	3,666	5	–	–	–	3,671
Forward starting securities borrowing agreements[2]	–	1	–	–	–	–	1
Commitments	**–**	**4,331**	**637**	**43**	**310**	**–**	**5,321**
Total at year-end	**3,720**	**32,435**	**5,110**	**951**	**814**	**–**	**43,029**

GBP million	31.12.14 (restated)						
Rating category	0 - 1	2 - 3	4 - 5	6 - 8	9 - 13	Defaulted	Total
Balances with central banks	3	5	–	–	–	–	9
Due from banks[1]	–	897	3	–	–	–	900
Cash collateral on securities borrowed[1]	95	2,374	13	3	–	–	2,486
Reverse repurchase agreements	14	8,362	313	225	–	–	8,914
Cash collateral on receivables on derivative instruments	1,533	4,100	1,285	133	1	–	7,052
Loans and advances to customers[1]	63	178	54	34	28	7	364
Other amounts due from group undertakings[2]	–	74	–	–	–	–	74
Other assets	–	11	1	1	114	–	126
Financial instruments recognized at amortized cost on the balance sheet	**1,709**	**15,987**	**1,681**	**401**	**29**	**7**	**19,814**
Trading portfolio assets- debt instruments	691	997	412	155	112	–	2,367
Positive replacement values	1,329	25,433	2,109	1,130	41	–	30,042
Financial assets designated at fair value	–	219	284	24	–	–	527
Financial investments available-for-sale - debt instruments	3,399	2,111	–	–	–	–	5,510
Financial instruments recognized at fair value on the balance sheet	**5,418**	**28,761**	**2,804**	**1,309**	**153**	**–**	**38,446**
Guarantees[2]	–	–	–	–	3	–	3
Loan commitments[2]	–	638	777	107	154	1	1,677
Forward starting reverse repos agreements[2]	–	3,372	31	22	–	–	3,425
Forward starting securities borrowing agreements[2]	–	1	–	–	–	–	1
Commitments	**–**	**4,011**	**809**	**129**	**157**	**1**	**5,106**
Total at year-end	**7,127**	**48,759**	**5,293**	**1,839**	**339**	**8**	**63,367**

1 Prior period cash collateral on securities borrowed, due from banks and loans and advances to customers have been restated for cash margin required by various exchanges/ central clearing counterparties to guarantee settlement. Refer to Note 1b for more information. 2 The presentation in this note has been updated to include other amounts due from group undertakings and off-balance sheet.

Market risk

Main sources of market risk

Market risk arising from the Company's trading activities relates primarily to equity and fixed income securities and derivatives trading for client facilitation purposes within the Investment Bank. Non-trading interest rate risk, which relates primarily to treasury activities is not material.

Overview of measurement, monitoring and management techniques

The Company's exposure to market risk is managed under the same framework as applied for the UBS Group, with entity specific limits set by the Board for the two primary portfolio measures of market risk; liquidity adjusted stress (LAS) and value-at-risk (VaR). These portfolio measures are complemented by position limits on portfolios and risk factors. Limits are monitored, and exposures relative to limits are reported at a frequency and to a level of detail commensurate with the extent and variability of the risk and the needs of senior management. Exposures against key limits are formally reported to the Risk Committee on a quarterly basis.

Value-at-risk (VaR) definition

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 company's trading position over the relevant time period.

VaR limitations

Actual realized market risk losses may differ from those implied by our VaR for a variety of reasons.

The VaR measure is calibrated to a specified level of confidence and may not indicate potential losses beyond this confidence level.

- The 1-day time horizon used may not fully capture the market risk of positions that cannot be closed out or hedged within the specified period;
- In certain cases, VaR calculations approximate the impact of changes in risk factors on the values of positions and portfolios. This may happen because the number of risk factors included in the VaR model is necessarily limited. For example, yield curve risk factors do not exist for all future dates;
- The effect of extreme market movements is subject to estimation errors, which may result from non-linear risk sensitivities, as well as the potential for actual volatility and correlation levels to differ from assumptions implicit in the VaR calculations;
- The use of a five-year window means that sudden increases in market volatility will tend not to increase VaR as quickly as the use of shorter historical observation periods, but the increase will impact our VaR for a longer period of time. Similarly, following a period of increased volatility, as markets stabilize, VaR predictions will remain more conservative for a period of time influenced by the length of the historical observation period.

No single measure may encompass the entirety of risks associated with a position or portfolio. Consequently, we employ a suite of various metrics with both overlapping and complementary characteristics in order to create a holistic framework which ensures material completeness of risk identification and measurement. As a statistical aggregate risk measure, VaR supplements our comprehensive stress testing framework.

Management VaR for the period

The table below shows minimum, maximum, average and period-end management VaR by business division and general market risk type. Average management VaR has remained at low levels, with period-end VaR broadly unchanged relative to 2014.

The comparative table below therefore shows minimum, maximum, average and year-end management VaR for the period from 19 May 2014 to 31 December 2014.

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

	31.12.15							
GBP million								
					Equity	Interest rates	Credit spreads	Foreign exchange
	Min.				0.96	0.40	0.73	0.05
		Max.			3.15	1.67	1.98	0.47
			Average		1.55	0.88	1.13	0.17
				Year end	1.82	0.65	0.87	0.15
Total management VaR	1.41	3.35	2.06	2.11	*Average (per business division and risk type)*			
Investment Bank	1.14	3.25	1.79	1.94	*1.55*	*0.73*	*0.55*	*0.01*
Corporate Center – Core Functions	0.03	0.22	0.11	0.16	*0.00*	*0.11*	*0.01*	*0.00*
Corporate Center – Non-core and Legacy Portfolio	0.69	1.48	1.03	0.81	*0.00*	*0.40*	*0.94*	*0.17*
Diversification effect	–	–	(0.87)	(0.81)	*0.00*	*(0.36)*	*(0.37)*	*(0.01)*

1 Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may well occur on different days, and likewise the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time series, rendering invalid the simple summation of figures to arrive at the aggregate level.

	31.12.14			
GBP million				
	Min.	Max.	Average	Year end
Total management VaR	**1.91**	**6.13**	**2.50**	**2.02**
Investment Bank	1.49	6.04	2.19	1.63
Corporate Center – Core Functions	0.02	0.10	0.06	0.03
Corporate Center – Non-core and Legacy Portfolio	0.94	1.81	1.14	1.28

Country risk

Sources of country risk

Country risk includes all country-specific events that occur within a sovereign's jurisdiction and may lead to an impairment of the Company's exposures. Country risk can take the form of sovereign risk, which refers to the ability and willingness of a government to honor its financial commitments, transfer risk, which would arise if an issuer or counterparty could not acquire foreign currencies following a moratorium of a central bank on foreign exchange transfers, or "other" country risk that may manifest itself through increased and multiple counterparty and issuer default risk (systemic risk) on the one hand, and by events that may affect the standing of a country (e.g., political stability, institutional and legal framework) on the other hand.

Country risk framework

The Company has a well-established risk control framework through which the risk profile of all countries where it has exposure is assessed.

Each country is attributed a sovereign rating, which expresses the probability of the sovereign defaulting on its own financial obligations in foreign currency. Ratings are expressed by statistically derived default probabilities. Based on this internal analysis, the probability of a transfer event occurring is also defined and rules are established 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.

Exposure to all countries must be commensurate with the credit ratings assigned to them, and it must not be disproportionate to the respective country risk profile. A country risk ceiling applies to all exposures to counterparties or issuers of securities and financial investments in the respective country. The extension of credit, transactions in traded products or positions in securities based on a country ceiling, may be limited even if the exposure to a counterparty is otherwise acceptable. For internal measurement and control of country risk, the financial impact of market disruptions arising prior to, during and following a country crisis is also considered. 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. Stress testing is used 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.

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 market shock factors are applied to equity indices, interest and currency rates in all relevant countries and the potential liquidity of the instruments is considered.

Operational risk

Sources of operational risk

Operational Risk is the risk resulting from inadequate or failed internal processes, people and systems, or from external causes (deliberate, accidental or natural). Events may be direct financial losses or indirect in the form of revenue forgone as a result of business suspension. They may also result in damage to our reputation and to our franchise, which have longer term financial consequences. Operational risk can arise as a result of the Company's past and current business activities.

Overview of measurement, monitoring and management techniques

The UBS Group has developed an operational risk framework, described further below, 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. This same operational risk framework is applied to the Company, for which individual operational risk appetite objectives have been established. Should a single operational risk event breach the operational risk appetite, the CEO and Operational Risk Control (ORC) must review the specific weaknesses in the control environment that led to the event and determine why the issue was not identified prior to the event materializing. Should aggregate operational risk events breach the operational risk appetite, these will be escalated to the Risk Committee, who should determine whether a broader review of the control environment is required. Operational risk matters, including the risk profile and emerging risks, remediation and initiatives, and operational risk events are formally reported to the UK Operating Committee and the Risk Committee on a quarterly basis. Operational risk is also captured in the Company's combined stress test framework. The Company has been provided with two indemnities by its parent, UBS AG. The first indemnity indemnifies the Company against any operational risk loss that exceeds CHF 100,000 when the event giving rise to the loss occurred prior to the change in the Company's business model in May 2014 and which is claimed by the Company within the following 7 years, subject to an aggregate cap of £2 billion. The second indemnity applies solely in the context of the Non-core and Legacy Portfolio, and indemnifies the Company against any operational risk loss that exceeds CHF 100,000 when the event giving rise to the loss occurs and is claimed within 3 years of May 2014, subject to an aggregate cap of £2 billion.

Operational risk framework

The business divisions and the heads of the Corporate Center function are ultimately accountable for the effectiveness of operational risk management and for the implementation of our operational risk framework. The business divisions are responsible for the control environment, notwithstanding the delegation of those responsibilities to the business division Chief Operating Officers. All management functions (business, logistics and control functions) are responsible for establishing an appropriate operational risk management environment, including the establishment and maintenance of robust internal controls, effective supervision and a strong risk culture.

Operational Risk Control provides an independent and objective view of the adequacy of operational risk management across the UBS Group. It is governed by the UBS Group Compliance and Operational Risk Control (C&ORC) Management Committee, which is chaired by the Global Head of C&ORC, who reports to the UBS Group Chief Risk Officer. The operational risk framework describes general requirements for managing and controlling operational risk at UBS. It 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 and business risk assessment processes; and
4. Remediation to address identified deficiencies which are outside accepted levels of residual risk.

The operational risk taxonomy provides a clear and logical classification of our inherent operational risks, across all business divisions. Throughout the organizational hierarchy, a level of risk tolerance must be agreed for each of the taxonomy categories together with a minimum set of internal controls and associated performance thresholds considered necessary to keep risk exposure within the acceptable levels.

All functions are required to perform a semi-annual internal control assessment along a defined process, in which they assess and evidence the design and operating effectiveness of their key controls.

UBS employs a global harmonized framework to assess the aggregated impact of control deficiencies and the adequacy of remediation efforts. The integrated risk assessment approach covers all business activities and internal/external factors posing a threat to the UBS Group and aggregates the impact of weaknesses in the control environment to provide a transparent assessment of the current operational risk exposure against agreed risk tolerance levels. Significant control deficiencies that surface during the internal control and risk assessment processes must be reported in the operational risk inventory and sustainable remediation must be defined and delivered. All significant issues are assigned to owners at senior management level and must be reflected in the respective employees' annual performance measurement and management objectives. To assist with prioritization of all known operational risk issues, irrespective of origin, a common rating methodology is adopted by all internal control functions and both internal and external audit. Group Internal Audit applies an enhanced assurance process to risk issue closure to promote stronger management discipline for identifying, mitigating and sustainably remediating operational risk issues. As a further enabler of strong risk management, responsibility for the management of the front-to-back control environment, assumed by the Chief Operating Officers, has been reemphasized and visibility of the front-to-back control environment further enhanced through advanced reporting processes.

Treasury management
Liquidity and funding management

Strategy and objectives

UBS Limited's liquidity and funding risk is monitored, efficiently structured and managed on an entity specific basis and as an integral part of the Group's liquidity and funding strategy.

The objective is to ensure that the Company has sufficient funds available to meet payment obligations when they fall due without additional funding from Group entities, in both normal and stress conditions, including an idiosyncratic liquidity event combined with a generally stressed market environment. UBS Limited uses the Group internal liquidity and funding models which are amended as appropriate to ensure that they appropriately reflect local requirements. The assumptions are reviewed by the UBS Limited Asset and Liability Committee (ALCO), Risk Committee and Board of Directors at least annually as part of the Internal Liquidity Adequacy Assessment process (ILAAP).

Governance

UBS Limited's liquidity and funding strategy is proposed by the Treasurer, approved by the Board and overseen by the UBS Limited ALCO. Regional Treasury EMEA monitors and oversees the implementation and execution of the liquidity and funding strategy. The strategy is supported through liquidity and funding policies and a framework of liquidity and funding limits and targets. These are proposed by the Treasurer, independently assessed by Treasury Risk Control and reviewed by the UBS Limited ALCO before passing to the Company Risk Committee and Board for formal approval and adoption.

Regulatory liquidity requirements

The Company is subject to prudential regulations to maintain appropriate liquidity metrics as required by the PRA. As of 1 October 2015 the new Liquidity Coverage Ratio (LCR) regime was introduced to replace the Individual Liquidity Guidance (ILG). The LCR assesses whether the Company has sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario over a period of 30 days. The PRA has set the LCR minimum requirement at 80%, applicable since 1 October 2015 phasing up to 100% by 1 January 2018. Future changes in the regulatory regime will be adopted as the requirements evolve. This will include the Net Stable Funding Ratio (NSFR), which is expected to be implemented by January 2018. The NSFR measures whether the Company has enough stable funding to cover funding requirements of its assets and off-balance sheet positions.

Funding management

UBS Limited is funded on a secured and unsecured basis with external and internal counterparts. The Company is active in wholesale money markets where it accepts deposits from corporate and financial institutions. It also engages in repurchase and reverse repurchase transactions with approved counterparties subject to credit risk control limits in place for the entity and the Group. Furthermore the Company accesses intercompany loans from UBS AG on standard market terms.

Liquidity management, contingency funding and stress testing

UBS Limited measures and monitors liquidity risk using a set of models, tools and controls covering normal and stressed market conditions. The key models address both near term liquidity risk as well as longer term structural liquidity and funding risk. The models assess whether the Company has sufficient long term unsecured funding to withstand a stressed funding environment for 1 year, during a bank-specific event combined with general market stress for a time horizon 1 year without taking actions that would negatively impact the customer franchise.

UBS Limited's Contingency Funding Plan (CFP) summarizes liquidity and funding management actions and defines roles and responsibilities in supporting the liquidity of the entity in a liquidity stress. The establishment, regular testing and annual updating of the CFP ensures a robust, reliable and cost effective response to potential liquidity events. Liquidity crisis scenario analysis and contingency funding planning support the liquidity management process, which ensures that immediate corrective measures to absorb potential sudden liquidity shortfalls can be put into effect.

Maturity analysis of assets and liabilities

The table on the following page shows consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. The contractual maturity of liabilities is based on the earliest date the Company could be required to pay and the contractual maturity of assets is based on the latest date the asset will mature. This basis of presentation differs from Note 27 Financial assets and liabilities, which is presented on an undiscounted basis.

Derivative replacement values and trading portfolio assets and liabilities are assigned to the column 'Due less than 1 month', although the respective contractual maturities may extend over significantly longer periods. Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the Perpetual / not applicable time bucket. Undated or perpetual instruments are classified based on contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the Perpetual / not applicable time bucket. Non-financial assets and liabilities with no contractual maturity (such as current and deferred tax assets and liabilities and retirement benefit liabilities) are generally included in the Perpetual time bucket. Loan commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets and liabilities

GBP million	Due less than 1 month	Due between 1 and 3 months	Due between 3 and 6 months	Due between 6 and 9 months	Due between 9 and 12 months	Due between 1 and 2 years	Due between 2 and 5 years	Due after 5 years	Perpetual/ non applicable	Total
Assets										
Cash and balances with central banks	5	–	–	–	–	–	–	–	–	5
Due from banks	841	–	–	–	–	–	–	–	–	841
Cash collateral on securities borrowed	3,711	–	–	–	–	–	–	–	–	3,711
Reverse repurchase agreements	1,905	787	223	58	–	–	–	–	–	2,973
Trading portfolio assets	3,770	–	–	–	–	–	–	–	–	3,770
of which: pledged as collateral	*2,462*	–	–	–	–	–	–	–	–	2,462
Positive replacement values	17,668	–	–	–	–	–	–	–	–	17,668
Cash collateral receivable on derivative instruments	6,027	–	–	–	–	–	–	–	–	6,027
Financial assets designated at fair value	–	11	23	–	15	228	279	110	–	666
Loans and advances to customers	533	–	–	–	48	50	117	43	–	791
Other amounts due from group undertakings	150	–	–	–	–	–	–	–	–	150
Financial investments	21	1,041	753	258	306	299	483	–	2	3,163
Other assets	169	–	–	–	–	–	–	–	–	169
Deferred tax assets	–	–	–	–	–	–	–	–	172	172
Total assets 2015	34,800	1,840	998	316	369	576	879	153	174	40,106
Total assets 2014	53,099	956	1,634	586	381	1,520	1,530	248	108	60,063
Liabilities										
Due to banks	1,085	380	–	–	48	50	117	629	–	2,309
Cash collateral on securities lent	668	–	–	–	–	–	–	–	–	668
Repurchase agreements	1,713	928	806	400	174	–	–	–	–	4,021
Trading portfolio liabilities	4,787	–	–	–	–	–	–	–	–	4,787
Negative replacement values	18,040	–	–	–	–	–	–	–	–	18,040
Cash collateral payables on derivative instruments	5,966	–	–	–	–	–	–	–	–	5,966
Financial liabilities designated at fair value	–	11	8	–	24	230	344	110	–	728
Due to customers	230	–	–	–	–	–	–	–	–	230
Other amounts owed to group undertakings	127	–	–	–	–	–	–	–	–	127
Other liabilities	145	–	–	–	–	–	–	–	–	145
Tax provision	–	–	–	–	–	–	–	–	14	14
Provisions	29	–	–	–	–	–	–	–	–	29
Total liabilities 2015	32,789	1,319	813	400	247	280	461	740	14	37,064
Total liabilities 2014[1]	52,566	57	1,630	–	96	53	264	1,179	6	55,851
Financial liabilities not recognized on the balance sheet										
Loan commitments	1,646	–	–	–	–	–	–	–	–	1,646
Guarantees	2	–	–	–	–	–	–	–	–	2
Forward starting transactions										
Irrevocable forward starting reverse repos agreements	3,671	–	–	–	–	–	–	–	–	3,671
Irrevocable forward starting securities borrowing agreements	1	–	–	–	–	–	–	–	–	1
Total 2015	5,321	–	–	–	–	–	–	–	–	5,321
Total 2014	5,315	–	–	–	–	–	–	–	–	5,315

1 Prior period other amounts owed to group undertakings has been restated by £21 million relating to the payment of operating costs to UBS AG. Refer to Note 1b for more information.

Capital management

Strategy and Objectives

UBS Limited's capital is managed through its capital management framework, and by adhering to the Group capital Management Policy.

The objective of the capital framework is to ensure that the Company complies with relevant capital adequacy regulations at all times, adheres to internal capital constraints set locally and at a Group level, fosters an efficient use of capital and meets the strategic needs of its ultimate parent, UBS Group AG.

Governance

The Board is ultimately responsible for the Company's capital adequacy and delegates oversight and monitoring to the UBS Limited ALCO. The Board reviews related matters as escalated by the ALCO, Finance Director and Treasurer. The Board sets capital limits, thresholds and triggers as appropriate that incorporate escalation as required.

Regulatory Capital requirements

The Company's Capital Management Framework ensures compliance with regulatory requirements. Procedures are in place to monitor future changes to regulation and implement projects to ensure these are evaluated and incorporated into the reporting processes. Refer to Note 29 Share Capital for more information.

Capital management, recovery contingency planning and stress testing

The Company monitors its capital adequacy position daily. The ALCO formally reviews the capital position monthly and its risk weighted assets at legal entity, business unit and risk types.

The Company undertakes quarterly stress tests of its capital position. The results are evaluated to ensure that internal thresholds set by management would continue to be met in the stress scenarios. The results are reported to the ALCO.

The overall Company planning process includes a capital plan which takes account of business forecasts, market conditions, and other developments such as accounting or regulatory changes that may impact capital.

Stress testing of the capital plan enables the Company to ensure its overall financial adequacy in a range of severe but plausible scenarios that is undertaken in accordance with Group frameworks. Stress testing enables the Company to gauge its PRA Buffer.

A range of possible capital restoration actions are considered as part of UBS Limited's Recovery Plan, although these actions can be taken at any time to ensure overall capital adequacy at all times. These actions include analysis of the credibility, effectiveness and timelines for raising various forms of capital.

Note 34 Events occurring after the balance sheet date

In November 2015, the Company established and registered a Branch in Milan, Italy for the purposes of a cross-border merger with UBS Italia SIM S.p.A. which was completed on 1 January 2016. There were no material events occurring after the balance sheet date that require adjustments to or disclosure within these Financial Statements.

Note 35 Parent undertaking

The ultimate parent undertaking and controlling party is UBS Group AG, a company incorporated in Switzerland. This is the largest group company preparing consolidated financial statements which include the Company's financial statements. Copies of the financial statements of UBS Group AG can be obtained from the Company Secretary, UBS AG London Branch, 1 Finsbury Avenue, London EC2M 2PP.

Rounding | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Percentages and percent changes are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages and percent changes that would be derived based on figures that are not rounded.

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