



UBS Limited

Pillar 3 – Supplementary Disclosures

31 December 2016

Contents

- 3** Introduction
- 4** Risk management objectives and policies
- 6** UBS Limited Board of Directors
- 9** Own funds
- 12** Capital requirements
- 14** Exposure to counterparty credit risk
- 16** Countercyclical capital buffer
- 20** Credit exposure and credit risk adjustments
- 25** Asset encumbrance
- 26** External credit assessment institutions
- 27** Credit risk mitigation
- 29** Exposures in equities not included in the trading book
- 30** Securitisation positions
- 31** Leverage ratio
- 33** Remuneration

Introduction

UBS Limited (the "Company") is a credit institution incorporated in Great Britain which is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA.

This document provides the supplementary disclosure information for UBS Limited as at 31 December 2016. These are the required Pillar 3 disclosures that are not included in other sections of the 2016 Annual Report and Financial Statements of UBS Limited, which can be found through the following link:

→ [UBS Limited Annual Report and Financial Statements 2016](#)

The capital adequacy framework consists of three pillars each of which focuses on a different aspect of adequacy. Pillar 1 provides a framework for measuring minimum capital requirements for credit, market and operational risks faced by banks. Pillar 2 addresses the principles of the supervisory review process emphasising the need for a qualitative approach to supervising banks. Pillar 3 aims to encourage market discipline

by requiring banks to publish a range of disclosures, mainly on risk and capital.

This Pillar 3 supplementary section is based upon the EU regulations, Directive 2013/36/EU and Regulation 575/2013 (together known as "CRD IV"), the associated delegated and implementing acts and the related technical standards, as implemented within the UK by the PRA.

As UBS Limited is part of the UBS Group AG consolidated group and a direct, wholly owned subsidiary of UBS AG. Further qualitative disclosures around risk management policies and processes may be found in the UBS Group AG disclosures at the following link:

→ [UBS Group AG Annual Report 2016](#)

The following table identifies the location of the Pillar 3 disclosures within the 2016 Annual Report and Financial Statements and this document.

Location of Pillar 3 Disclosures

Pillar 3 Requirement	Location of disclosure in 2016 Annual Report and Financial Statements of UBS Limited	Location of Pillar 3 disclosure in this supplementary document
Risk management objectives and policies	Risk, treasury and capital management (Note 33)	Risk management objectives and policies
Scope of application	Strategic Report	
UBS Limited Board of Directors and its diversity and recruitment policies		UBS Limited Board of Directors
Own Funds		Own funds
Capital Requirements	Risk, treasury and capital management (Note 33)	Capital requirements
Exposure to counterparty credit risk	Risk, treasury and capital management (Note 33)	Exposure to counterparty credit risk
Capital buffers		Countercyclical capital buffer
Credit risk adjustments	Notes to the financial statements (note 14)	Credit exposure and credit risk adjustments
Asset Encumbrance		Asset encumbrance
Use of ECALs		External credit assessment institutions
Exposure to market risk	Risk, treasury and capital management (Note 33)	Capital requirements
Operational risk	Risk, treasury and capital management (Note 33)	Capital requirements
Exposure in equities not included in the trading book		Exposures in equities not included in the trading book
Exposure to interest rate risk on positions not included in the trading book	Risk, treasury and capital management (Note 33)	
Exposure to securitisation positions		Securitisation positions
Leverage Ratio		Leverage ratio
Use of credit risk mitigation techniques	Risk, treasury and capital management (Note 33)	Credit risk mitigation
Remuneration policy		Remuneration

Risk management objectives and policies

Declaration of adequacy of risk management arrangements

The management of UBS Limited has assessed the adequacy of risk management arrangements of the Company. Based on this assessment, management considers that risk management systems put in place are adequate with regard to the profile and strategy of UBS Limited. This statement is given and should be interpreted in accordance with the provisions of Article 435(1(e)) of Regulation (EU) No 575/2013.

Risk Statement

UBS Limited is exposed to credit risk, market risk, liquidity and funding risk and operational risk as described below.

Credit risk

For UBS Limited 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) and securities borrowing and lending transactions. Credit risk from banking products (such as loans, loan commitments and guarantees) relates primarily to undrawn loan commitments which are sub-participated to UBS Limited's parent, UBS AG, or third parties, and amounts due from banks.

Market risk

Within UBS Limited market risk arising from 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.

Liquidity and funding risk

UBS Limited is exposed to liquidity and funding risk through its securities trading and derivative businesses, securities financing transactions and unsecured borrowing. Liquidity risk arising from banking products is limited as loans are sub-participated to the Company's parent, UBS AG, or to third parties.

Operational risk

Operational risk is an inevitable consequence of being in business, as losses can result from inadequate or failed internal processes, people and systems or from external 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 the reputation of UBS Limited and to its franchise, which have longer term financial consequences.

Risk Appetite and Key Ratios

Please refer to note 33 of UBS Limited's 2016 Annual Report and Financial Statements for a comprehensive explanation of the Company's risk appetite framework together with a description of the risk governance arrangements including the committees that support the UBS Limited Board (Board) in the overall control and management of the risk of the Company.

The following table outlines the key regulatory ratios for the Company as at the year end. See also the Leverage Ratio section which discloses the relevant information for the Company's leverage ratio.

Key Ratios

<i>GBP million</i>	31.12.16	31.12.15
Total Credit Exposure	15,640	17,146
Total RWA	11,081	12,316
<i>Of which credit risk (including CVA Risk)</i>	<i>7,683</i>	<i>8,764</i>
<i>Of which market risk</i>	<i>2,017</i>	<i>2,227</i>
<i>Of which operational risk</i>	<i>1,381</i>	<i>1,325</i>
Capital Ratio - CET1	22.75%	20.85%
Capital Ratio - Tier 1	24.87%	22.76%
Capital Ratio - Total Capital	31.06%	27.53%

Credit and market risk

As described in Note 33 of the Company's financial statements, the Board has established a risk appetite framework, a key objective of which is to ensure that the Company maintains sufficient capital to withstand the effects of a severe adverse economic or geopolitical event. The Company has specific quantitative objectives to maintain a Basel III CET1 ratio and total capital ratio in excess of the regulatory minimum levels post a severe stress event. Further information on the use of stress scenarios for the calculation of capital-based risk appetite objectives can be found in the "Capital management" section of the UBS Group AG Annual Report. The Company's actual CET1 and total capital ratios as of 30 December 2016 are shown in the Key Ratios table, above.

To complement the risk appetite objectives, the Company has established limits for market and credit risk at the entity-wide

level and at more granular levels. Market risk for the Company is measured using value-at-risk (VaR) at a 95% confidence interval over a one-day holding period. The VaR measure was GBP 1.3 million at the end of the year, well within the limit approved by the Board. The Company's credit risk exposures were also within Board approved limits as of 30 December 2016.

Liquidity risk

The balance sheet of UBS Limited is stressed against different liquidity scenarios including a sudden UBS idiosyncratic event and a prolonged general market-wide stress. From these stress tests the Company is able to monitor the liquidity risk of the entity against a number of metrics, based on both internally-derived and regulatory-prescribed models. In each case UBS Limited surpasses the minimum requirement and/or Board-determined set limit.

UBS Limited Board of Directors

The names of the Directors of UBS Limited, together with the number of other directorships each member held as at 31 December 2016 are shown in the table below.

Recruitment for the management body and the management body's actual knowledge, skills and experience

Recruitment Policy

The management body of UBS Limited is its Board of Directors which is comprised of Non-Executive and Executive Directors.

The Board has a Nomination Committee the mandate of which includes identifying and nominating candidates for any Board vacancies, having evaluated the balance of knowledge, skills, experience, independence and diversity of the Board in the context of the UBS Group environment.

In considering suitable candidates, the Nomination Committee considers a broad range of qualities and competencies. In addition, the Nomination Committee takes into account the relevant policies of the UBS Group. Further detail of the UBS Group approach to recruitment is set out in the UBS Group AG Annual Report 2016 under the section "Our Employees, Attracting and recruiting talent".

The Nomination Committee held seven meetings during 2016.

Board Biographies

As at 23 March 2017 the Board consisted of 8 Directors (4 Executive and 4 Non-Executive), summaries of their respective

knowledge, skills and expertise are set out below:

- Michelle Beraux was appointed a Non-Executive Director of UBS Limited on 16 June 2015 and is additionally Chairman of the Remuneration Committee. Michelle qualified as a Solicitor with 24 years' experience in the banking and financial services industry. Michelle re-joined UBS in 2001 becoming the EMEA Regional Chief Operating Officer of the UBS-IB in 2004. In the period 2005 to 2009, Michelle had served as the Global COO of the Investment Banking Department subsequently becoming the UBS-IB Chief of Staff and Joint Global COO of the UBS-IB in 2009. In 2010 UBS AG appointed Michelle as a Group Managing Director. In 2011 Michelle took on a Global Strategic Projects role for the UBS-IB Chief Executive before becoming Global Head of Human Resources ('HR') in the UBS-IB from November 2011 to October 2014. Michelle was a Group Managing Director in Global HR until June 2015.
- Nigel Bretton was appointed Finance Director of UBS Limited on 21 October 2014. Nigel holds a degree in Commerce with French and German from Birmingham University. He worked for 10 years at KPMG, mainly as a financial sector auditor and consultant and working extensively in France, Germany and Switzerland. Nigel then became UK Financial Controller at J P Morgan for 3 years, UK and EMEA Controller at Credit Suisse First Boston for 8 years, Chief Financial Officer ('CFO') Wholesale and International Banking at Lloyds TSB for 4 years and CFO Commercial (and latterly, also Private Banking) at Royal Bank of Scotland for 6 years. Nigel joined UBS in September 2014 and is the CFO for the UBS-IB and UBS UK.

UBS Limited directors – number of directorships

	Total number of Directorships held at 31 Dec 2016 or, if later, at date of appointment	Directorships under SYSC 4.3A.7(1) R that do not count for the limits under SYSC 4.3A.5R & 6R	Remaining directorships adjusted by SYSC 4.3A7(2) (E = Executive, NE = Non-Executive)
Michelle M Beraux	1	–	1 (1 x NE)
Nigel P Bretton	1	–	1 (1 x E)
M (Miriam) M González Duránte (appointed 6 September 2016)	1	–	1 (1 x NE)
Beatriz Martín Jimenez	1	–	1 (1 x E)
Jonathan (Bobby) P A Magee	2	–	2 (2 X NE)
Andrea Orcel	3	1	1 (1 X E)
David C B Soanes	3	2	1 (1 x E)
John H Tattersall	14	8	4 (4 X NE)

- Miriam González Durántez is a partner of international law firm Dechert LLP and is co-chair of that firm's International Trade and Government Regulation practice and a member of the London's Management Committee. Prior to joining Dechert, Miriam led the trade practice of another major international law firm. Miriam previously served seven years as a Senior Member of the Cabinet for EU External Relations Commissioners Chris Patten and Benita Ferrero-Waldner, where Miriam had responsibility for EU relations and trade with the Middle East, the U.S. and Latin America, as well as a FCO adviser during the UK Presidency of the European Union. After studying law at the University of Valladolid, Miriam carried on her studies at the College of Europe, in Bruges, Belgium. Miriam was also a Senior Associate Member of St Antony's in Oxford. Miriam is a Non-Executive Member of the Board and Chair of the Audit Committee of UBS Limited and prior to that was a member of the Audit Committee at Acciona and the chair of the Audit and Risk Committees at UBS Bank S.A. in Spain. Miriam is also the Honorary President of Canning House and a member of the International Advisory Board of the Instituto de Empresa in Spain. Miriam is also the Founder and Chair of "Inspiring Girls", a charity dedicated to raising the aspirations of young girls around world by connecting girls and female role models.
- Beatriz Martin Jimenez was appointed an Executive Director and Chief Operating Officer ('COO') of UBS Limited on 28 January 2015. In December 2014 Beatriz took over as the COO for the UK, a cross-divisional function for both UBS Limited and UBS AG London Branch and on 1 October 2015 Beatriz was also appointed COO of the UBS-IB. Beatriz drives strategic initiatives globally, plays a key role in a wide variety of bank-wide operational issues. Beatriz joined UBS from Morgan Stanley, where she had been Managing Director for Solutions Sales for Switzerland, focusing on financial institutions in the region. Prior to this, also for Morgan Stanley, she was the Head of European Fixed Income Banks Solutions in Europe and a member of the Interest Rate and Credit OpCo from 2009 to 2011. Between 2004 and 2009 she was Managing Director and Head of the Iberia Fixed Income Sales, having been promoted from Executive Director in 2007. From 1996 to 2004, Beatriz held a number of roles in structuring and trading at Deutsche Bank, both in London and Frankfurt. She started her career as a graduate trainee with Deutsche Bank in 1996. Beatriz holds a Masters Degree in Business from the Universidad Autonoma de Madrid, where she also completed a year abroad as part of the Erasmus exchange program, completing a year at the Frankfurt School of Finance and Management.
- Jonathan (Bobby) Magee was appointed a Non-Executive Director of UBS Limited on 12 March 2015. Bobby studied Mathematics at Jesus College, Cambridge and worked for 20 years at JPMorgan based in London, New York and Tokyo, specialising in exotic derivatives, market risk and quantitative research. Bobby had roles both on trading desks and in control functions with his last role (2005-2007) as Global Head of Exotics trading including Interest Rate, Credit, Equity and Commodity Exotics. Since 2007 Bobby has split his time between family, charity and consulting roles.
- Andrea Orcel was appointed an Executive Director and Chief Executive of UBS Limited on 8 December 2014. Andrea Orcel is the President of the UBS-IB and a member of the UBS Group Executive Board. Andrea joined UBS in July 2012 from Bank of America Merrill Lynch, where he served as Executive Chairman and President of Emerging Markets (ex-Asia). Andrea was previously Head of Merrill Lynch's Global Origination division. From 2004, Andrea was EMEA Head of Origination and President of Global Markets & Investment Banking. Andrea was appointed Global Head of the Financial Institutions division in 2003, and EMEA Head in 1999, having joined Merrill Lynch in 1992. From 1990 to 1992, he was with the Boston Consulting Group as a senior consultant. In 1988 he joined Goldman Sachs as an associate in fixed income. Andrea has a degree in Economics and Commerce from the "La Sapienza" University of Rome, and an MBA from INSEAD.
- David Soanes was appointed an Executive Director of UBS Limited on 5 December 2014. David graduated from Magdalene College, Cambridge University in 1991. Later that year David joined the Debt Capital Markets ('DCM') group of Swiss Bank Corporation (now UBS). In 2000, David was appointed head of the DCM Financial Institutions Group, EMEA and in 2004 to head all investment grade DCM business in Europe. David moved to the Investment Banking Department in 2006 to become Head of the Financial Institutions Group ('FIG') in EMEA. David's responsibilities were expanded in 2007 to include the fixed income businesses of DCM and Structured Sales for FIG clients in EMEA. In 2008 David was appointed head of the Global Capital Markets ('GCM') team for EMEA, spanning Equity and DCM. David was appointed Deputy Head of GCM in 2009 and Global Head of GCM in March 2011 when he joined the UBS-IB Executive Committee. In October 2012 David was appointed to head the newly formed Corporate Client Solutions business for Europe, the Middle East and Africa and in 2013 to Global Head of Financial Institutions Group. In addition to joining the UBS Limited Board in December 2014, David also became the UBS UK Country Head as well as a member of the UBS UK Executive Committee.

- John Tattersall has been a Non-Executive Director of UBS Limited since 16 November 2011. John became Chairman of the Board and of the Nomination Committee on 1 January 2016 and had previously held Chairmanships of the Risk Committee and the Audit Committee. John is additionally a member of the Remuneration Committee. John retired as a partner of PricewaterhouseCoopers LLP in 2009. He was Chairman of the Risk and Regulation Committee of the Financial Services Faculty of the Institute of Chartered Accountants in England and Wales, and a member of the faculty board. John is also Chairman of UK Asset Resolution and its principal subsidiaries Bradford & Bingley PLC and NRAM Limited, and a non-executive board member of one other financial services firm and a number of charities, and was until 31 December 2015 Chair of the Gibraltar Financial Services Commission. He started his career in the financial services sector with Kleinwort Benson Limited in 1973 after graduating from Christ's College, Cambridge in Economics.

Diversity in relation to selection of the management body

The UBS Group is committed to offering equal opportunities and is focused on strengthening all aspects of diversity. Gender diversity remains a key focus for the UBS Group. Each division of the UBS Group undertakes divisional diversity planning with the aim to increase the number of women working at UBS, particularly in senior roles. The Nomination Committee takes into account the policies of the UBS Group when selecting members of the Board. Further information on the UBS Group approach to diversity is set out in the UBS Group AG Annual Report 2016 under the section "Our employees, Building diversity and inclusion".

In February 2014, the Board adopted the recommendation of Lord Davies' Report aimed at ensuring at least a 25% female representation on its Board. The Board comprises of 37.5% of females and continued to achieve its target of at least 25% female representation on the board throughout the year.

Own funds

Reconciliation of balance sheet total equity to regulatory capital

The following table provides a reconciliation of total equity per the balance sheet to the total regulatory capital in accordance with CRR (575/2013) Article 437 1(a) and Annex I of Commission Implementing Regulation (EU) 1423/2013.

Reconciliation of balance sheet total equity to regulatory capital

<i>GBP million</i>	31.12.16	31.12.15
Balance sheet total equity¹	2,874	3,042
Add:		
Tier 2 instruments classified as other liabilities	687	587
Less:		
Prudential Filters	(33)	(44)
Deferred tax assets	(47)	(172)
Own credit gains	(38)	(24)
Total Own Funds	3,442	3,390

¹ Taken from audited results for UBS Limited as set out in its Annual Report and Financial Statements 2016

Main features and terms and conditions of capital instruments issued by UBS Limited

Capital instruments main features

	Common Equity Tier 1	Additional Tier 1	Tier 2
Issuer	UBS Limited	UBS Limited	UBS Limited
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A
Governing law(s) of the instrument	English	English	English
Regulatory treatment			
Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Tier 2
Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	CET1 Instrument	Additional Tier 1	Tier 2
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 2,411million	GBP 235 million	a. USD 292 million b. EUR 528 million
Nominal amount of instrument	1.00	GBP 235 million	a. USD 292 million b. EUR 528 million
Issue price	Various	1.00	1.00
Redemption price	Par	Par	Par
Accounting classification	Shareholders Equity	Shareholders Equity	Liability - amortised cost
Original date of issuance	Various	15.05.2014	14.05.2014
Perpetual or dated	Perpetual	Perpetual	Dated
Original maturity date	No Maturity	No Maturity	14.05.2024
Issuer call subject to prior supervisory approval	N/A	Yes	Yes
Optional call date, contingent call dates and redemption amount	N/A	15.05.2019, or earlier upon occurrence of tax or regulatory event at par value	14.05.2019, or earlier upon occurrence of tax or regulatory event at par value
Subsequent call dates, if applicable	N/A	any time after 15.05.2019	14.05.2019 up to maturity
Coupons dividends			
Fixed or floating dividend/coupon	Floating	Floating	Floating
Coupon rate and any related index	N/A	3m LIBOR plus 5.02 percent	a. 3m LIBOR plus 2.71 percent b. 3m EURIBOR plus 2.65 percent
Existence of a dividend stopper	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory
Existence of step up or other incentive to redeem	No	No	No
Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative
Convertible or non-convertible	Non convertible	Non convertible	Non convertible
If convertible, conversion trigger(s)	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
Write-down features	No	Yes	Yes
If write-down, write-down trigger(s)	N/A	CET1 ratio falls below 7.0%	Point of non viability – PRA statutory approach
If write-down, full or partial	N/A	Full	PRA discretion under banking Act (2009)
If write-down, permanent or temporary	N/A	Permanent	PRA discretion under banking Act (2009)
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	AT1	Tier 2	General Creditors
Non-compliant transitioned features	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A

Nature and amounts of capital deductions from the own funds of UBS Limited

Nature and amounts of capital deductions from own funds

	31.12.16	31.12.15
<i>GBP million</i>	Amount	
Capital instruments and the related share premium accounts		
<i>of which: Instrument type 1</i>	2,411	2,411
Retained earnings	227	395
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	2	1
Common Equity Tier 1 (CET1) capital before regulatory adjustments	2,639	2,807
Additional value adjustments	(33)	(44)
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38(3) are met)	(47)	(172)
Gains or losses on balance sheet amounts valued at fair value resulting from changes in own credit standing	(38)	(24)
Total Common Equity Tier 1 capital	2,521	2,568
Capital instruments and the related share premium accounts		
<i>of which: classified as equity under applicable accounting standards</i>	235	235
Total Additional Tier 1 capital	235	235
Total Tier 1 capital	2,756	2,803
Capital instruments and the related share premium accounts	687	587
Total Tier 2 capital	687	587
Total Own Funds	3,442	3,390

Capital requirements

Assessing capital requirements

UBS Limited assesses the adequacy of its capital resources in terms of both amount and type through a number of processes governed by the Board, the UBS Limited Risk Committee (Risk Committee) and the UBS Limited Asset and Liability Committee (ALCO).

A Capital Management Framework has been established with the objective of ensuring that the Company complies at all times with relevant regulation and its internal capital risk appetite.

As part of the business planning process, each operating business forecasts its capital needs over a three year horizon. The resulting plan is subject to stress testing to determine whether the Company's capital resources are sufficient should severe market conditions or other events arise. Furthermore UBS Limited considers whether the regulatory capital measures specified in the Capital Requirements Regulation (CRR) are sufficient given the risk profile of the Company. The results of these processes form part of the UBS Limited Internal Capital Adequacy Assessment Process document (ICAAP) which is submitted annually to the PRA. The ICAAP is then assessed by and discussed with the PRA who use it as part of their Supervisory Review and Evaluation Process (SREP) to set a minimum capital requirement for the Company. The Board considers all these factors in establishing the total amount of capital required and the nature of the capital instruments that should be issued.

The Board sets capital limits, thresholds and triggers. Procedures are in place to monitor the businesses performance against these metrics and escalate any issues arising through the governance fora.

Quarterly stress testing is undertaken to ensure that capital remains sufficient to enable the firm to continue to meet the Board's metrics should a stress event occur. The results are discussed by the ALCO and reported to the Board.

The Company business plan forms part of the overall UBS Group planning process which is approved by the UBS Group AG Executive Board.

Pillar 1 capital requirements

For Pillar 1, regulatory capital exposures are calculated using supervisory standardised approaches except for the following types of credit risk where exposure is determined by internal credit models:

- Credit risk exposure arising from OTC derivatives is calculated using a PRA approved IMM credit model. Exposures on OTC transactions that are not approved to be calculated in this model are calculated using the supervisory mark-to-market approach.
- Credit risk exposure arising from securities funding transactions (SFT) is calculated using a PRA approved IMA credit model. Exposures on SFT transactions not approved to be calculated in this model are calculated using the supervisory volatility adjustments approach for master netting agreements.

UBS Limited applies standardised risk weightings as set out later in this document in the section headed 'External credit assessment institutions'.

The following table sets out the CRR Pillar 1 capital requirements for UBS Limited as at 31 December 2016.

Pillar 1 capital requirements

<i>GBP million</i>	31.12.16	31.12.15
Credit, counterparty credit risks		
<i>Central governments and central banks</i>	–	–
<i>Regional governments and local authorities</i>	3	2
<i>Public sector entities</i>	3	3
<i>Multilateral development banks</i>	–	–
<i>International organisations</i>	–	–
<i>Institutions</i>	162	160
<i>Corporates</i>	320	354
<i>Retail</i>	–	–
<i>Secured by mortgages on immovable property</i>	–	–
<i>Exposures in default</i>	–	–
<i>Items associated with particularly high risk</i>	–	–
<i>Covered bonds</i>	–	–
<i>Securitisation positions</i>	–	3
<i>Claims on Institutions and corporates in short term credit assessments</i>	–	–
<i>Collective investment undertakings</i>	–	–
<i>Equity</i>	–	–
<i>Other items</i>	8	11
Total credit, counterparty credit risks	497	533
Risk exposure amount for contributions to the default fund of a CCP	40	51
Settlement risk	2	5
Position, foreign exchange and commodities risk		
<i>Traded debt instruments</i>	86	91
<i>Equity</i>	32	53
<i>CIUs</i>	1	–
<i>Foreign exchange</i>	43	34
<i>Commodity</i>	–	–
Total position, foreign exchange and commodities risk	161	178
Operational risk capital	110	106
Credit valuation adjustment exposure	76	112
Large exposures in the trading book	–	–
Other risk exposures	–	–
Total Pillar 1 capital requirement	886	985

Exposure to counterparty credit risk

Credit exposure of derivative instruments

The net current credit exposure is drawn from balance sheet carrying values allowing for netting benefits and collateral received as shown in the table below.

Regulatory net credit exposure is determined in accordance with the requirements of the CRR.

Credit exposure of derivative instruments

<i>GBP million</i>	31.12.16	31.12.15
Gross positive replacement values	17,451	17,668
Netting benefits recognised	12,794	13,964
Net replacement values	4,657	3,704
Derivative margin and collateral delivered out	6,490	6,027
Netting benefits recognised	2,199	1,747
Net derivative margin and collateral delivered out	4,291	4,280
Total derivative exposure	8,948	7,984
Collateral held	3,893	3,670
Net current credit exposure	5,055	4,314
Regulatory net credit exposure (total counterparty credit risk)	7,761	9,481
<i>of which: treated with internal models (effective expected positive exposure)</i>	3,545	3,675
<i>of which: treated with supervisory approaches (current exposure method)</i>	4,216	5,806

Credit derivatives

The following table provides an overview of the credit derivative portfolio of UBS Limited by product group using notional amounts. UBS Limited does not utilise credit derivatives within its banking book.

Credit derivatives

31.12.16 Notional amounts GBP million	Regulatory banking book			Regulatory trading book			
	Protection bought	Protection sold	Total	Protection bought	Protection sold	Total	Total
Credit default swaps	–	–	–	5,392	4,125	9,517	9,517
Net current credit exposure	–	–	–	5,392	4,125	9,517	9,517

31.12.15 Notional amounts GBP million	Regulatory banking book			Regulatory trading book			
	Protection bought	Protection sold	Total	Protection bought	Protection sold	Total	Total
Credit default swaps	–	–	–	6,037	4,870	10,907	10,907
Net current credit exposure	–	–	–	6,037	4,870	10,907	10,907

Credit rating of UBS Limited

A three notch downgrade in the credit rating of UBS Limited at 31 December 2016 would have required the Company to deliver additional collateral worth GBP 74 million (2015 - GBP 71 million) to clients with whom UBS Limited has executed collateral support agreements.

Countercyclical capital buffer

Geographical distribution of credit exposures for the countercyclical capital buffer

The following table sets out credit exposures as at 31 December 2016, split by geographical distribution, utilised in the calculation of the countercyclical capital buffer.

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

As at 31.12.16 GBP million	General credit exposures taken under the standardised approach	Trading book position exposures taken under the standardised approach	Securitisation exposures taken under the standardised approach	Own funds requirements: general credit exposures	Own funds requirements: trading book positions	Own funds requirements: securitisations	Total own funds requirements	Own funds requirements weights	Countercyclical capital buffer rate
Breakdown by country									
Angola	4	–	–	0	–	–	0	0.08	0.000%
Australia	12	14	–	1	0	–	1	0.32	0.000%
Austria	10	2	–	1	0	–	1	0.23	0.000%
Belgium	111	33	–	9	1	–	10	2.66	0.000%
Bermuda	3	2	–	0	0	–	0	0.12	0.000%
Brazil	0	1	–	0	0	–	0	0.02	0.000%
British Virgin Islands	0	1	–	0	0	–	0	0.01	0.000%
Canada	44	36	–	4	2	–	6	1.52	0.000%
Cayman Islands	15	11	–	1	0	–	1	0.37	0.000%
China	8	–	–	1	–	–	1	0.16	0.000%
Curaçao	–	1	–	–	0	–	0	0.01	0.000%
Cyprus	9	0	–	1	0	–	1	0.18	0.000%
Czech Republic	–	0	–	–	0	–	0	0.00	0.000%
Denmark	29	11	–	2	0	–	3	0.71	0.000%
Finland	110	15	–	8	1	–	10	2.51	0.000%
France	1,030	103	–	50	6	–	55	14.57	0.000%
Germany	56	99	–	4	5	–	9	2.40	0.000%
Greece	–	1	–	–	0	–	0	0.02	0.000%
Guernsey	0	0	–	0	0	–	0	0.00	0.000%
Hong Kong	17	–	–	1	–	–	1	0.35	0.625%
Hungary	0	–	–	0	–	–	0	0.01	0.000%
Ireland	75	26	–	6	2	–	7	1.95	0.000%
Isle of Man	6	0	–	1	0	–	1	0.14	0.000%
Israel	–	1	–	–	0	–	0	0.01	0.000%
Italy	393	32	3	31	3	–	34	8.88	0.000%
Japan	43	20	–	3	1	–	4	1.16	0.000%
Jersey	0	25	–	0	1	–	1	0.24	0.000%
Kazakhstan	–	0	–	–	0	–	0	0.00	0.000%
Luxembourg	411	88	–	33	7	–	40	10.52	0.000%
Malaysia	0	–	–	0	–	–	0	0.00	0.000%
Malta	19	0	–	2	0	–	2	0.41	0.000%
Mauritius	77	–	–	6	–	–	6	1.62	0.000%
Mexico	–	1	–	–	0	–	0	0.01	0.000%
Monaco	0	–	–	0	–	–	0	0.00	0.000%

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (continued)

As at 31.12.16 GBP million	General credit exposures under the standardised approach	Trading book position exposures under the standardised approach	Securitisation exposures taken under the standardised approach	Own funds requirements: general credit exposures	Own funds requirements: trading book positions	Own funds requirements: securitisations	Total own funds requirements	Own funds requirements weights	Countercyclical capital buffer rate
Breakdown by country (continued)									
Netherlands	458	149	–	32	6	–	38	9.97	0.000%
New Zealand	9	2	–	1	0	–	1	0.19	0.000%
Norway	12	8	–	0	0	–	1	0.15	1.500%
Oman	0	–	–	0	–	–	0	0.01	0.000%
Poland	–	0	–	–	0	–	0	0.01	0.000%
Portugal	0	0	–	0	0	–	0	0.01	0.000%
Russia	18	2	–	1	0	–	2	0.42	0.000%
Saudi Arabia	0	–	–	0	–	–	0	0.00	0.000%
Singapore	58	–	–	5	–	–	5	1.21	0.000%
South Africa	0	3	–	0	0	–	0	0.06	0.000%
South Korea	1	–	–	–	–	–	0	–	0.000%
Spain	258	22	–	21	2	–	22	5.86	0.000%
Supranationals	0	–	–	–	–	–	–	–	0.000%
Sweden	172	15	–	9	1	–	10	2.62	1.500%
Switzerland	153	28	–	11	3	–	15	3.83	0.000%
Taiwan	3	–	–	0	–	–	0	0.06	0.000%
Thailand	35	–	–	3	–	–	3	0.74	0.000%
Turkey	–	4	–	–	0	–	0	0.08	0.000%
United Arab Emirates	9	0	–	1	0	–	1	0.20	0.000%
United Kingdom	849	251	–	64	13	–	77	20.20	0.000%
United States	295	136	–	7	5	–	12	3.19	0.000%
Total	4,816	1,140	3	319	61	–	380	100.00	

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer

As at 31.12.15 GBP million	General credit exposures under the standardised approach	Trading book position exposures under the standardised approach	Securitisation exposures taken under the standardised approach	Own funds requirements: general credit exposures	Own funds requirements: trading book positions	Own funds requirements: securitisations	Total own funds requirements	Own funds requirements weights	Countercyclical capital buffer rate
Breakdown by country									
Angola	2	–	–	–	–	–	–	–	0.000%
Australia	41	11	–	3	–	–	3	0.70	0.000%
Austria	4	4	–	–	1	–	1	0.23	0.000%
Belgium	55	6	–	5	–	–	5	1.17	0.000%
Bermuda	–	3	–	–	–	–	–	–	0.000%
Brazil	11	1	–	1	–	–	1	0.23	0.000%
British Virgin Islands	–	2	–	–	–	–	–	–	0.000%
Bulgaria	–	1	–	–	–	–	–	–	0.000%
Canada	4	12	–	–	1	–	1	0.23	0.000%
Cayman Islands	36	7	–	3	–	–	3	1	0.000%
China	7	–	–	–	–	–	–	–	0.000%
Curaçao	91	–	–	7	–	–	7	2	0.000%

Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (continued)

As at 31.12.15 GBP million	General credit exposures taken under the standardised approach	Trading book position exposures taken under the standardised approach	Securitisation exposures taken under the standardised approach	Own funds requirements: general credit exposures	Own funds requirements: trading book positions	Own funds requirements: securitisations	Total own funds requirements	Own funds requirements weights	Countercyclical capital buffer rate
Breakdown by country (continued)									
<i>Cyprus</i>	–	1	–	–	–	–	–	–	0.000%
<i>Denmark</i>	132	20	–	11	1	–	12	2.82	0.000%
<i>Finland</i>	117	16	–	6	2	–	8	1.88	0.000%
<i>France</i>	955	98	–	52	6	–	58	13.62	0.000%
<i>Germany</i>	32	112	–	2	9	–	11	2.58	0.000%
<i>Greece</i>	–	1	–	–	–	–	–	–	0.000%
<i>Hong Kong</i>	7	–	–	1	–	–	1	0.23	0.000%
<i>Hungary</i>	1	–	–	–	–	–	–	–	0.000%
<i>Ireland</i>	52	15	–	4	1	–	5	1.17	0.000%
<i>Isle of Man</i>	–	1	–	–	–	–	–	–	0.000%
<i>Italy</i>	381	43	9	31	2	3	36	8.45	0.000%
<i>Japan</i>	67	14	–	5	2	–	7	1.64	0.000%
<i>Jersey</i>	–	21	–	–	1	–	1	0.23	0.000%
<i>Luxembourg</i>	274	52	–	23	5	–	28	6.57	0.000%
<i>Malta</i>	35	–	–	3	–	–	3	0.70	0.000%
<i>Mauritius</i>	74	–	–	6	–	–	6	1.41	0.000%
<i>Monaco</i>	2	–	–	–	–	–	–	–	0.000%
<i>Netherlands</i>	776	83	–	47	4	–	51	11.97	0.000%
<i>New Zealand</i>	10	6	–	1	–	–	1	0.23	0.000%
<i>Norway</i>	34	7	–	1	–	–	1	0.23	1.000%
<i>Philippines</i>	1	–	–	–	–	–	–	–	0.000%
<i>Poland</i>	4	2	–	–	–	–	–	–	0.000%
<i>Portugal</i>	37	1	–	3	–	–	3	0.70	0.000%
<i>Russia</i>	15	2	–	1	–	–	1	0.23	0.000%
<i>Singapore</i>	38	–	–	3	–	–	3	0.70	0.000%
<i>South Africa</i>	–	2	–	–	–	–	–	–	0.000%
<i>Spain</i>	186	28	–	15	2	–	17	3.99	0.000%
<i>Sweden</i>	218	14	–	14	1	–	15	3.52	1.000%
<i>Switzerland</i>	119	23	–	6	2	–	8	1.88	0.000%
<i>Thailand</i>	10	–	–	1	–	–	1	0.23	0.000%
<i>Turkey</i>	–	5	–	–	–	–	–	–	0.000%
<i>United Arab Emirates</i>	16	–	–	1	–	–	1	0.23	0.000%
<i>United Kingdom</i>	1,107	317	–	85	18	–	103	24.18	0.000%
<i>United States</i>	445	109	–	21	3	–	24	5.63	0.000%
Total	5,396	1,040	9	362	61	3	426	100	

Countercyclical capital buffer

The table below sets out the calculation of the countercyclical capital buffer as at 31 December 2016.

Amount of institution-specific countercyclical capital buffer

<i>GBP million</i>	31.12.16	31.12.15
Total risk exposure amount	11,081	12,316
Institution-specific countercyclical buffer rate	0.044%	0.036%
Institution-specific countercyclical capital buffer requirement	5	4

Credit exposure and credit risk adjustments

Credit exposure

The following table shows the derivation of risk weighted assets (RWA) from the regulatory credit exposure, broken down by exposure class.

Credit exposure

As at year end GBP million	As at 31.12.16			As at 31.12.15		
	Average credit exposure	Credit exposure after accounting and regulatory offsets	RWA	Average credit exposure	Credit exposure after accounting and regulatory offsets	RWA
Total Credit Exposure						
Central governments and central banks	2,908	2,864	1	3,328	2,690	1
Regional governments and local authorities	119	120	43	86	68	29
Public sector entities	48	40	36	39	35	31
Multilateral development banks	775	821	–	1,572	746	–
International organisations	27	107	–	–	–	–
Institutions	7,262	6,857	2,454	8,694	8,198	2,583
Corporates	4,881	4,730	4,000	5,167	5,256	4,418
Retail	–	–	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–
Exposures associated with particularly high risk	1	–	–	2	–	1
Covered bonds	–	–	–	–	–	–
Securitisation positions	6	4	4	11	9	39
Institutions and corporates in short term credit assessments	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–
Equity exposures	2	2	2	2	2	2
Other items	114	95	95	138	142	142
Total	16,143	15,640	6,634	19,039	17,146	7,246

Regulatory credit exposure by geographical region

The following table provides a breakdown of credit exposures by exposure class and geographical regions.

Credit exposure by geographical region

As at 31.12.16 GBP million	UK	Rest of Europe	North America	Latin America	Asia Pacific	Middle East and Africa	Supra-national	Total
Total Credit Exposure								
Central governments and central banks	1,234	1,510	81	–	37	2	–	2,864
Regional governments and local authorities	–	107	–	–	10	3	–	120
Public sector entities	–	40	–	–	–	–	–	40
Multilateral development banks	–	–	–	–	–	–	821	821
International organisations	–	–	–	–	–	–	107	107
Institutions	1,446	4,777	200	–	417	17	–	6,857
Corporates	753	3,333	366	–	264	14	–	4,730
Retail	–	–	–	–	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–	–
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–	–
Securitisation positions	–	4	–	–	–	–	–	4
Institutions and corporates in short term credit assessments	–	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–	–
Equity exposures	2	–	–	–	–	–	–	2
Other items	95	–	–	–	–	–	–	95
Total	3,530	9,771	647	–	728	36	928	15,640

As at 31.12.15 GBP million	UK	Rest of Europe	North America	Latin America	Asia Pacific	Middle East and Africa	Supra-national	Total
Total Credit Exposure								
Central governments and central banks	1,296	1,177	211	–	3	3	–	2,690
Regional governments and local authorities	–	65	–	–	1	2	–	68
Public sector entities	–	35	–	–	–	–	–	35
Multilateral development banks	–	–	–	–	–	–	746	746
International organisations	–	–	–	–	–	–	–	–
Institutions	2,325	5,457	245	–	153	18	–	8,198
Corporates	964	3,429	577	11	256	19	–	5,256
Retail	–	–	–	–	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–	–	–	–	–
Exposures in default	–	–	–	–	–	–	–	–
Exposures associated with particularly high risk	–	–	–	–	–	–	–	–
Covered bonds	–	–	–	–	–	–	–	–
Securitisation positions	–	9	–	–	–	–	–	9
Institutions and corporates in short term credit assessments	–	–	–	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–	–	–	–
Equity exposures	2	–	–	–	–	–	–	2
Other items	142	–	–	–	–	–	–	142
Total	4,729	10,172	1,033	11	413	42	746	17,146

Note: Exposure classes for which UBS Limited has no reportable exposure have been removed from this table

Regulatory credit exposure by counterparty type

The following table provides a breakdown of credit exposures by credit exposure class and counterparty type.

Credit exposure by counterparty

31.12.16 GBP million	Private individuals	Corporates	Public entities (including sovereigns and central banks)	Banks and multilateral institutions	Total
Total Credit Exposure					
Central governments and central banks	–	–	2,864	–	2,864
Regional governments and local authorities	–	–	120	–	120
Public sector entities	–	–	40	–	40
Multilateral development banks	–	–	–	821	821
International organisations	–	–	107	–	107
Institutions	–	–	–	6,857	6,857
Corporates	–	4,730	–	–	4,730
Retail	–	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–	–
Exposures in default	–	–	–	–	–
Exposures associated with particularly high risk	–	–	–	–	–
Covered bonds	–	–	–	–	–
Securitisations positions	–	4	–	–	4
Institutions and corporates in short term credit assessments	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–
Equity exposures	–	–	–	2	2
Other items	–	89	6	–	95
Total	–	4,823	3,137	7,680	15,640

31.12.15 GBP million	Private individuals	Corporates	Public entities (including sovereigns and central banks)	Banks and multilateral institutions	Total
Total Credit Exposure					
Central governments and central banks	–	–	2,690	–	2,690
Regional governments and local authorities	–	–	68	–	68
Public sector entities	–	–	35	–	35
Multilateral development banks	–	–	–	746	746
International organisations	–	–	–	–	–
Institutions	–	–	–	8,198	8,198
Corporates	–	5,256	–	–	5,256
Retail	–	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–	–
Exposures in default	–	–	–	–	–
Exposures associated with particularly high risk	–	–	–	–	–
Covered bonds	–	–	–	–	–
Securitisations positions	–	9	–	–	9
Institutions and corporates in short term credit assessments	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–
Equity exposures	–	–	–	2	2
Other items	–	141	1	–	142
Total	–	5,406	2,794	8,946	17,146

Regulatory credit exposure by residual maturity

The table below provides a breakdown of credit exposures by credit exposure class and residual maturity.

Credit exposure by maturity

31.12.16 GBP million	Callable and on demand	Due in 1 year or less	Due between 1 year and 5 years	Due over 5 years	Total
Total Credit Exposure					
Central governments and central banks	3	2,009	704	147	2,864
Regional governments and local authorities	–	58	35	27	120
Public sector entities	–	–	–	40	40
Multilateral development banks	47	339	435	–	821
International organisations	–	13	94	–	107
Institutions	392	3,605	1,341	1,519	6,857
Corporates	198	2,073	1,824	635	4,730
Retail	–	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–	–
Exposures in default	–	–	–	–	–
Exposures associated with particularly high risk	–	–	–	–	–
Covered bonds	–	–	–	–	–
Securitisation positions	–	1	4	–	4
Institutions and corporates in short term credit assessments	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–
Equity exposures	–	–	–	2	2
Other items	–	95	–	–	95
Total	640	8,193	4,437	2,370	15,640

31.12.15 GBP million	Callable and on demand	Due in 1 year or less	Due between 1 year and 5 years	Due over 5 years	Total
Total Credit Exposure					
Central governments and central banks	–	2,086	472	132	2,690
Regional governments and local authorities	–	14	31	23	68
Public sector entities	–	–	–	35	35
Multilateral development banks	–	372	374	–	746
International organisations	–	–	–	–	–
Institutions	799	4,603	1,519	1,277	8,198
Corporates	274	2,683	1,775	524	5,256
Retail	–	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–	–
Exposures in default	–	–	–	–	–
Exposures associated with particularly high risk	–	–	–	–	–
Covered bonds	–	–	–	–	–
Securitisation positions	–	–	9	–	9
Institutions and corporates in short term credit assessments	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–
Equity exposures	–	–	–	2	2
Other items	–	142	–	–	142
Total	1,073	9,900	4,180	1,993	17,146

Note: Callable and on demand includes positions without an agreed residual maturity, for example loans without a fixed term and cash collateral receivables on derivative financial instruments for which notice of termination has not been given. Exposure on derivatives is determined at a netting set level for each counterparty. The maturity is disclosed based on trade level attribution of the exposure. Equity holdings have been classified as having a maturity of greater than 5 years

Impairment, default and credit loss

UBS Limited does not have any materially impaired assets.

Changes in allowances, provisions and specific credit valuation adjustments

The following table provides a breakdown of movements in the specific and collective allowances and provisions for impaired assets including changes in the credit valuation adjustments for defaulted derivatives.

Changes in allowances and provisions

	Specific allowances and provisions for banking products and securities financing	Specific credit valuation adjustments for derivatives	Total specific allowances, provisions and credit valuation adjustments	Collective loan loss allowances	Total allowances provisions and specific credit valuations
<i>GBP million</i>					
Opening balance at 31.12.15	–	–	–	–	–
Write off/usage of provisions	(2)	–	(2)	–	(2)
Recoveries (on written off provisions)	–	–	–	–	–
Increase/(decrease) in allowances, provisions and specific credit valuation adjustments	3 ¹	–	3	–	3
Foreign currency translation and other adjustments	–	–	–	–	–
Transfers	–	–	–	–	–
Closing balance at 31.12.16	–	–	–	–	–

¹ The decrease in allowances, provisions and specific credit valuation adjustments relates to corporate counterparties or clients.

Asset encumbrance

The following tables set out the required disclosures for asset encumbrance as required by the EBA in the CRR and supporting technical guidelines.

Median amounts of encumbered and unencumbered assets – on and off balance sheet

<i>Median of month end balances during year</i> GBP Million	Carrying Amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
	2016	2015	2016	2015	2016	2015	2016	2015
Assets of reporting institution	10,475	9,922			34,867	37,222		
Equity Instruments	–	9	–	9	2,732	2,054	2,732	2,054
Debt securities	1,205	1,516	1,205	1,516	4,842	5,980	4,842	5,980
Other assets	4,539	3,551			21,654	22,324		

Median amounts of liabilities associated with encumbered assets and collateral received

<i>Median of the month end balances during year</i> GBP million	2016	2015	Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	
			Matching liabilities, contingent liabilities or securities lent	
Carrying amount of selected financial liabilities	32,507	32,391	20,996	23,722

In accordance with CRR Article 443 and the guidelines issued by the EBA (EBA/GL/2014/03) the tables above show the median value over 2016 of each amount disclosed. This approach refines what was in last year's disclosures and is drawn from the EBA's preferred methodology as set out in the consultation paper for the regulatory technical standard on the disclosure of encumbered and unencumbered assets (EBA/CP/2016/05). In consequence the 2015 comparatives have been restated using this refined approach.

UBS Limited holds a median GBP 35 billion of unencumbered assets and a median GBP 10bn of encumbered assets. The largest portion of the unencumbered assets is positive replacement values (PRV) incorporated in the other assets row. The credit risk on derivative activity is actively managed by taking collateral against exposures, through the use of netting agreements and through the usage of credit hedging. A significant portion of the median GBP 5bn of unencumbered debt securities is the liquidity portfolio maintained in the entity to protect against adverse liquidity shocks. The main components of encumbered assets are securities financing activity and margins pledged against derivatives. There are no covered bond issuances or securitization programs within UBS Limited. Asset encumbrance is one consideration in the funding and liquidity structure for UBS Limited. The Company relies on

diverse sources of funding including its capital, interbank borrowing, principally from its parent, and secured financing. The company's trading inventory is of high quality and liquidity and is largely funded through the securities financing markets. This secured financing creates an encumbrance on the assets held. These transactions are generally short-term and have small haircuts.

In addition to encumbrance of assets on the balance sheet, securities accepted as collateral, are re-hypothecated. A majority of this relates to reverse repurchase and collateral swap agreements that are in turn financed via repurchase and collateral swap agreements. The remainder primarily relates to securities used to settle trading portfolio liabilities, securities lending activity as well as collateral pledged to OTC counterparties and exchange traded derivative client margins.

The median total value of encumbered assets and collateral has remained materially stable since the last disclosure period.

The management of the Company's liquidity is the responsibility of the Group Treasury function within UBS Limited. In its monthly meeting the Asset and Liability Committee reviews a summary of the unencumbered and encumbered collateral. Further details including contingency funding are provided in note 33 of the statutory accounts.

External credit assessment institutions

Use of external credit assessment institutions (ECAIs)

The standardised approach requires banks to use risk assessments prepared by external credit assessment institutions (ECAI) or export credit agencies to determine the risk weightings applied to rated counterparties. For this purpose UBS Limited

uses three recognised ECAIs; Standard and Poor's Global Ratings, Moody's Investors Service and Fitch Ratings.

The mapping of external ratings to the standardised approach risk weights is currently determined by the PRA. UBS Limited applies risk weightings determined in this way to all relevant exposure classes in both the trading and non-trading books.

Credit risk mitigation

Exposure by credit quality step (CQS)

The following tables provide a breakdown of regulatory credit exposure, both before and after credit risk mitigation, by the credit quality steps of the standardised approach to credit risk. In both tables exposures, calculated using credit models approved by the PRA, are shown after the application of securities

collateral. Credit models are used for the calculation of exposure for certain over the counter derivative transactions and for certain securities financing transactions. Exposures not calculated using these credit models are shown as netted exposures before and after the application of securities collateral.

Regulatory net credit exposure before credit risk mitigation

31.12.16 GBP million	Credit Quality Step						Total
	1	2	3	4	5	6	
Regulatory net credit exposure before credit risk mitigation							
Central governments and central banks	2,800	–	64	–	–	–	2,864
Regional governments and local authorities	58	–	62	–	–	–	120
Public sector entities	5	–	34	–	–	–	40
Multilateral development banks	821	–	–	–	–	–	821
International Organisations	107	–	–	–	–	–	107
Institutions	4,411	3,878	685	92	83	1	9,149
Corporates	683	800	304	3,786	14	–	5,587
Items associated with particularly high risk	–	–	–	–	–	–	–
Securitisations	–	–	4	–	–	–	4
Equities	–	–	–	2	–	–	2
Other Items	–	–	–	95	–	–	95
Total	8,885	4,677	1,154	3,974	98	1	18,789

31.12.15 GBP million	1	2	3	4	5	6	Total
Regulatory net credit exposure before credit risk mitigation							
Central governments and central banks	2,767	5	65	–	–	–	2,837
Regional governments and local authorities	16	–	52	–	–	–	68
Public sector entities	5	–	30	–	–	–	35
Multilateral development banks	746	–	–	–	–	–	746
International Organisations	–	–	–	–	–	–	–
Institutions	5,370	4,821	487	46	77	1	10,802
Corporates	704	676	477	3,702	48	10	5,617
Items associated with particularly high risk	–	–	–	–	–	–	–
Securitisations	–	–	9	–	–	–	9
Equities	–	–	–	2	–	–	2
Other Items	–	–	–	142	–	–	142
Total	9,608	5,502	1,120	3,892	125	11	20,258

Regulatory net credit exposure after credit risk mitigation

31.12.16	Credit Quality Step						Total
	1	2	3	4	5	6	
<i>GBP million</i>							
Regulatory net credit exposure after credit risk mitigation							
<i>Central governments and central banks</i>	2,800	–	64	–	–	–	2,864
<i>Regional governments and local authorities</i>	58	–	62	–	–	–	120
<i>Public sector entities</i>	5	–	34	–	–	–	40
<i>Multilateral development banks</i>	821	–	–	–	–	–	821
<i>International Organisations</i>	107	–	–	–	–	–	107
<i>Institutions</i>	4,081	1,988	625	92	71	1	6,857
<i>Corporates</i>	683	583	304	3,146	14	–	4,730
<i>Items associated with particularly high risk</i>	–	–	–	–	–	–	–
<i>Securitisations</i>	–	–	4	–	–	–	4
<i>Equities</i>	–	–	–	2	–	–	2
<i>Other Items</i>	–	–	–	95	–	–	95
Total	8,555	2,571	1,094	3,334	85	1	15,640

31.12.15	Credit Quality Step						Total
<i>GBP million</i>	1	2	3	4	5	6	
Regulatory net credit exposure after credit risk mitigation							
<i>Central governments and central banks</i>	2,620	5	65	–	–	–	2,690
<i>Regional governments and local authorities</i>	16	–	52	–	–	–	68
<i>Public sector entities</i>	5	–	30	–	–	–	35
<i>Multilateral development banks</i>	746	–	–	–	–	–	746
<i>International Organisations</i>	–	–	–	–	–	–	–
<i>Institutions</i>	5,159	2,446	468	46	77	2	8,198
<i>Corporates</i>	704	647	477	3,371	48	9	5,256
<i>Items associated with particularly high risk</i>	–	–	–	–	–	–	–
<i>Securitisations</i>	–	–	9	–	–	–	9
<i>Equities</i>	–	–	–	2	–	–	2
<i>Other Items</i>	–	–	–	142	–	–	142
Total	9,250	3,098	1,101	3,561	125	11	17,146

Unrated corporates receive a risk weight of 100% under the CRR. This is equivalent to a CQS of either 3 or 4. For disclosure purposes in the above tables they are shown as CQS 4.

Exposures in equities not included in the trading book

Exposure in equities not in the trading book

The table below shows the equity instruments held in the banking book with their amounts disclosed for IFRS and the regulatory capital adjusted amount. This adjustment considers the differences to IFRS resulting in the total equity instruments exposure under the CRD IV framework.

Equity exposures not in trading book

<i>GBP million</i>	31.12.16	31.12.15
Financial investments available for sale	2	2
Total equity instruments under IFRS	2	2
Regulatory capital adjustment	–	–
Total equity instruments under CRD IV	2	2
<i>Of which to be risk weighted:</i>	–	–
<i>Publically traded</i>	–	–
<i>Privately held (dealer quoted)</i>	2	2
<i>Of which : deducted from equity</i>	–	–
RWA of equity exposures treated as non-trading book credit risks	2	2
Capital requirement	–	–
Total capital charge	–	–

Note: UBS Limited does not have any material gains or losses to report for this period

The equity holding represents shares in an exchange that are held by UBS Limited as a requirement of membership.

Securitisation positions

Exposure to securitisation positions

UBS Limited is not the originator or sponsor of securitisation positions. UBS Limited enters into derivative contracts with securitisation vehicles incidental to its normal trading business. The value of these contracts is not material as determined under the Company's Pillar 3 policy.

Leverage ratio

Leverage ratio exposures

The following tables set out the leverage ratio and related disclosures in accordance with Article 451 of the Capital Requirements Regulation EU No. 575/2013.

The following table outlines the leverage ratio and its main components.

Leverage ratio disclosures

<i>GBP million</i>	31.12.16	31.12.15
On-balance sheet items (excluding derivatives, securities financing transactions but including collateral)	15,655	12,624
Asset amounts deducted in determining Tier 1 capital	(47)	(239)
Total on-balance sheet exposures	15,608	12,385
Replacement cost of derivative transactions	2,308	3,891
Add-on amounts for potential future exposure of derivative transactions	19,798	14,269
Receivable assets for cash variable margin for derivative transactions	(2,195)	(1,946)
Exempted CCP transactions	(7,719)	(2,369)
Adjusted notional of written credit derivatives	3,965	4,655
Adjusted effective notional offsets & add-on deductions for written credit derivatives	(3,738)	(4,186)
Total derivative exposures	12,419	14,314
Gross securities financing transaction assets	11,170	15,126
Netted amounts of cash payables and receivables of gross securities financing transaction assets	(5,560)	(7,658)
Counterparty credit risk exposure for securities financing transaction assets	1,179	2,146
Total securities financing transaction exposures	6,789	9,614
Off-balance sheet exposures at gross notional amounts	2,085	1,704
Adjustments for conversion to credit equivalent amounts	(1,108)	(874)
Total other off-balance sheet assets	977	830
Total leverage ratio exposure	35,793	37,143
Tier 1 Capital	2,755	2,803
Leverage Ratio	7.70%	7.55%

The following table reconciles the leverage ratio exposure amount to the balance sheet assets.

Reconciliation of accounting assets and leverage ratio exposures

<i>GBP million</i>	31.12.16	31.12.15
Total assets as per published financial statements	40,621	39,442
Adjustments for derivative instruments	(6,870)	(5,920)
Adjustments for securities financing transactions (SFTs)	1,112	3,030
Adjustments for off-balance sheet items	977	830
Other adjustments	(47)	(239)
Total	35,793	37,143

The table below sets out the split of the balance sheet assets.

Split of balance sheet exposures

<i>GBP million</i>	31.12.16	31.12.15
Total on-balance sheet exposures (excluding derivatives, SFTs, exempted exposures)		
Trading book exposures	8,408	8,867
Banking book exposures	5,248	4,226
<i>of which: sovereigns</i>	3,456	3,154
<i>Institutions</i>	1,218	807
<i>Corporate</i>	524	121
<i>Other exposures</i>	50	144
Total	13,656	13,093

The Company's capital management framework includes an integrated approach to manage capital and leverage including triggers, monitoring, planning and reporting.

The Leverage Ratio is reported on a regular basis against Board established triggers. The leverage ratio, own funds and leverage ratio denominator are reported to the ALCO and Board on a regular basis. Material movements in own funds or leverage

ratio denominator are investigated and analysed.

The Company's recovery plan triggers form tests for daily capital reporting, forecasts and stress tests, and assist the ALCO and Board to assess whether actions or mitigation plans should be put in place to address those identified risks.

Remuneration

Remuneration policy and compensation structure

Remuneration at UBS operates within the UBS Total Reward Principles. These principles and supporting processes provide a compensation structure for all employee remuneration at UBS, including those in the UK.

The principles are published as part of the Compensation Report in the UBS Group AG Annual Report 2016, which can be accessed via the link below.

→ [Compensation report](#)

Remuneration awarded for 2016 in respect of UBS Material Risk Takers (MRTs)

The following tables show details of the awards made to UK material risk takers (MRTs) at UBS, in respect of the 2016 financial year. All figures are shown in GBP 000s, unless otherwise indicated. These disclosures are made covering all staff identified as MRTs under the European Banking Authority's regulatory technical standards. This includes MRTs identified in respect of UBS AG London Branch, UBS Limited and UBS Limited branches. For 2016 onwards, awards made to UK MRTs in the UBS Asset Management business will be reported in the consolidated group Pillar 3 report of UBS Asset Management Holding (No.2) Ltd and subsidiary undertakings. 2015 figures have been restated to reflect this structure.

Number of beneficiaries and total remuneration by business area

	Number of Beneficiaries		Total Remuneration (GBP 000's)	
	31.12.16	31.12.15	31.12.16	31.12.15
Corporate Centre	113	116	64,926	69,402
Investment Bank	430	366	446,633	380,917
Wealth Management	53	41	28,858	24,645
Total	596	523	540,417	474,965

Total Remuneration by "senior manager" and "other"

	Number of Beneficiaries		Fixed Remuneration (GBP 000's)		Variable Remuneration (GBP 000's)	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
Senior Managers	27	20	40,222	26,450	38,957	36,397
Other	569	503	228,094	184,541	233,144	227,577
Total	596	523	268,316	210,991	272,101	263,974

Note: "Senior Manager" categorised as UK MRT at Group Managing Director rank or above. "Other" all other ranks. Fixed pay includes role based allowances

Variable remuneration awarded by compensation element

<i>GBP thousand</i>	Number of Beneficiaries	Immediate Cash	Deferred Cash	Immediate Shares	Deferred Shares
31.12.16					
Senior Managers	21	2,831	12,376	2,831	20,919
Other	495	37,670	63,875	35,008	96,591
Total	516	40,501	76,251	37,839	117,510
31.12.15					
Senior Managers	20	1,355	12,214	1,355	21,472
Other	440	31,943	64,934	30,368	100,331
Total	460	33,298	77,148	31,723	121,803

Note: An additional 80 MRTs received no variable remuneration in respect of 2016. (2015 - 63 MRTs)

Summary of outstanding deferred remuneration, by vested and unvested portions, and vehicle type

GBP thousand	Senior Managers		Other		Total	
	31.12.16	31.12.15	31.12.16	31.12.15	31.12.16	31.12.15
Deferred remuneration - granted during year	72,769	23,229	272,206	92,495	344,975	115,723
Deferred remuneration - distributed during year	28,640	23,914	98,487	115,800	127,127	139,714
Performance adjustments during year	4,192	0	5,056	13,276	9,248	13,276
Outstanding deferred remuneration at year end	199,541	118,274	647,306	390,450	846,847	508,724

Notes:

- For granted remuneration, price as at grant date.
- For distributions, price as at distribution date.
- Performance adjustments include forfeitures upon termination; the value is based on transaction price on transaction date.
- Outstanding remuneration based on price as at year end

In accordance with Article 450 of the CRD IV regulation, the following table provides a summary of the MRT population (185 MRTs) receiving total remuneration in excess of EUR 1,000,000

	Number of Beneficiaries		
	Senior Management	Other	Total
	31.12.16	31.12.16	31.12.16
1,000,000 - 1,500,000	1	74	75
1,500,001 - 2,000,000	3	34	37
2,000,001 - 2,500,000	2	23	25
2,500,001 - 3,000,000	—	9	9
3,000,001 - 3,500,000	5	10	15
3,500,001 - 4,000,000	—	4	4
4,000,001 - 4,500,001	—	7	7
4,500,001 - 5,000,000	2	3	5
5,000,001 - 6,000,000	3	1	4
6,000,001 and above	4	—	4

Note: This table is provided in EUR in line with CRD IV requirements

Summary of guaranteed incentives awarded to new hires

	Number of Beneficiaries		Amount (GBP 000's)	
	31.12.16	31.12.15	31.12.16	31.12.15
Senior Managers	—	—	—	—
Other	2	4	1,398	4,385
Total	2	4	1,398	4,385

Note: Highest individual award was GBP 1,235,000. There were no 'sign on' awards granted in 2016 or 2015

Summary of severance payments made

	Number of Beneficiaries		Amount (GBP 000's)	
	31.12.16	31.12.15	31.12.16	31.12.15
Senior Managers	—	—	—	—
Other	8	14	1,393	1,783
Total	8	14	1,393	1,783

Note: Highest individual severance award was GBP 255,000

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