



UBS Limited

Pillar 3 – Supplementary Disclosures

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Introduction

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

This document provides the supplementary disclosure information for UBS Limited as at 31 December 2014. These are the required Pillar 3 disclosures that are not included in other sections of the 2014 Annual Report and Financial Statements of UBS Limited at the following link:

→ **UBS Limited Annual Report and Financial Statements 2014**

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 su-

pervising 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") and their related technical standards, as implemented within the UK by the PRA.

As UBS Limited is a 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 2014**

The following table identifies the location of the Pillar 3 disclosures within the 2014 Annual Report and Financial Statements and this document.

Location of Pillar 3 disclosures

Pillar 3 requirements	Location of disclosure in 2014 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	
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
Credit risk adjustments	Notes to the financial statements (notes 14 and 24)	Credit Exposure and Credit Risk Adjustments
Unencumbered assets		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		Exposure 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
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 the risk management system put in place is 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) is limited and relates primarily to unfunded 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 is limited, and relates primarily to Treasury activities.

Liquidity and funding risk

UBS Limited is exposed to liquidity and funding risk through its derivative businesses, both OTC derivative transactions and exchange-traded derivatives, as well as securities financing transactions. 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 events. It can arise as a result of past and of current business activities.

Risk appetite and key ratios

Please refer to note 33 of UBS Limited's 2014 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 Board in the overall control and management of the risk of the Company.

Key ratios

<i>GBP million</i>	31.12.14
Total Credit Exposure	17,047
Total RWA	10,810
<i>of which: credit risk (including CVA Risk)</i>	7,588
<i>of which: market risk</i>	1,869
<i>of which: operational risk</i>	1,353
Capital ratio – CET1	31.35%
Capital ratio – tier 1	37.04%
Capital ratio – Total capital	46.26%

Credit and market risk

As described in Note 33 of the Company's financial statements, the Board has established a risk appetite framework for the 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. The Company exceeded these objectives as of 31 December 2014. 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 31 December 2014 are shown 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, measured using Value-at-Risk (VaR) at a 95% confidence interval over a one-day holding period, averaged GBP 2.5 million for the period from 19 May 2014, when the Company's business model changed, to 31 December 2014. The VaR mea-

sure was GBP 2.0 million at the end of the year, significantly below the limit approved by the Board. The Company's credit risk exposures were also within Board approved limits as of 31 December 2014.

Liquidity risk

The balance sheet of UBS Limited is stressed against a range of different liquidity scenarios including a sudden UBS idiosyncratic event and a prolonged general market-wide stress. From these stress tests we are able 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 2014 are shown in the table below (which also reflects subsequent changes in the composition of the Board):

UBS Limited directors – number of directorships

	Number of Directorships held at 31.12.14 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)
Nigel P Bretton	1	–	1 E
Michael J Cassidy, CBE	4	–	4 NE
Richard W J Hardie	7	3	1 NE
Beatrice Martin Jimenez (appointed 28 January 2015)	1	–	1 E
Jonathan (Bobby) P A Magee (appointed 12 March 2015)	2	–	2 NE
Andrea Orcel	2	1	1 E
Duncan G Rodgers	3	-	1 E & 1 NE
David C B Soanes	2	1	1 E
John H Tattersall	13	7	4 NE
Wayne Lawson-Turnball (resigned 28 January 2015)	9	–	1 E & 1 NE

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 UBS Limited Board of Directors has a Nomination Committee the mandate of which includes identifying and nominating candidates for any UBS Limited Board vacancies, having evaluated the balance of knowledge, skills, experience, independence and diversity of the UBS Limited 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 Annual Report 2014 under the section "Our Employees, Attracting and retaining talent".

The Nomination Committee held eight meetings during 2014.

Board biographies

As at 26 March 2015 the UBS Limited Board consisted of 9 Directors (5 Executive and 4 Non-Executive); summaries of their respective knowledge, skills and expertise are set out below:

- Richard Hardie is the Chairman of the Board of Directors and Chairman of the Nomination Committee. Richard has been a member of the UBS Limited Board since 11 April 2005, initially in an executive capacity and subsequently as a Non-Executive Director since 5 July 2006. Richard was appointed Chairman of the Board on 24 September 2010. Richard read History and French at Lincoln College, Oxford and is a Chartered Accountant. Richard joined the Corporate Finance Department of S.G. Warburg & Co. in 1977 which ultimately became part of UBS. His last executive role was the UBS Investment Bank ('UBS-IB') COO EMEA. Richard was named HRH the Prince of Wales' Business in the Community Ambassador for London for 2007.
- John Tattersall has been a Non-Executive Director of UBS Limited since 16 November 2011. John is Chairman of the Risk Committee and the Audit Committee and, additionally, a member of the Nomination and Remuneration Committees. 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 a non-executive board member of a number of other financial services firms and charities, and 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.
- Michael Cassidy, CBE has been a Non-Executive Director of UBS Limited since 22 June 2000. Michael is Chairman of the Remuneration Committee and, additionally, a member of the Audit, Risk and Nomination Committees. He has been a practicing lawyer in the City of London for 40 years, dealing mainly with investment matters for a large UK Pension Fund. He was awarded the CBE for services to the City in 2004. He holds a BA (Cantab) and an MBA from the City University Business School.
- 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 2008 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 Chief Executive 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.
- 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.
- Beatriz Martin Jimenez was appointed an Executive Director and Chief Operating Officer of UBS Limited on 28 January 2015. Beatriz was appointed Chief of Staff to the Chief Executive of the UBS-IB in November 2012 where she is responsible for acting as the main liaison between the UBS-IB Chief Executive and the business areas. She drives strategic initiatives globally, plays a key role in a wide variety of bank-wide operational issues, and manages the Executive Office. 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. 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.

- Duncan Rodgers has been an Executive Director of UBS Limited since 14 November 2011. Duncan is Global Head of Asset & Liability Exposure Management (ALEM) and Deputy for Group Asset & Liability Management (GALM). Duncan's functional role in ALEM is a UBS Group wide business responsible for managing the collateral and unsecured funding, pooled counterparty risk, interest rate risk of the banking book, collateral pledges and High Quality Liquid Assets (HQLA) pools. Before his current role Duncan ran the Treasury Trading unit in the UBS-IB and Fixed Income, Currencies & Commodities (FICC) EMEA from a regional corporate governance role. Duncan also worked within market risk control earlier in his career. Duncan has been an employee of UBS for 21 years.
- 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 Depart-

ment 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.

Diversity in relation to the 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 UBS Limited Board. Further information on the UBS Group approach to diversity is set out in the UBS Group Annual Report 2014 under the section "Strengthening our inclusive work environment and diverse workforce".

In February 2014, the UBS Limited Board adopted the recommendation of Lord Davies' Report and is aiming to ensure at least a 25% female representation on the UBS Limited Board by the end of 2015. The Nomination Committee is engaged in facilitating and monitoring progress towards this goal.

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>	31.12.14
Balance sheet total equity ¹	4,191
Add:	
Tier 2 instruments classified as other liabilities	997
Less:	
Prudential filters	(56)
Deferred tax assets	(106)
Own credit gains	(15)
Adjustments for unrealised gains held in accumulated other comprehensive income	(10)
Total own funds	5,001

¹ Taken from audited results for UBS Limited as set out on page 11 of its Annual Report and Financial Statements 2014.

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
<i>Regulatory treatment</i>			
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 3,900 million	GBP 615 million	a. USD 589 million b. EUR 798 million
Nominal amount of instrument	1.00	GBP 615 million	a. USD 589 million b. EUR 798 million
Issue price	1.00	1.00	1.00
Redemption price	Par	Par	Par
Accounting classification	Shareholders' Equity	Shareholders' Equity	Liability – amortised cost
Original date of issuance	Various	5.15.2014	5.14.2014
Perpetual or dated	Perpetual	Perpetual	Dated
Original maturity date	No Maturity	No Maturity	5.14.2024
Issuer call subject to prior supervisory approval	No	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	N/A	N/A
<i>Coupon / dividends</i>			
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 LIBOR 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

<i>GBP million</i>	31.12.14	Transitional amount
Capital instruments and the related share premium accounts		
Instrument type 1	3,350	
Retained earnings	220	
Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	6	
Common Equity Tier 1 (CET1) capital before regulatory adjustments	3,576	
Additional value adjustments	(56)	
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)	(106)	
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	(15)	
Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	(10)	(10)
Total Common Equity Tier 1 capital	3,389	(10)
Capital instruments and the related share premium accounts		
Classified as equity under applicable accounting standards	615	
Total Additional Tier 1 capital	615	0
Total Tier 1 capital	4,004	(10)
Capital instruments and the related share premium accounts	997	
Total Tier 2 capital	997	0
Total own funds	5,001	(10)

Capital requirements

Assessing capital requirements

Capital is managed through a number of processes governed by the UBS Limited Board (“Board”) and the UBS Limited Asset and Liability Committee (“ALCO”).

As part of the business planning process each of the operating businesses is required to forecast their capital needs for the next three years. The plan, once approved by the Board, forms the basis of the minimum required capital. This capital plan is subjected to scenario analysis to establish how the capital requirements and capital base of the firm may vary under severe adverse economic or geopolitical events. UBS Limited further considers whether the regulatory capital measures specified in the Capital Requirements Regulation (CRR) are sufficient or ought to be adjusted given the risk profile of the Company. The results of this process are discussed with the PRA who set a minimum capital level the Company is required to maintain at all times.

The projected capital requirements are part of the overall UBS Group planning process and Group Treasury agree a capital capacity formally with the UBS Group Executive Board, which authorizes the required capital. UBS Limited has established an appropriate mix of capital instruments for the entity across Common Equity Tier 1 (CET1), Additional Tier 1 (AT1) and Tier 2 (T2), having taken into account the results of the above process and requirements as stipulated in CRD IV and by the PRA.

The businesses operating within UBS Limited are set RWA capacity limits and targets. RWA utilisation is measured against these daily. The ALCO oversees this process and has established appropriate mechanisms to allow RWA to be redeployed where appropriate within the businesses as requirements vary over time and to monitor future RWA expectations.

Scenario analyses are performed quarterly to ensure that capital is sufficient to enable the firm to continue to meet regulatory requirements and operate as a going concern following a severe stress event. The results of these tests are discussed by the ALCO and reported to the UBS Limited Risk Committee and Audit Committee and, if necessary, the risk profile will be modified accordingly.

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 2014.

Pillar 1 capital requirements

GBP million	31.12.14
Credit, counterparty credit and dilution risks	
Central governments and central banks	0
Regional governments and local authorities	3
Public sector entities	6
Multilateral development banks	–
International organisations	–
Institutions	196
Corporates	262
Retail	–
Secured by mortgages on immovable property	–
Exposures in default	–
Items associated with particularly high risk	–
Covered bonds	–
Securitisation positions	6
Claims on Institutions and corporates in short term credit assessments	–
Collective investment undertakings	–
Equity	–
Other items	10
Total credit, counterparty credit and dilution risks	483
Risk exposure amount for contributions to the default fund of a CCP	3
Settlement risk	2
Position, foreign exchange and commodities risk	
Traded debt instruments	94
Equity	39
Foreign exchange	16
Commodity	–
Total position, foreign exchange and commodities risk (standardised approach)	149
Operational risk capital (basic indicator approach)	108
Credit valuation adjustment exposure	120
Large exposures in the trading book	–
Other risk exposures	–
Total Pillar 1 capital requirement	865

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>	31.12.14
Gross positive replacement values	30,382
Netting benefits recognised	23,940
Net replacement values	6,442
ETD margin and collateral delivered out	6,465
Total derivative exposure	12,907
Collateral held	10,210
<i>of which: Cash collateral</i>	10,041
<i>of which: Securities collateral and debt instruments collateral (excluding equity)</i>	169
Net current credit exposure	2,697
Regulatory net credit exposure (total counterparty credit risk)	7,455
<i>of which: treated with internal models (effective expected positive exposure)</i>	4,011
<i>of which: treated with supervisory approaches (current exposure method)</i>	3,444

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

<i>Notional amounts</i> <i>GBP million</i>	Regulatory banking book			Regulatory trading book			Total
	Protection bought	Protection sold	Total	Protection bought	Protection sold	Total	
Credit default swaps	-	-	-	20,428	19,025	39,453	39,453
Total return swaps	-	-	-	-	642	642	642
Net current credit exposure	-	-	-	20,428	19,667	40,095	40,095

Credit rating of UBS Limited

The impact of a three notch downgrade in the credit rating of UBS Limited at 31 December 2014 would have required the Company to deliver additional collateral worth £153m to clients with whom UBS Limited has executed collateral support agreements.

Credit exposure and credit risk adjustments

Credit exposure

The following table shows the derivation of RWA from the regulatory credit exposure, broken down by exposure class.

Credit exposure

As at 31.12.14 GBP million	Average credit exposure over the period to 31.12.14	Credit exposure after accounting and regulatory offsets	RWA
Total credit exposure			
Central governments and central banks	4,044	3,976	1
Regional governments and local authorities	116	92	38
Public sector entities	393	203	77
Multilateral development banks	1,573	1,820	–
International organisations	–	–	–
Institutions	7,163	6,901	2,452
Corporates	4,448	3,915	3,252
Retail	–	–	–
Secured by mortgages on immovable property	–	–	–
Exposures in default	–	1	1
Exposures associated with particularly high risk	1	–	1
Covered bonds	–	–	–
Securitisation positions	24	15	72
Institutions and corporates in short term credit assessments	–	–	–
Collective investment undertakings	–	–	–
Equity exposures	2	2	2
Other items	83	122	122
Total	17,847	17,047	6,018

Regulatory credit exposure by geographical region

The following table provides a breakdown of our portfolio by exposure class and geographical regions. The geographical distribution is based on the legal domicile of the counterparty or issuer.

Credit exposure by geographical region

As at 31.12.14 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	1,424	2,284	257	1	2	8	-	3,976
Regional governments and local authorities	-	91	-	-	1	-	-	92
Public sector entities	-	202	-	-	1	-	-	203
Multilateral development banks	-	-	-	-	-	-	1,820	1,820
International organisations	-	-	-	-	-	-	-	-
Institutions	2,073	4,340	303	-	176	9	-	6,901
Corporates	495	3,173	169	17	59	2	-	3,915
Retail	-	-	-	-	-	-	-	-
Secured by mortgages on immovable property	-	-	-	-	-	-	-	-
Exposures in default	-	1	-	-	-	-	-	1
Exposures associated with particularly high risk	-	-	-	-	-	-	-	-
Covered bonds	-	-	-	-	-	-	-	-
Securitisation positions	-	15	-	-	-	-	-	15
Institutions and corporates in short term credit assessments	-	-	-	-	-	-	-	-
Collective investment undertakings	-	-	-	-	-	-	-	-
Equity exposures	2	-	-	-	-	-	-	2
Other items	122	-	-	-	-	-	-	122
Total	4,116	10,106	729	18	239	19	1,820	17,047

Note: Exposure classes for 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 our portfolio by credit exposure class and counterparty type.

Credit exposure by counterparty

31.12.14 GBP million	Corporates	Public entities (including sovereigns and central banks)	Banks and multilateral institutions	Total
Total credit exposure				
Central governments and central banks	–	3,976	–	3,976
Regional governments and local authorities	–	92	–	92
Public sector entities	–	203	–	203
Multilateral development banks	–	–	1,820	1,820
International organisations	–	–	–	–
Institutions	–	–	6,901	6,901
Corporates	3,915	–	–	3,915
Retail	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–
Exposures in default	1	–	–	1
Exposures associated with particularly high risk	–	–	–	–
Covered bonds	–	–	–	–
Securitisation positions	15	–	–	15
Institutions and corporates in short term credit assessments	–	–	–	–
Collective investment undertakings	–	–	–	–
Equity exposures	–	–	2	2
Other items	114	8	–	122
Total	4,045	4,279	8,723	17,047

Regulatory credit exposure by residual maturity

The following table provides a breakdown of our portfolio by credit exposure class and residual maturity.

Credit exposure by maturity

31.12.2014 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	5	2,176	1,549	246	3,976
Regional governments and local authorities	–	10	53	29	92
Public sector entities	–	35	81	87	203
Multilateral development banks	–	595	1,225	–	1,820
International organisations	–	–	–	–	–
Institutions	857	3,079	2,394	571	6,901
Corporates	107	2,012	1,152	644	3,915
Retail	–	–	–	–	–
Secured by mortgages on immovable property	–	–	–	–	–
Exposures in default	–	–	–	–	–
Exposures associated with particularly high risk	–	–	1	–	1
Covered bonds	–	–	–	–	–
Securitisation positions	–	–	15	–	15
Institutions and corporates in short term credit assessments	–	–	–	–	–
Collective investment undertakings	–	–	–	–	–
Equity exposures	–	–	–	2	2
Other items	–	122	–	–	122
Total	969	8,029	6,470	1,579	17,047

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 on which notice of termination has not been given. 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 material impairment to its 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

<i>GBP million</i>	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
Opening balance at 31.12.13	–	–	–	15	15
Write off / usage of provisions	(3)	–	(3)	(15)	(18)
Recoveries (on written-off provisions)	–	–	–	–	–
Increase / (decrease) in allowances, provisions and specific credit valuation adjustments	2	–	2	–	2
Foreign currency translation and other adjustments	–	–	–	–	–
Transfers	–	–	–	1	1
Closing balance at 31.12.14	(1)	–	(1)	1	–

Overall the impact on the profit and loss account is below the materiality threshold for disclosure. The amounts shown above in the first column relate to the same position.

Asset encumbrance

In accordance with the waiver laid down by the PRA in Section 3 of its Supervisory Statement, SS 11/14, published in December 2014 we are not disclosing the Table B data, the requirements for which are set out in EBA's Guidelines on the

disclosure of encumbered and unencumbered assets (EBA/GL/2014/03).

The following tables cover the requirement for Table A and C under the EBA's guidelines.

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

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Median of month end balances in 2014				
<i>GBP million</i>				
Classification of assets	11,332	–	48,953	–
Equity Instruments	181	181	1,336	1,336
Debt securities	1,642	1,642	7,556	7,556
Other assets	3,665	–	31,144	–

Median amounts of liabilities associated with encumbered assets and collateral received

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS
Median of the month end balances in 2014		
<i>GBP million</i>		
Carrying amount of selected financial liabilities	41,017	23,741

UBS Limited holds circa. GBP 49 billion of unencumbered assets compared with GBP 11.3bn of encumbered assets. The largest portion of the unencumbered assets is positive replacement values shown in the other assets row. A significant portion of the GBP 7.6bn of unencumbered debt securities is local liquidity portfolio maintained in the entity to protect against adverse liquidity shocks.

The main sources of encumbrance are securities borrowing and lending and margins pledged against derivatives. There are no covered bond issuances or securitisation programs within UBS Limited.

Asset encumbrance is one consideration in the funding and liquidity structure for UBS Limited. The Company relies on a diverse form of funding including its capital, interbank borrowing

principally from its parent and secured financing. The trading portfolio is of a sufficient quality and liquidity that it can be materially funded through the securities financing markets. This aspect creates an encumbrance on the assets held. Similarly for OTC derivatives collateral is received with full rights of rehypothecation and may be onward deployed as a means of funding.

The management of the Company's liquidity is the responsibility of the Group Treasury function within UBS Limited and it is the ALCO's responsibility to review the Company's unencumbered asset balance on a monthly basis including a review of contingent encumbrance.

Further details including contingency funding are provided in note 33 of the statutory accounts.

External credit assessment institutions

Use of external credit assessment institutions

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 ECAs; Standard and Poor's Rating Group, Moody's Investor Service and Fitch Group. The mapping of external ratings to the standardised approach risk weights is currently determined by the PRA and published in section 8 of its December 2013 Supervisory Statement SS10/13. UBS Limited applies risk weightings determined in this way to all relevant exposure classes in both the trading and non-trading books.

Exposure by credit quality step

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, that have been calculated using credit models approved by the PRA for the use of calculating regulatory exposure, 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

31.12.14 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	4,147	1	77	–	1	–	4,226
Regional governments and local authorities	26	–	69	–	–	–	95
Public sector entities	151	8	44	–	1	–	204
Multilateral development banks	1,820	–	–	–	–	–	1,820
Institutions	4,093	6,278	483	239	178	12	11,283
Corporates	695	504	423	2,719	3	16	4,360
Items associated with particularly high risk	–	–	–	1	–	–	1
Securitisations	–	–	–	15	–	–	15
Equities	–	–	–	2	–	–	2
Other items	–	–	–	122	–	–	122
Total	10,932	6,791	1,096	3,098	183	28	22,128

Regulatory net credit exposure after credit risk mitigation

31.12.14 GBP million	Credit quality step						Total
	1	2	3	4	5	6	
Regulatory net credit exposure after credit risk mitigation							
Central governments and central banks	3,897	1	77	–	1	–	3,976
Regional governments and local authorities	23	–	69	–	–	–	92
Public sector entities	150	8	44	–	1	–	203
Multilateral development banks	1,820	–	–	–	–	–	1,820
Institutions	3,915	2,124	433	239	178	12	6,901
Corporates	694	472	423	2,307	3	16	3,915
Items associated with particularly high risk	–	–	–	1	–	–	1
Securitisations	–	–	–	15	–	–	15
Equities	–	–	–	2	–	–	2
Other items	–	–	–	122	–	–	122
Total	10,499	2,605	1,046	2,686	183	28	17,047

Exposures in equities not included in the trading book

Exposures in equities not in the trading book

The following table 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>	31.12.14
Financial investments available for sale	2
Total equity instruments under IFRS	2
Regulatory capital adjustment	-
Total equity instruments under CRD IV	2
<i>of which: to be risk-weighted</i>	-
<i>Publically traded</i>	-
<i>Privately held (dealer quoted)</i>	2
<i>of which: deducted from equity</i>	-
RWA of equity exposures treated as non-trading book credit risks	2
Capital requirement	0
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.

Credit risk mitigation

Credit exposures covered by collateral

The following table provides a breakdown of the financial collateral eligible for recognition in the regulatory capital calculation under the standardised approach by exposure segment.

Credit exposures covered by collateral

31.12.14 GBP million	Regulatory net credit exposure under standardised approach	Eligible financial collateral recognised in capital calculation
Central governments and central banks	4,226	272
Regional governments and local authorities	95	3
Public sector entities	204	1
Multilateral development banks	1,820	–
International organisations	–	–
Institutions	11,283	4,862
Corporates	4,360	500
Retail	–	–
Secured by mortgages on immovable property	–	–
Exposures in default	–	–
Exposures associated with particularly high risk	1	–
Covered bonds	–	–
Securitisation positions	15	–
Institutions and corporates in short term credit assessments	–	–
Collective investment undertakings	–	–
Equity exposures	2	–
Other items	122	–
Total	22,128	5,638

Note: UBS Limited does not have any guarantees covering credit exposures for regulatory purposes.

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, which can be accessed via the link in the Introduction section of this document.

Remuneration awarded for 2014 in respect of UBS Material Risk Takers (MRT's) or Code Staff

The following tables show details of the awards made to UK MRT's at UBS, identified under the Regulatory Technical Standards of the European Banking Association (EBA), in respect of the 2014 financial year. All figures are shown in GBP 000s, unless otherwise indicated. The disclosure is made covering all staff designated MRT's in 2014 under the PRA/FCA UK Remuneration Code. This includes MRT's identified for all material business units across all UBS entities in the UK (not just UBS Limited).

Number of beneficiaries and total remuneration by business area

	Number of beneficiaries		Total remuneration (GBP 000s)	
	31.12.14	31.12.13	31.12.14	31.12.13
Corporate Centre	91	66	58,256	47,775
Investment Bank	286	67	280,935	127,220
Wealth Management	8	8	6,811	6,749
Global Asset Management	31	15	19,909	13,326
Total	416	156	365,911	195,070

Total remuneration broken down by "Senior managers" and "Other"

	Number of beneficiaries		Fixed remuneration (GBP 000s)		Variable remuneration (GBP 000s)	
	31.12.14	31.12.13	31.12.14	31.12.13	31.12.14	31.12.13
Senior Managers	20	22	20,101	11,128	25,231	37,809
Other	396	134	158,505	37,413	162,074	108,720
Total	416	156	178,606	48,541	187,305	146,529

Note: "Senior Manager" categorised as MRT's (2013 UK Code Staff) at Group Managing Director rank or above.

Breakdown of forms of variable remuneration awarded

GBP 000s	Number of beneficiaries	Immediate cash	Deferred cash	Immediate shares	Deferred shares
31.12.14					
Senior Managers	18	2,144	8,180	1,389	13,518
Other	335	22,578	47,944	16,584	74,968
Total	353	24,722	56,124	17,973	88,486
31.12.13					
Senior Managers	18	5,103	10,634	2,915	19,156
Other	111	18,308	29,006	15,080	46,326
Total	129	23,411	39,640	17,995	65,482

Note: An additional 63 MRT's received no variable remuneration in respect of 2014 (2013 – 27 code staff).

Summary of outstanding deferred remuneration, broken down into vested and unvested portions, and vehicle type

GBP 000s	Senior managers	Other	Total
2014			
Deferred remuneration – granted during 2014	46,008	187,051	233,059
Deferred remuneration – distributed during 2014	12,203	61,875	74,078
Performance adjustments during 2014	859	20,966	21,825
Outstanding deferred remuneration at 31 December 2014	74,430	301,880	376,310

Notes:

- For granted remuneration, price and FX as at grant date.
- For distributions, price and FX as at distribution date.
- Performance adjustments include performance plan reductions and forfeitures upon termination; the value is based on transaction price and FX on transaction date.
- Outstanding remuneration based on price and spot FX rate as at 31.12.14.

There has been no performance adjustment to awards vesting in 2014.

Summary of population in excess of EUR 1,000,000 in accordance with Article 450 of the Regulation under CRD IV

	Number of beneficiaries		
	Senior management	Other	Total
0–1,000,000	2	255	257
1,000,000–1,500,000	3	71	74
1,500,001–2,000,000	3	23	26
2,000,001–2,500,000	4	18	22
2,500,001–3,000,000	1	13	14
3,000,001–3,500,000	1	5	6
3,500,001–4,000,000	1	6	7
4,000,001–4,500,001	1	1	2
4,500,001–5,000,000	1	2	3
5,000,001–6,000,000	2	–	2
6,000,001–7,000,000	–	2	2
7,000,001–8,000,000	–	–	–
8,000,001–9,000,000	1	–	1
Total	20	396	416

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

Summary of guarantees paid to new hires in 2014

	Number of beneficiaries		Amount (GBP 000s)	
	31.12.14	31.12.13	31.12.14	31.12.13
Senior Managers	–	–	–	–
Other	3	–	2,365	–
Total	3	–	2,365	–

Note: Highest individual award was GBP 1,150,000.

Summary of severance payments made in 2014

	Number of beneficiaries		Amount (GBP 000s)	
	31.12.14	31.12.13	31.12.14	31.12.13
Senior Managers	–	–	–	–
Other	13	3	2,435	1,330
Total	13	3	2,435	1,330

Note: Highest individual severance award was GBP 255,000.

There were no sign-on awards granted in 2014 or 2013.

Contacts

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