2013 UBS US Resolution Plan

Public Section

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1 Introduction

UBS AG is the ultimate parent company of all subsidiaries globally (UBS AG and its direct and indirect subsidiaries, the "UBS Group"). UBS AG is a Swiss corporation organized as an Aktiengesellschaft (AG), which is a corporation that has issued shares of common stock to investors. Headquartered in Zurich and Basel, Switzerland, the UBS Group is a global institution with offices in more than 50 countries, including all major financial centers, and employs approximately 63,000 people. The UBS Group has five business divisions: Retail & Corporate, Wealth Management, Wealth Management Americas, Global Asset Management and the Investment Bank. As of 31 December 2012, the UBS Group had consolidated assets of approximately CHF 1,259 billion. Although global in nature, the great majority of UBS Group's operations are located in three jurisdictions: Switzerland, the United Kingdom and the United States. Accordingly, these three jurisdictions are the focus of the UBS Group's resolution planning.

This resolution plan (the "UBS US RSP") is being filed pursuant to 12 CFR §243 and 12 CFR §381 (together, the "Regulation"). The Regulation defines a "Covered Company" as a "nonbank financial company supervised by the Board [of Governors of the Federal Reserve System] . . . with total consolidated assets of [USD] 50 billion or more." Because the UBS Group's consolidated assets exceed USD 50 billion, UBS AG is a Covered Company under the Regulation. The Regulation requires each Covered Company to periodically submit to the Federal Reserve Board (the "FRB"), the Federal Deposit Insurance Corporation (the "FDIC"), and the Financial Stability Oversight Council (the "Council") a plan for such company's rapid and orderly resolution in the event of material financial distress or failure. The Regulation requires that such resolution plan provide a strategic analysis by the Covered Company of how it can be resolved under the United States Bankruptcy Code (11 U.S.C. §101 *et seq.*) or other applicable insolvency regime in a way that would not pose systemic risk to the financial system. In doing so, the Covered Company must map its Core Business Lines and Critical Operations to Material Entities and provide integrated analyses of its corporate structure; credit and other exposures; funding, capital, and cash flows; the domestic and foreign jurisdictions in which it operates; and its supporting information systems. The key building blocks of any resolution plan, therefore, are the identification of Core Business Lines and Material Entities, each of which are identified below. UBS AG, on behalf of itself and its subsidiaries, submits this public section of the UBS US RSP in compliance with the Regulation.

Except as otherwise specifically required by the Regulation, the information contained in this UBS US RSP relates to the "subsidiaries, branches and agencies, critical operations and core business lines, as applicable, that are domiciled in the United States or conducted in whole or material part in the United States." UBS AG is subject to regulation by financial regulators in multiple jurisdictions. Requirements of the non-US financial regulators relating to recovery and resolution planning differ from those under the Regulation. In particular, this US UBS RSP is focused on planning for the resolution of UBS AG's US operations, whereas plans being formulated in other jurisdictions, including UBS AG's home jurisdiction, Switzerland, also contain plans for the recovery of UBS AG in the event of financial distress. Accordingly, the definitions used for, and approach taken in, this UBS US RSP may differ from those used / taken with similar plans filed with non-US regulators. UBS AG anticipates that over time the regulatory approaches will converge.

The UBS US RSP is a component of the overall UBS AG Resolution and Recovery Plan (the "UBS RRP") developed pursuant to the requirements of FINMA, UBS AG's home country and primary regulator. The UBS RRP provides a blueprint for the recovery, restructuring and resolution of UBS AG in the event of material financial distress.

2 Names of Material Entities

A "Material Entity" is defined in the Regulation as "a subsidiary or foreign office of the covered company that is significant to the activities of a critical operation or core business line." The Regulation defines "Critical Operations" as "those operations of the covered company, including associated services, functions and support, the failure or discontinuance of which, in the view of the covered company or as jointly directed by the Board and the Corporation, would pose a threat to the financial stability of the United States." For purposes of this UBS US RSP, Critical Operations for UBS AG US operations were jointly identified by the FRB and the FDIC and communicated to UBS AG. "Core Business Lines" are defined in the Regulation as "those business lines of the covered company, including associated operations, services, functions and support, that, in the view of the covered company, upon failure would result in a material loss of revenue, profit, or franchise value." A description of the Core Business Lines with a connection to the US operations of the UBS Group is provided in sub-section 3 below. While the Material Entities listed below have been designated for resolution planning purposes, such entities do not represent the universe of legal entities that constitute the UBS Group and contribute to its success.

Based upon the Core Business Lines identified by the UBS Group and the Critical Operations designated by the FRB and the FDIC, UBS AG designated the following entities as Material Entities for purposes of the UBS US RSP:

UBS AG New York WM Branch

UBS AG London Branch[1]

UBS AG Stamford Branch

UBS Bank USA

UBS Financial Services Inc.

UBS Global Asset Management (Americas) Inc.

UBS O'Connor LLC

UBS Realty Investors LLC

UBS Securities LLC

UBS Services LLC

Due to previously announced changes in business focus at the Investment Bank business division (Project Accelerate), UBS Loan Finance LLC has been removed from the list of Material Entities for purposes of the UBS US RSP, however, it remains a Material Entity for purposes of the overall UBS RRP.

[1] UBS AG London Branch, although a non-US entity, has been designated due to its relationship with and interconnectedness to the Investment Bank.

3 Description of Core Business Lines

As part of its resolution planning activities, UBS AG is required to identify its Core Business Lines; namely, those business lines whose failure could result in a material loss of revenue, profit or franchise value. Three business divisions with US operations collectively operate five Core Business Lines. Wealth Management Americas and Global Asset Management each comprise a separate Core Business Line; the Investment Bank contains three Core Business Lines, as set forth below.

3.1 Wealth Management Americas

The Wealth Management Americas business division of the UBS Group includes the domestic US business, the domestic Canadian business and the international business booked in the US. Wealth Management Americas consists of branch networks in the US, Puerto Rico and Canada[2], with 7,059 financial advisors as of 31 December 2012. Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs of ultra high net worth, high net worth and core affluent individuals and families. Wealth Management Americas accounts for 25.5% of the total staff, after allocation of Corporate Center (described below) employees, and 38% of the invested (i.e. client) assets of the UBS Group.

3.2 Global Asset Management

The Global Asset Management business division of the UBS Group ("Global AM") is a large-scale asset manager with diversified businesses across regions, capabilities and distribution channels. With approximately 3,800 personnel located in 24 countries, Global AM is a truly global asset manager. It offers investment capabilities and investment styles across all major traditional and alternative asset classes. These include equity, fixed income, currency, hedge fund, real estate, infrastructure and private equity investment capabilities which can be combined into multi-asset strategies. The fund services unit of Global AM provides professional services, including legal fund setup, accounting and reporting for traditional investment funds and alternative funds.

Global AM is the smallest division by headcount – its personnel amounts to 6% of the UBS Group total after allocation of Corporate Center (described below) employees. However, as of 31 December 2012, Global AM accounts for 26% (or CHF 581 billion) of the UBS Group invested (i.e. client) assets, of which approximately 68% originated from third-party clients, including institutional clients (e.g. corporate and public pension plans, governments and their central banks) and wholesale clients (e.g. financial intermediaries and distribution partners), and a further 32% originated from the UBS Group's wealth management businesses (including Wealth Management Americas).

3.3 Investment Bank

In 2012 UBS accelerated the implementation of a previously announced change in business focus of the Investment Bank business division of the UBS Group ("Investment Bank"). As part of this change, the Investment Bank was reorganized, resulting in an adjustment in the Core Business Lines it contains.

i. *Corporate Client Solutions ("CCS"):* CCS provides client coverage, advisory, debt and equity capital market solutions and financing solutions for corporate, financial institution and sponsor clients. The

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[2] The branch network in this context refers to the branches of UBS Financial Services Inc.

main business lines of CCS are: Advisory, Equity Capital Markets, Debt Capital Markets and Financing Solutions. CCS works closely with Investor Client Services ("ICS") in the distribution and risk management of capital market products.

ii. *ICS Equities ("ICS Equities"):* ICS Equities provides a full front-to-back product suite globally, including financing, execution, clearing and custody services to hedge funds, asset managers, wealth management advisors, financial institutions and sponsors, sovereign wealth funds and corporations. The ICS Equities Core Business Line distributes, structures, executes and clears cash equity and equity derivative products. Research capabilities within the ICS Equities Core Business Line provide investment analysis on companies, sectors, regions, macroeconomic trends, public policy and asset allocation strategies. Main business lines of the ICS Equities Core Business Line are: Cash Equities, Equity Derivatives and Financing Services.

iii. *ICS Foreign Exchange ("ICS FX"):* ICS FX provides a full range of G10 and emerging markets currency and precious metals services globally. Through ICS FX, UBS is a market-maker in the professional spot, forwards and options markets. ICS FX also provides clients trading, investing and hedging across the spectrum of gold, silver, platinum and palladium related offerings.

The Investment Bank is the largest division by owned assets, accounting for 53% of the consolidated total for the UBS Group. The Investment Bank accounts for approximately 15,900 staff (or 25% of the UBS Group total) after allocation of Corporate Center (described below) employees. Commencing with the first quarter of 2013, certain non-core businesses which were previously reported under the Investment Bank are now reported under Corporate Center (see below).

4 Summary financial information on assets, liabilities, capital and major funding sources

The assets, liabilities, capital and major funding sources of the consolidated organization are set forth in UBS AG's Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the year ending 31 December 2012 (the "Annual Report"). An electronic copy of the Annual Report can be found on Edgar at www.sec.gov/Archives/edgar/data/1114446/000119312513106100/d497201d20f.htm. Please refer to pages 66 to 93 of the Annual Report for a detailed description of financial and operating results of UBS AG and its subsidiaries. Please refer to pages 94 to 129 of the Annual Report for a detailed description of financial and operating results by business division. Please refer to the consolidated financial statements on pages 317 to 330 and the Notes to the consolidated financial statements on pages 331 to 486 of the Annual Report for detailed consolidated financial statements of UBS AG and its subsidiaries as of 31 December 2012.

5 Description of derivative and hedging activities

In 2009, the G20[3] countries committed to move all standardized over-the-counter ("OTC") derivative contracts on exchange and clear them through central counterparties by the end of 2012. This commitment is being implemented through the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") in the US and corresponding legislation in the European Union (the "EU") and other jurisdictions, and will have a significant impact on the OTC derivatives business of UBS AG and its subsidiaries and business lines, primarily in the Investment Bank. For example, most OTC derivatives trading will move toward a central clearing model, increasing transparency through trading on exchanges or swap execution facilities.

UBS AG registered as a swap dealer in the US at the end of 2012 enabling the continuation of swaps business with US persons. Regulations issued by the Commodity Futures Trading Commission ("CFTC") impose substantial new requirements on registered swap dealers for clearing, trade execution, transaction reporting, recordkeeping, risk management and business conduct. On 12 July 2013, the CFTC approved final cross-border guidance that defines the extraterritorial application of its swaps regulation and an exemptive order that generally defers until December 2013 the effective date for application of regulations previously scheduled to become effective for non-US swap dealers in July 2013. This cross-border guidance includes provision for "substituted compliance" under which UBS may comply with Swiss legal requirements that are determined by the CFTC to be "comprehensive and comparable" instead of the corresponding CFTC requirements. A substituted compliance application for Switzerland has been submitted for entity level requirements.

As a CFTC-registered swap dealer, from December 2013, UBS AG must commence the reporting of all swap transactions in general, not just those with US persons, and will be subject to other information and inspection requirements that present potential conflicts with non-US law or necessitate privacy waivers from clients. As a result of no-action relief from the CFTC, actions or approvals by non-US governmental bodies and client waivers obtained or in process, UBS anticipates that it will be able to comply with the swap data reporting obligations under the CFTC regulations in December 2013 (without substantial disruption to its businesses). UBS continues to engage the CFTC and other regulators to address other potential conflicts of law and, where appropriate, to seek substituted compliance for the CFTC regulation.

In May 2013, the Securities and Exchange Commission ("SEC") proposed rules for the extraterritorial application of its regulation of securities-based swaps that will require registration of securities-based swap dealers in the US following adoption of such rules. The SEC proposal contemplates application of swap data reporting and other regulations similar to the CFTC rules and may present similar conflicts with non-US regulation.

5.1 Types of derivative instruments

The UBS Group uses the following derivative financial instruments for both trading and hedging purposes. Through the use of the products listed below, the UBS Group is engaged in extensive high volume market-making and client facilitation trading referred to as the flow business. Measurement techniques applied to determine the fair value of each product type are described in "Note 27c Valuation techniques by product" at pages 404 to 405 of the Annual Report.

[3] The G20 is a group of finance ministers and central bank governors from the following 20 major economies: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States and the European Union.

The main types of derivative instruments used by the UBS Group are described below and in the Annual Report at pages 387 to 388:

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

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

- *Interest rate contracts:* Interest rate products include interest rate swaps, swaptions (swap options) and caps and floors.
- *Credit derivatives:* Credit default swaps ("CDS") are the most common form of a credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following the occurrence of a contractually defined credit event with respect to a specified third-party credit entity. Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity, and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is generally terminated. An elaboration of credit derivatives is included in the Annual Report at pages 390 to 391.
- *Total return swaps:* Total return swaps ("TRSs") are employed in both the Investment Bank's fixed income and equity trading businesses with underlyings which are generally equity or fixed income indices, loans or bonds. TRSs are structured with one party making payments based on a set rate, either fixed or variable, and the other party making payments based on the return of an underlying asset, which includes both the profit and loss it generates and any changes in its value.
- *Foreign exchange contracts:* Foreign exchange contracts will include spot, forward and cross-currency swaps and options and warrants. Forward purchase and sale currency contracts are typically executed to meet client needs and for trading and hedging purposes.
- *Equity / Index contracts:* The UBS Group uses equity derivatives linked to single names, indices and baskets of single names and indices. The indices used may be based on a standard market index, or may be defined by UBS AG and / or its subsidiaries. The product types traded include vanilla listed derivatives, both options and futures, total return swaps, forwards and exotic OTC contracts.
- *Commodities contracts:* The UBS Group has an established commodity derivatives trading business, which includes the commodity index, the structured business and the flow business. The index and structured business are client facilitation businesses trading exchange traded funds, OTC swaps and options on commodity indices. The underlying indices cover third party and the UBS Group-defined indices such as the UBS Bloomberg Constant Maturity Commodity Index and the Dow Jones – UBS Commodity Index. The flow business is investor led and incorporates both ETD and vanilla OTC products, for which the underlying covers the agriculture, base metals and energy sectors. All of the flow trading is cash settled

with no physical delivery of the underlying commodity.

- *Precious metals:* The UBS Group has an established precious metals ability in both flow and non-vanilla OTC products incorporating both physical and non-physical trading. The flow business is investor led and products include ETD, vanilla OTCs and certain non-vanilla OTCs. The vanilla OTCs are in forwards, swaps and options. The non-vanilla OTC business relates to cash-settled forwards similar in nature to non-deliverable forwards, meaning there is no physical delivery of the underlying.

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is predominantly managed and controlled as an integral part of the market risk of these portfolios. The UBS Group's approach to market risk is described in the audited portions of the "Market risk" section of the Annual Report at pages 154 to 160. Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the UBS Group's overall credit exposure to each counterparty. The UBS Group's approach to credit risk is described in the audited portions of the "Credit risk" section of the Annual Report at pages 390 to 391.

It should be noted that, although the net positive replacement values ("RV") shown on the balance sheet can be an important component of the UBS Group's credit exposure, the positive RV for a counterparty is rarely an adequate reflection of the UBS Group's credit exposure in its derivatives business with that counterparty. This is, for example, because on one hand, RV can increase over time ("potential future exposure"); while on the other hand, exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with other counterparties. Both the exposure measures used by the UBS Group internally to control credit risk and the capital requirements imposed by regulators reflect these additional factors. The RV presented on the UBS Group's balance sheet include netting in accordance with International Financial Reporting Standards requirements (refer to "Note 1a) 35) Netting" on page 346 of the Annual Report), which is more restrictive than netting in accordance with the Swiss Federal Banking Law (as defined below). Swiss Federal Banking Law netting is generally based on close-out netting arrangements that are enforceable in case of insolvency. The positive and negative RV based on netting in accordance with the Swiss Federal Banking Law (factoring in cash collateral) are presented on the bottom of the table below. The notional amounts presented in the tables below indicate a nominal value of transactions outstanding at the reporting date but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the UBS Group's exposure to credit or market risks.

Table 1: Derivative instruments

	Derivative instruments [1]									
	31.12.12					31.12.11				
CHF billion	**Total PRV [2]**	**Notional values related to PRVs [3]**	**Total NRV [4]**	**Notional values related to NRVs [3]**	**Other notional values [3, 5]**	Total PRV [2]	Notional values related to PRVs [3]	Total NRV [4]	Notional values related to NRVs [3]	Other notional values [3, 5]
Interest rate contracts										
Over-the-counter (OTC) contracts										
Forward contracts [6]	**0.8**	**481.0**	**0.8**	**443.8**	**1,329.6**	2.0	1610.0	2.3	1,637.4	0.0
Swaps[7]	**223.3**	**3,933.5**	**196.1**	**3,789.2**	**14,276.3**	247.3	5,264.5	226.1	5,162.2	18,568.1
Options	**43.6**	**1,210.5**	**44.6**	**1,200.2**	**0.0**	46.7	1,173.2	48.0	1,185.2	0.0
Exchange-traded contracts[8]										
Futures					**759.0**					924.3
Options	**0.0**	**3.0**	**0.0**	**0.0**	**725.5**	0.0	124.0	0.0	127.8	526.2
Agency transactions [9]	**0.0**		**0.0**			0.1		0.1		
Total	**267.8**	**5,628.0**	**241.5**	**5,433.2**	**17,090.4**	296.1	8,171.7	276.4	8,112.6	20,018.6
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	**36.3**	**1,090.8**	**33.9**	**1,043.3**	**238.9**	66.6	1,292.2	62.9	1,238.0	172.4
Total rate of return swaps	**0.4**	**2.4**	**0.4**	**3.3**	**0.0**	0.6	2.4	0.5	2.0	0.0
Options and warrants	**0.0**	**3.1**	**0.0**	**0.5**	**0.0**	0.1	3.6	0.1	4.6	0.0
Total	**36.7**	**1,096.3**	**34.3**	**1,047.1**	**238.9**	67.3	1,298.1	63.5	1,244.6	172.4
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	**11.6**	**690.3**	**12.4**	**689.6**	**0.0**	15.7	648.3	14.9	610.5	0.0
Interest and currency swaps	**76.9**	**2,382.0**	**80.9**	**2,193.2**	**0.0**	75.7	2,177.4	85.5	2,165.5	0.0
Options	**5.1**	**395.1**	**5.2**	**329.3**	**0.0**	5.8	367.8	5.8	346.4	0.0
Exchange-traded contracts										
Futures					**13.8**					12.2
Options	**0.0**	**0.6**	**0.0**	**0.6**	**0.0**	0.0	0.1	0.0	0.6	0.0
Agency transactions [9]	**0.0**		**0.0**			0.0		0.0		
Total	**93.5**	**3,467.9**	**98.5**	**3,212.7**	**13.8**	97.2	3,193.7	106.3	3,123.0	12.2
Equity / index contracts										
Over-the-counter (OTC) contracts										
Forward contracts	**2.7**	**41.7**	**3.3**	**47.0**	**0.0**	2.8	38.3	3.0	39.0	0.0
Options	**8.4**	**84.8**	**7.4**	**98.3**	**0.0**	8.7	69.0	8.9	86.9	0.0
Exchange-traded contracts[8]										
Futures					**16.6**					10.6
Options	**2.4**	**94.9**	**3.3**	**106.8**	**17.7**	3.3	84.6	3.7	85.2	4.1
Agency transactions [9]	**2.4**		**2.4**			3.9		4.2		
Total	**15.9**	**221.4**	**16.4**	**252.1**	**34.3**	18.8	191.8	19.8	211.1	14.7

Table continued from previous page.

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

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

5.2 Derivatives notional and credit exposure

The "Credit Exposure by business division and Corporate Center" table below shows a breakdown of the UBS Group's banking and traded product exposures before and after allowances and provisions for credit losses, credit valuation adjustment on traded products and specific credit hedges. Portfolio hedges, such as index CDS, are not included in this analysis. Banking product exposures are shown on an amortized cost or notional basis, without applying credit conversion factors. Exposures to OTC derivatives are generally shown in the table as net positive RV after the application of legally enforceable netting agreements and the deduction of cash collateral. In some cases, however, the exposures are based on a more simplistic RV plus add-on approach. Exchange-traded derivatives exposures take into account initial and daily variation margins. Securities financing exposures are shown net of the collateral received.

The UBS Group's lending business saw increased levels of exposure in 2012. Total gross credit exposure amounted to CHF 496 billion on 31 December 2012 compared with CHF 476 billion at the end of 2011. The UBS Group's banking product exposures increased to CHF 440 billion from CHF 394 billion, mainly due to increases in the balances with central banks and in the loan books of Wealth Management and Wealth Management Americas. The UBS Group's traded products exposures, which arise largely in the Investment Bank, declined by CHF 26 billion to CHF 56 billion.

Table 2: Credit exposures by business division and Corporate Center

Credit exposure by business division and Corporate Center														
	Wealth Management		Wealth Management Americas		Investment Bank		Global Asset Management		Retail & Corporate		Corporate Center[1]		Group	
CHF million	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11	31.12.12	31.12.11
Balances with central banks	413	1,165	11,260	2,161	21,049	31,743		155	2,173	2,205	29,224	1,135	64,119	38,565
Due from banks	1,039	555	2,298	1,594	15,521	18,182	343	317	2,713	3,840	599	338	22,513	24,826
Loans[2]	86,581	75,056	31,250	27,894	16,288	13,942	91	141	137,344	135,320	4,420	4,625	275,973	256,977
Guarantees	2,326	2,641	406	406	6,074	5,551			10,042	9,156	12	129	18,860	17,884
Loan commitments	1,574	1,220	1,214	1,076	48,755	46,763			6,787	6,735	39	164	58,369	55,958
Banking products [3]	91,932	80,637	46,428	33,131	107,686	116,181	433	613	159,059	157,256	34,295	6,390	439,834	394,209
OTC derivatives	2,884	3,869	57	74	23,848	38,748	286	330	1,406	1,839	4,306	7,011	32,787	51,871
Exchange-traded derivatives	779	817	814	877	5,545	7,938			61	167			7,199	9,799
Securities financing transactions			154	155	14,462	20,051					1,072	3	15,687	20,209
Traded products	3,663	4,686	1,025	1,106	43,855	66,737	286	330	1,467	2,006	5,377	7,014	55,673	81,880
Total credit exposure	95,595	85,323	47,453	34,238	151,541	182,918	719	943	160,526	159,262	39,672	13,404	495,506	476,088
Total credit exposure, net [4]	95,554	85,278	47,436	34,235	128,197	154,349	719	943	159,826	158,198	38,547	10,328	470,279	443,331

1 Includes the Legacy Portfolio. 2 Does not include reclassified securities and similar acquired securities in our Legacy Portfolio. 3 Excludes loans designated at fair value. 4 Net of allowances, provisions, CVA and hedges.

The UBS Group's credit derivatives trading is predominantly on a collateralized basis. This means that the UBS Group's credit exposures arising from derivatives activities with collateralized counterparties are typically closed out in full or reduced to nominal levels on a regular basis by the use of collateral. Derivatives trading with counterparties with high credit ratings (for example a large bank or broker-dealer) is typically under an International Swaps and Derivatives Association ("ISDA") master netting agreement. Credit exposures to those counterparties from CDS, together with exposures from other OTC derivatives, are netted and included in the calculation of the collateral required to be posted. Trading with lower rated counterparties (for example, hedge funds) would also generally require an initial margin to be posted by the counterparty.

The UBS Group receives collateral from or posts collateral to its counterparties based on its open net receivable or net payable from OTC derivative activities. Under the terms of the ISDA master netting agreement and similar agreements, this collateral, which generally takes the form of cash or highly liquid debt securities, is available to cover any amounts due under those derivative transactions.

Settlement risk, including payment risk of CDS, has been mitigated to some extent by the development of a market-wide credit event auction process. This has resulted in a widespread shift to the cash settlement of CDS following a credit event on a reference entity. The UBS Group did not experience any significant losses from failed settlements on CDS contracts in 2012.

The vast majority of the UBS Group's CDS trading activity is conducted by the Investment Bank. The "Credit derivatives portfolio by counterparty" table below provides further analysis of the Investment Bank's CDS counterparties based on notional amount of CDS protection purchased and sold. The analysis shows that the vast majority of the Investment Bank's CDS counterparties were market professionals. Based on the same notional measure, approximately 98% of these counterparties were rated investment grade and approximately 99% of the CDS activity was traded on a collateralized basis.

Table 3: Credit derivatives

Credit derivatives [1, 2]

This table provides an overview of our credit derivative portfolio by product group using notional amounts. The table also provides a breakdown of credit derivative positions used to manage our own credit portfolio risks (banking book for regulatory purposes) and those arising through intermediation activities (trading book for regulatory capital purposes).

	Regulatory banking book			Regulatory trading book			Total	
Notional amounts, CHF million	Protection bought	Protection sold	Total	Protection bought	Protection sold	Total	**31.12.12**	31.12.11
Credit default swaps	13,711	119	13,831	1,068,447	1,059,970	2,128,417	**2,142,248**	2,541,632
Total return swaps				4,212	1,524	5,736	**5,736**	4,403
Total 31.12.12	**13,711**	**119**	**13,831**	**1,072,659**	**1,061,494**	**2,134,153**	**2,147,984** [3]	
Total 31.12.11	22,348	3,719	26,067	1,283,606	1,236,362	2,519,968		2,546,035

1 Notional amounts of credit derivatives are based on accounting definitions and do not include any netting benefits. For capital underpinning of the counterparty credit risk of derivative positions, the effective expected positive exposure (or exposure according to current exposure method) is taken. 2 Notional amounts are reported based on regulatory scope of consolidation and do not include options and warrants.
3 Does not include notionals for credit derivatives traded via a central clearing counterparty of CHF 236.4 billion on December 2012 and CHF 172.4 billion on December 2011.

Credit derivatives portfolio by counterparty [1]

	% of total notional		% of buy notional		% of sell notional	
	31.12.12	31.12.11	**31.12.12**	31.12.11	**31.12.12**	31.12.11
Developed markets commercial banks	**60**	60	**60**	59	**61**	61
Broker-dealers, investment and merchant banks	**24**	23	**23**	23	**24**	23
Hedge funds	**3**	1	**2**	1	**4**	2
All other	**13**	16	**15**	18	**11**	14

1 Counterparty analysis based on notional CDS exposures of the Investment Bank sourced from credit risk systems.

5.3 Hedge accounting

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

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

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

6 Memberships in material payment, clearing and settlement systems

6.1 Clearinghouse and exchange memberships

Certain entities in the UBS Group are members of numerous securities and derivative exchanges and clearinghouses. In connection with some of those memberships, such entities may be required to pay a share of the financial obligations of another member who defaults, or otherwise be exposed to additional financial obligations as a result. While the membership rules vary, obligations generally would arise only if the exchange or clearinghouse had exhausted its resources. UBS AG considers the probability of a material loss due to such obligations to be remote.

7 Descriptions of foreign operations

The UBS Group draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. The UBS Group's business strategy is centered on its pre-eminent global wealth management businesses and leading universal bank in Switzerland. The operational structure of the Group comprises the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, the Investment Bank, Global Asset Management and Retail & Corporate.

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

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

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

Starting with reporting for the first quarter of 2013, it offers investment banking and capital markets, research, equities, foreign exchange, precious metals and tailored fixed income services in rates and credit through its two business units, Corporate Client Solutions and Investor Client Services.

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

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

The *Corporate Center* provides control functions for the business divisions and the Group in such areas as risk control, legal and compliance as well as finance, including treasury services, funding, balance sheet and capital management. The Corporate Center – Core Functions provides all logistics and support functions, including information technology, human resources, corporate development, Group regulatory relations and strategic initiatives, communications and branding, corporate real estate and administrative services, procurement, physical and information security, offshoring as well as Group-wide operations. It allocates most of its treasury income, operating expenses and personnel associated with these activities to the businesses based on capital and service consumption levels. The Corporate Center also encompasses certain centrally managed positions, including the SNB StabFund option, the Legacy Portfolio and, starting with reporting for the first quarter of 2013, non-core businesses previously part of the Investment Bank.

8 Material supervisory authorities

8.1 Regulation and supervision in Switzerland

The Swiss Federal Law on Banks and Savings Banks of 8 November 1934, as amended (Banking Act), and the related Swiss Federal Ordinance on Banks and Savings Bank of 17 May 1972, as amended (Banking Ordinance), provide the legal basis for banking in Switzerland. Based on the license obtained under this framework, the UBS Group may engage in a full range of financial service activities, including retail banking, commercial banking, investment banking and asset management in Switzerland. The Banking Act, Banking Ordinance and the Financial Market Supervision Act of 22 June 2007, as amended, establish a framework for supervision by FINMA, empowering it to issue its own ordinances and circular letters, which contribute to shaping the Swiss legislative framework for banks.

In 2010, the Swiss Federal Council and FINMA incorporated the enhancements to the Basel Capital Accord issued by the Basel Committee on Banking Supervision on 13 July 2009 (so-called Basel 2.5) into the Capital Adequacy Ordinance of 29 September 2006 (and related circular letters). The enhanced capital adequacy rules became effective on 1 January 2011. In autumn 2011, the Swiss Parliament amended the legal framework for banks to address the lessons learned from the financial crisis and, in particular, the "too-big-to-fail" issue. The amended sections are applicable to the largest Swiss banks, including UBS, and contain specific capital requirements and provisions to ensure that systemically relevant functions can be maintained in case of insolvency. In addition, and in line with global requirements, the UBS Group is required to produce and update recovery and resolution plans aimed at increasing the firm's resilience further in the case of a crisis, and provide FINMA and other regulators with information on how the firm could be resolved in the event of an unsuccessful recovery. These new sections entered into force on 1 March 2012. Switzerland implemented the Basel III Accord by means of a complete review of the Capital Adequacy Ordinance and related FINMA rules. In addition, a number of other amendments have been made to the Banking Ordinance and the Capital Adequacy Ordinance, which came into effect on 1 January 2013.

The Federal Act of 10 October 1997 on the Prevention of Money Laundering in the Financial Sector defines a common standard for due diligence obligations to prevent money laundering for the whole financial sector.

The legal basis for the investment funds business in Switzerland is the Swiss Federal Act on Collective Investment Schemes (Collective Investment Schemes Act) of 23 June 2006, which came into force on 1 January 2007. FINMA, as supervisory authority for investment funds in Switzerland, is responsible for the authorization and supervision of the institutions and investment funds subject to its control.

In the UBS Group's capacity as a securities broker and as an issuer of shares listed in Switzerland, the UBS Group is governed by the Federal Act on Stock Exchanges and Securities Trading of 24 March 1995. FINMA is the competent supervisory authority with respect to securities brokering.

FINMA fulfills its statutory supervisory responsibilities through the instruments of licensing, regulation, monitoring, and enforcement. Generally, prudential supervision in Switzerland is based on a division of tasks between FINMA and authorized audit firms. Under this two-tier supervisory system, FINMA has the responsibility for overall supervision and enforcement measures while the authorized audit firms carry out official duties on behalf of FINMA. The responsibilities of external auditors encompass the audit of financial statements, the review of banks' compliance with all prudential requirements and on-site audits.

The UBS Group is classified as a "big bank" due to its size, complexity, organization and business activities, as well as its importance to the financial system. As a big bank, the UBS Group is subject to more rigorous supervision than other banks. The UBS Group is directly supervised by the FINMA group "Supervision of UBS", which is supported by teams specifically monitoring investment banking activities, risk management, as well as solvency and capital aspects. Supervisory tools include numerous meetings with management and information exchange encompassing all control and business areas, independent assessments through review activities, and a regular exchange of views with internal audit functions, external auditors and important host supervisors. In recent years, FINMA has implemented the recommendations issued by the Financial Stability

Board and the Basel Committee on Banking Supervision, and complemented the Supervisory College with the UK Financial Services Authority[4] ("FSA") and the Federal Reserve Bank of New York ("FRBNY"), established in 1998 to promote supervisory cooperation and coordination, with a General Supervisory College – including more than a dozen of UBS host regulatory agencies – and a Crisis Management College (which is also attended by representatives from the Swiss National Bank ("SNB") and the Bank of England).

The SNB contributes to the stability of the financial system through macro-prudential measures and monetary policy, providing also liquidity to the banking system. It does not exercise any banking supervision and is not responsible for enforcing banking legislation, but works together with FINMA in the following areas: (i) assessment of the soundness of systemically important banks, (ii) regulations that have a major impact on the soundness of banks, including liquidity, capital adequacy and risk distribution provisions, where they are of relevance for financial stability, and (iii) contingency planning and crisis management. FINMA and the SNB exchange information and share opinions about the soundness of the banking sector and systemically important banks, and are authorized to exchange information and documents that are not publicly accessible if they require these in order to fulfill their tasks. With regard to systemically important banks, the SNB may also carry out its own enquiries and request information directly from the banks. In addition, the SNB has been tasked by parliament with the designation of systemically relevant banks and their systemically relevant functions in Switzerland.

8.2 Regulation and supervision in the US

UBS Group operations in the US are subject to a variety of regulatory regimes. The UBS Group maintains branches in several states, including Connecticut, Illinois, New York and Florida. These branches are licensed either by the Office of the Comptroller of the Currency ("OCC") or the state banking authority of the state in which the branch is located. Each US branch is subject to regulation and examination by its licensing authority. The UBS Group also maintains state and federally chartered trust companies and other limited purpose banks, which are regulated by state regulators or the OCC. In addition, the FRB exercises examination and regulatory authority over our state-licensed US branches. Only the deposits of the UBS Group's subsidiary bank located in the state of Utah are insured by the FDIC. The regulation of the UBS Group's US branches and subsidiaries imposes restrictions on the activities of those branches and subsidiaries, as well as prudential restrictions on their operations, such as limits on extensions of credit to a single borrower, including UBS subsidiaries and affiliates.

The licensing authority of each state-licensed US branch of UBS AG has the authority, in certain circumstances, to take possession of the business and property of UBS located in the state of the office it licenses. Such circumstances generally include violations of law, unsafe business practices and insolvency. As long as the UBS Group maintains one or more federal branches, the OCC also has the authority to take possession of all the US operations of UBS under broadly similar circumstances, as well as in the event that a judgment against a federally licensed branch remains unsatisfied. This federal power may pre-empt the state insolvency regimes that would otherwise be applicable to our state-licensed branches. As a result, if the OCC exercised its authority over the US branches of UBS pursuant to federal law in the event of a UBS insolvency, all US assets of UBS would generally be applied first to satisfy creditors of these US branches as a group, and then made available for application pursuant to any Swiss insolvency proceeding.

In addition to the direct regulation of our US banking offices, because the UBS Group operates US branches, it is subject to oversight regulation by the FRB under various laws (including the International Banking Act of 1978 and the Bank Holding Company Act of 1956). On 10 April 2000, UBS was designated a "financial holding company" under the Bank Holding Company Act of 1956. Financial holding companies may engage in a broader spectrum of activities than bank holding companies or foreign banking organizations that are not financial holding companies, including underwriting and dealing in securities. To maintain the UBS Group's

[4] On 1 April 2013 the Prudential Regulation Authority (PRA) became responsible for the prudential regulation and supervision of banks, see also section 8.3

financial holding company status, (i) the Group, the US subsidiary federally chartered trust company and the US subsidiary bank located in Utah are required to meet certain capital ratios, (ii) the US branches, the US subsidiary federally chartered trust company, and the US subsidiary bank located in Utah are required to meet certain examination ratings, and (iii) the subsidiary bank in Utah is required to maintain a rating of at least "satisfactory" under the Community Reinvestment Act of 1997.

A major focus of US governmental policy relating to financial institutions in recent years has been fighting money laundering and terrorist financing. Regulations applicable to UBS and its subsidiaries impose obligations to maintain effective policies, procedures and controls to detect, prevent and report money laundering and terrorist financing, and to verify the identity of their clients. Failure to maintain and implement adequate programs to combat money laundering and terrorist financing could have serious consequences, both in legal terms and in terms of the UBS Group's reputation.

In the US, UBS Securities LLC and UBS Financial Services Inc., as well as our other US-registered broker-dealer entities, are subject to regulations that cover all aspects of the securities business, including: sales methods, trade practices among broker-dealers, use and safekeeping of clients' funds and securities, capital structure, record-keeping, the financing of clients' purchases, and the conduct of directors, officers and employees.

These entities are regulated by a number of different government agencies and self-regulatory organizations, including the SEC and the Financial Industry Regulatory Authority ("FINRA"). Each entity is also regulated by some or all of the following: the New York Stock Exchange ("NYSE"), the Municipal Securities Rulemaking Board, the US Department of the Treasury, the CFTC and other exchanges of which it may be a member, depending on the specific nature of the respective broker-dealer's business. In addition, the US states, provinces and territories have local securities commissions that regulate and monitor activities in the interest of investor protection. These regulators have a variety of sanctions available, including the authority to conduct administrative proceedings that can result in censure, fines, the issuance of cease-and-desist orders or the suspension or expulsion of the broker-dealer or its directors, officers or employees.

FINRA is dedicated to investor protection and market integrity through effective and efficient regulation and complementary compliance and technology-based services. FINRA covers a broad spectrum of securities matters, including: registering and educating industry participants, examining securities firms, writing rules, enforcing those rules and the federal securities laws, informing and educating the investing public, providing trade reporting and other industry utilities, and administering a dispute resolution forum for investors and registered firms. It also performs market regulation under contract for the NASDAQ Stock Market, the NYSE, the American Stock Exchange and the Chicago Climate Exchange. The SEC's mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds.

The Dodd-Frank Act impacts the financial services industry by addressing, among other issues, the following: (i) systemic risk oversight, (ii) bank capital standards, (iii) the liquidation of failing systemically significant financial institutions, (iv) OTC derivatives, (v) the ability of deposit-taking banks to engage in proprietary trading activities and invest in hedge funds and private equity (the so-called Volcker rule), (vi) consumer and investor protection, (vii) hedge fund registration, (viii) securitization, (ix) investment advisors, (x) shareholder "say on pay," and (xi) the role of credit-rating agencies. Many of the provisions of the Dodd-Frank Act will affect the operation of UBS's US banking operations as well as the UBS Group's non-banking entities. The details of the legislation and its impact on UBS's operations depend on the final regulations being adopted by various agencies and oversight boards.

8.3 Regulation and supervision in the UK

Following implementation in the UK of a new "twin peaks" regulatory model on 1 April 2013, the responsibilities for regulation and supervision of UBS's UK regulated entities have been split under the Prudential Regulation Authority ("PRA") – newly established as a subsidiary of the Bank of England – and the Financial Conduct Authority ("FCA"). The Financial Services and Markets Act 2000 ("FSMA"), as amended, remains the principal statute governing the Financial Services industry within the UK. UBS is authorized under the FSMA, by both PRA and FCA, to conduct a range of regulated activities, and together these institutions apply the regime of rules and guidance governing all relevant aspects of financial services business in the UK. UBS AG London Branch is subject to dual regulation by the PRA and FCA in addition to regulation by FINMA. UBS Limited is also subject to dual regulation by the PRA and FCA. UBS Global Asset Management's UK legal entities, excluding UBS Global Asset Management Life Ltd, are subject to solo regulation and are therefore regulated, for both prudential and conduct purposes, by the FCA.

The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA's two statutory objectives are to 1) promote the safety and soundness of regulated firms and, 2) specifically for insurers, to contribute to the securing of an appropriate degree of protection for policyholders. The PRA applies forward-looking judgment based regulation to address the risks posed by firms to its statutory objectives. The FCA is responsible for the conduct regulation and supervision of all financial services firms and operates the prudential regulation of those financial services firms not supervised by the PRA, such as asset managers and independent financial advisers. The FCA's statutory strategic objective is to ensure relevant markets function well, and this is underpinned by three operational objectives which are to: 1) ensure fair treatment and protection of consumers; 2) protect and enhance the integrity of the UK financial system; and 3) promote effective competition in the interests of consumers in financial markets.

UK regulators operate a risk-based approach to supervision and have a wide variety of supervisory tools available to them, including regular risk assessments, on-site inspections (which may relate to an industry-wide theme or be firm-specific) and the ability to commission reports by skilled persons (who may be the firm's auditors, IT specialists, lawyers or other consultants as appropriate). The UK regulators also have an extremely wide set of sanctions which may be imposed under the FSMA, as amended, broadly similar to those available to US regulators. Some of our subsidiaries and affiliates are also regulated by the London Stock Exchange and other UK securities and commodities exchanges of which the UBS Group is a member. The UBS Group is also subject to the requirements of the UK Panel on Takeovers and Mergers, where relevant.

Financial services regulation in the UK is conducted in accordance with EU directives which require, amongst other things, compliance with certain capital adequacy standards, client protection requirements and adherence to conduct of business standards (such as the Markets in Financial Instruments Directive). These directives apply throughout the EU and are reflected in the regulatory regimes of the various member states.

9 Principal Officers

The following is a list of the members of the Board of Directors and the Secretary of UBS AG as of 2 May 2013.

Table 4: Principal officers

Name	Nationality	Born	Address	Function in UBS	Year of initial appointment
Axel A. Weber	German	8 March 1957	UBS AG Bahnhofstrasse 45, CH-8098 Zurich Switzerland	Chairman of the Board of Directors/ Chairman of the Governance and Nominating Committee/ Chairman of the Corporate Responsibility Committee	2012
Michel Demaré	Belgian	31 August 1956	ABB Ltd., Affolternstrasse 44, P.O. Box 5009, CH-8050 Zurich	Independent Vice Chairman of the Board of Directors / member of the Audit Committee / member of the Governance and Nominating Committee / member of the Human Resources and Compensation Committee	2009
David Sidwell	American (US) and British	28 March 1953	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Senior Independent Director of the Board of Directors / Chair of the Risk Committee / member of the Governance and Nominating Committee	2008
Reto Francioni	Swiss	18 August 1955	Deutsche Börse AG 60485 Frankfurt am Main Germany	Member of the Corporate Responsibility Committee	2013
Rainer-Marc Frey	Swiss	10 January 1963	Office of Rainer-Marc Frey, Seeweg 39, CH-8807 Freienbach	Member of the Human Resources and Compensation Committee /member of the Risk Committee	2008
Ann F. Godbehere	Canadian and British	14 April 1955	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Chair of the Human Resources and Compensation Committee / member of the Audit Committee	2009
Axel P. Lehmann	Swiss	23 March 1959	Zurich Financial Services, Mythenquai 2, CH-8002 Zurich	Member of the Risk Committee	2009
Helmut Panke	German	31 August 1946	BMW AG, Petuelring 130,	Member of the Human Resources and Compensation Committee / member of	2004

Name	Nationality	Born	Address	Function in UBS	Year of initial appointment
			D-80788 Munich	the Risk Committee	
William G. Parrett	American (US)	4 June 1945	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Chair of the Audit Committee / member of the Corporate Responsibility Committee	2008
Isabelle Romy	Swiss	4 January 1965	UBS AG Bahnhofstrasse 45, CH-8098 Zurich Switzerland	Member of the Audit Committee / member of the Governance and Nominating Committee	2012
Beatrice Weder di Mauro	Swiss and Italian	3 August 1965	UBS AG Bahnhofstrasse 45, CH-8098 Zurich Switzerland	Member of the Audit Committee / member of the Risk Committee	2012
Joseph Yam	Chinese and Hong Kong citizen	9 September 1948	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Member of the Corporate Responsibility Committee / member of the Risk Committee	2011
Luzius Cameron	Australian and Swiss	11 September 1955	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Company Secretary	2005

UBS AG operates under a strict dual board structure, as required by Swiss banking law. The management of the business is delegated by the Board of Directors of UBS AG to the UBS Group Executive Board ("GEB"). The GEB assumes overall responsibility for the development of the UBS Group and business division strategies and the implementation of the approved strategies. The following chart provides information on the GEB members as of 31 December 2012.

Name	Nationality	Born	Address	Function in UBS	Year of initial appointment
Sergio P. Ermotti	Swiss	11 May 1960	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Group Chief Executive Officer	2011
Markus U. Diethelm	Swiss	22 October 1957	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Group General Counsel	2008
John A. Fraser	Australian and British	8 August 1951	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Chairman and CEO Global Asset Management	2002

Name	Nationality	Born	Address	Function in UBS	Year of initial appointment
Lukas Gähwiler	Swiss	4 May 1965	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	CEO UBS Switzerland CEO Retail & Corporate	2010
Ulrich Körner	German and Swiss	25 October 1962	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Group Chief Operating Officer and CEO UBS Group EMEA	2009
Philip J. Lofts	British	9 April 1962	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Group Chief Risk Officer	2008
Robert J. McCann	American (US) and Irish	15 March 1958	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	CEO UBS Group Americas CEO Wealth Management Americas	2009
Tom Naratil	American (US)	1 December 1961	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	Group Chief Financial Officer	2011
Andrea Orcel	Italian	14 May 1963	UBS AG Bahnhofstrasse 45, CH 8098 Zurich	CEO Investment Bank	2012
Chi-Won Yoon	Korean	2 June 1959	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	CEO UBS Group APAC	2009
Jürg Zeltner	Swiss	4 May 1967	UBS AG, Bahnhofstrasse 45, CH-8098 Zurich	CEO UBS Wealth Management	2009

10 Corporate governance structure and processes related to resolution planning

UBS AG adheres to different regulations which – while addressing similar issues – use varying approaches, focus areas and terminology. As a result, the ownership of, and governance over, the different planning activities and deliverables is designed to ensure efficient, effective and consistent resolution planning processes across the different entities within the UBS Group and jurisdictions covered.

UBS AG launched a UBS Group-wide “Too Big To Fail” program (the “TBTF Program”) in the second quarter of 2011. After the initial submission of recovery and resolution planning documentation in Switzerland, the US and UK, the program was transitioned to a run-the-bank organization under the Group RRP Office. The Group RRP Office is part of the Group Regulatory Relations & Strategic Initiatives unit in Corporate Center and is centrally overseen by the UBS Group’s Chief Operating Officer and Chief Financial Officer. A global Group RRP steering committee meets regularly to review the progress of the recovery and resolution planning activities and approve deliverables as necessary. The composition of the global Group RRP steering committee includes Group functions, regions, and divisions that are directly impacted. The composition is regularly reviewed to adjust and amend the membership as the program evolves.

The UBS US RSP was approved by the UBS AG Board of Directors and the UBS Americas Executive Committee. The US Resolution Planning program coordinates closely with, and is functionally responsible to, the Group RRP Office. Additionally, the US Resolution Planning program works with other local programs operating under the auspices of the Group Regulatory Relations & Strategic Initiatives function to ensure that resolution planning issues are addressed within those programs.

Clear roles and responsibilities are defined to ensure effective working processes and compliance with decision-making authorities. These include processes required to prepare, verify, and sign off on recovery and resolution plans at global and local levels. This assures that senior management, the global Group RRP steering committee, local steering committees, and where applicable, the GEB and Board of Directors take responsibility for the content of the deliverables, are comfortable that provided information is appropriate and implementation issues are adequately addressed at all levels.

11 Description of material management information systems

UBS Group Technology in the Americas has approximately 1,726 full time employees who support the Investment Bank, Wealth Management Americas, Global Asset Management, Wealth Management, Retail & Corporate and the Corporate Center. As well as working in the US, this group covers business lines, products and services which flow across borders globally. UBS Group Technology is housed within a centralized logistics business unit.

The UBS Group deals with a large number of banks, market infrastructures, broker dealers, corporations, custodians and investment managers around the world. Its technology platforms form the backbone of communication between these institutions. The UBS Group has multiple memberships throughout the world: stock exchanges, clearing houses, payment systems, and messaging systems.

In the preparation of the UBS US RSP, the UBS Group identified the key management information systems and applications used for risk management, accounting, and financial and regulatory reporting. The UBS Group has compiled detailed inventories identifying the systems or applications and mapped these systems to Material Entities, Core Business Lines and Critical Operations.

The UBS Group further identified the scope, content and frequency of key internal reports (financial, operational, risk management) to run its business and that need to be used in the event of resolution. The UBS Group included processes and protocols designed to permit regulators direct access to such key management information systems in partnership with the UBS Group at a time of financial crisis.

12 High-level description of resolution strategy

The UBS US RSP provides a strategic analysis for the rapid and orderly resolution of each of the Core Business Lines, Critical Operations and Material Entities. As a preliminary matter, the UBS US RSP analyzes which Core Business Lines are saleable in recovery or resolution. The focus of the UBS US RSP with respect to Core Business Lines, therefore, is the preservation of the potential value of any saleable Core Business Lines pending a potential sale. Given the size of the UBS Group's operations, the range of potential purchasers is likely limited to large financial institutions, and the most likely candidates would be the UBS Group's competitors in the various Core Business Lines, which are identified in the Annual Report. The treatment of Material Entities within the UBS US RSP varies depending upon the nature of the service or product provided and upon whether or not they support a Core Business Line or a Critical Operation. Where an entity is considered material due to its connection with a Core Business Line, the resolution plan contemplates the sale of the entity or its assets as part of a sale of the Core Business Line as a whole, and if such a sale is not effected, the liquidation of the entity. Where an entity is considered material due to its connection to a Critical Operation, the resolution plan contemplates maintaining the entity during the wind-down of the Critical Operation.

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