Supplemental Listing Document

If you are in any doubt as to any aspect of this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, accountant or other professional adviser.

Application has been made to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for permission to deal in and for quotation of the Warrants (as defined below). The SGX-ST takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of UBS AG, acting through its London branch, the Index (as defined below) or the Warrants.

15,000,000 European Style Index Call Warrants relating to the Hang Seng Index

UBS AG

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

Issue Price: S$0.334 per Warrant

This document is published for the purpose of obtaining a listing of all the above warrants (the "**Warrants**") to be issued by UBS AG (the "**Issuer**") acting through its London branch, and is supplemental to and should be read in conjunction with a base listing document dated 29 June 2015 (the "**Base Listing Document**") as supplemented by an addendum to the Base Listing Document dated 29 February 2016 (the "**Addendum**"), including its supplements and addenda as executed from time to time, for the purpose of giving information with regard to the Issuer and the Warrants. Information relating to the Hang Seng Index (the "**Index**") is contained in this document.

This document does not constitute or form part of any offer, or invitation, to subscribe for or to sell, or solicitation of any offer to subscribe for or to purchase, Warrants or other securities of the Issuer, nor is it calculated to invite, nor does it permit the making of, offers by the public to subscribe for or purchase for cash or other consideration the Warrants or other securities of the Issuer. Restrictions have been imposed on offers and sales of the Warrants and on distributions of documents relating thereto in the United States, the United Kingdom, the European Economic Area, Singapore and Hong Kong (see "Placing and Sale" contained herein).

Investors are warned that the price of the Warrants may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment.

Prospective purchasers should therefore ensure that they understand the nature of the Warrants and carefully study the risk factors set out in the Base Listing Document and pages 18 to 21 of this document before they invest in the Warrants.

Application has been made to the SGX-ST for permission to deal in and for quotation of the Warrants and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Warrants. It is expected that dealings in the Warrants will commence on or about 28 April 2016.

As at the date hereof, the Issuer’s long term credit rating by Standard and Poor’s Ratings Group is A, by Moody’s Investors Service, Inc. is A1 and by Fitch Ratings Ltd is A.

The Issuer is regulated by, among others, the Swiss Federal Banking Commission. In the United Kingdom, it is authorised by the Prudential Regulatory Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulatory Authority.

27 April 2016

Subject as set out below, the Issuer accepts full responsibility for the accuracy of the information contained in this document, the Base Listing Document and the Addendum in relation to itself and the Warrants. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this document, the Base Listing Document and the Addendum for which it accepts responsibility (subject as set out below in respect of the information contained herein with regard to the Index) is in accordance with the facts and does not omit anything likely to affect the import of such information. The information with regard to the Index as set out herein is extracted from publicly available information. The Issuer accepts responsibility only for the accurate reproduction of such information. No further or other responsibility or liability in respect of such information is accepted by the Issuer.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Warrants, and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer. Neither the delivery of this document nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer or its subsidiaries and affiliates since the date hereof.

This document does not constitute an offer by, or an invitation on behalf of, the Issuer to purchase or subscribe for any of the Warrants. The distribution of this document and the offering of the Warrants may, in certain jurisdictions, be restricted by law. The Issuer requires persons into whose possession this document comes to inform themselves of and observe all such restrictions. In particular, the Warrants have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) unless the Warrants are registered under the Securities Act or any exemption from registration is available. Subject to certain exemptions, Warrants, or interests therein, may not at any time be offered, sold, resold or delivered within the United States or to, or for the account or benefit of, U.S. persons. A further description of certain restrictions on offering and sale of the Warrants and distribution of this document is given in the section headed "Placing and Sale" contained herein.

The SGX-ST has made no assessment of, nor taken any responsibility for, the financial soundness of the Issuer or the merits of investing in the Warrants, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

The Issuer and/or any of its affiliates may repurchase Warrants at any time on or after the date of issue and any Warrants so repurchased may be offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer. Investors should not therefore make any assumption as to the number of Warrants in issue at any time.

References in this document to the "**Conditions**" shall mean references to the Terms and Conditions of the European Style Index Call Warrants contained in the Base Listing Document. Terms not defined herein shall have the meanings ascribed thereto in the Conditions.

Table of Contents

TERMS AND CONDITIONS OF THE WARRANTS

The following are the terms and conditions of the Warrants and should be read in conjunction with, and are qualified by reference to, the other information set out in this document and the Base Listing Document.

The Conditions are set out in the section headed "Terms and Conditions of the European Style Index Call Warrants" in the Base Listing Document. For the purposes of the Conditions, the following terms shall have the following meanings:

Warrants:	15,000,000 European Style Index Call Warrants relating to the Hang Seng Index ("**Index**")
Index:	Hang Seng Index (Reuters Instrument Code: .HSI)
Index Sponsor:	Hang Seng Indexes Company Limited
Conversion Ratio (number of Index units per Warrant):	0.001 (i.e. every 1,000 Warrants initially relate to one Index unit)
Reference Level[1] and Source:	21,286.48 (in the money) (Reuters)
Strike Level:	21,200
Gearing[1]:	5.74x
Premium[1]:	8.60%
Volatility[1]:	Implied: 38.00% Historical: 25.00%
Launch Date:	20 April 2016
Closing Date:	27 April 2016
Dealing Commencement Date:	28 April 2016
Last Trading Date:	The fifth Business Day immediately preceding the Expiry Date, currently being 22 September 2016
Expiry Date:	29 September 2016 (if the Expiry Date is not a Business Day, then the Expiry Date shall fall on the immediately preceding Business Day)
Board Lot:	100 Warrants

[1] These figures are calculated as at, and based on information available to the Issuer on or about, the date of the termsheet in respect of the Warrants. The Issuer is not obliged, and undertakes no responsibility to any person, to update or inform any person of any changes to the figures after the date of the termsheet in respect of the Warrants.

Valuation Date:	The Expiry Date, or if such day is not a Relevant Stock Exchange Business Day, the immediately preceding Relevant Stock Exchange Business Day
Exercise:	Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by the Closing Level of the Index. If the Closing Level of the Index is greater than the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 5:00 p.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day. The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) of the Warrants. In the event the Closing Level of the Index is less than or equal to the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 5:00 p.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.
Index Currency Amount:	HK$1.00
Cash Settlement Amount:	In respect of each Warrant, is the amount (if positive) calculated as follows: [(Closing Level - Strike Level) x Conversion Ratio x Index Currency Amount] ÷ Exchange Rate
Closing Level:	The average of quotations of the Index compiled, computed and disseminated by the Index Sponsor taken at (i) five minute intervals from five minutes after the start of, and up to five minutes before the end of, the continuous trading session of The Stock Exchange of Hong Kong Limited ("**HKEx**"), and (ii) the close of trading on HKEx on the Valuation Date, rounded down to the nearest whole number, subject to the Issuer's right to determine the closing level in good faith upon the occurrence of a Market Disruption Event on the Valuation Date, as described further in Condition 4(c) of the Warrants.
Exchange Rate:	The rate of exchange between the Reference Currency and the Settlement Currency (expressed as the number of units of the Reference Currency per one unit of the Settlement Currency) on the Expiry Date (if it is not a Relevant Stock Exchange Business Day, the next following day which is a Business Day and a Relevant Stock Exchange Business Day) at or about 5:00 p.m. (Singapore time), as determined by the Issuer by reference to such source(s) as the Issuer may reasonably determine to be appropriate at such time.

Reference Currency:	Hong Kong dollars
Settlement Currency:	Singapore dollars
Exercise Expenses:	Holders of Warrants will be required to pay all charges which are incurred in respect of the exercise of the Warrants.
Relevant Stock Exchange:	HKEx
Relevant Stock Exchange Business Day:	A day (other than a Saturday, Sunday, or public holiday) on which the Relevant Stock Exchange is open for dealings in Hong Kong during its normal trading hours and banks are open for business in Hong Kong
Exchange Business Day:	A day (excluding Saturdays, Sundays and public holidays) on which the Singapore Exchange Securities Trading Limited ("**SGX-ST**") and HKEx are open for dealings during its normal trading hours and banks are open for business in Singapore and Hong Kong
Warrant Agent:	The Central Depository (Pte) Limited ("**CDP**")
Clearing System:	CDP
Fees and Charges:	Normal transaction and brokerage fees shall apply to the trading of the Warrants on the SGX-ST. Investors should note that they may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the Warrants are transferred. Investors who are in any doubt as to their tax position should consult their own independent tax advisers. In addition, investors should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time.

The Conditions set out in the section headed "Terms and Conditions of the European Style Index Call Warrants" in the Base Listing Document are set out below. This section is qualified in its entirety by reference to the detailed information appearing elsewhere in this document which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions set out below, replace or modify the relevant Conditions for the purpose of the Warrants.

**TERMS AND CONDITIONS OF
THE EUROPEAN STYLE INDEX CALL WARRANTS**

1. Form, Status, Transfer and Title

(a) *Form*. The Warrants (which expression shall, unless the context otherwise requires, include any further warrants issued pursuant to Condition 10) are issued subject to and with the benefit of:-

(i) an instrument by way of deed poll (the "**Instrument**") dated the Closing Date, made by UBS AG (the "**Issuer**") acting through its London Branch; and

(ii) a warrant agent agreement (the "**Master Warrant Agent Agreement**" or "**Warrant Agent Agreement**") dated any time on or before the Closing Date, made between the Issuer and the Warrant Agent for the Warrants.

Copies of the Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement.

(b) *Status*. The Warrants constitute direct, general and unsecured contractual obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Warrants provide for cash settlement on exercise and, in particular, the Warrants will not be secured by any underlying assets.

(c) *Transfer*. The Warrants are represented by a global warrant certificate ("**Global Warrant**") which will be deposited with The Central Depository (Pte) Limited ("**CDP**"). Warrants in definitive form will not be issued. Transfers of Warrants may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.

(d) *Title*. Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants shall be treated by the Issuer and the Warrant Agent as the holder and absolute owner of such number of Warrants, notwithstanding any notice to the contrary. The expression "**Warrantholder**" shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

(a) *Warrant Rights*. Every Warrant entitles each Warrantholder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (if any) in the manner set out in Condition 4.

The "**Cash Settlement Amount**", in respect of each Warrant, shall be an amount (if positive) payable in the Settlement Currency equal to (1) multiplied by (2) MULTIPLIED by (3), where:

(1) is the Index Currency Amount;

(2) is equal to (i) the Closing Level LESS (ii) the Strike Level; and

(3) is the Conversion Ratio.

"**Closing Level**" means, means the level specified as such in the relevant Supplemental Listing Document subject to any adjustment in accordance with Condition 6.

"**Conversion Ratio**" means the ratio (expressed as the number of Index units to which one Warrant relates) specified by the Issuer, subject to adjustments in accordance with these Conditions.

(b) *Exercise Expenses*. Warrantholders will be required to pay all charges which are incurred in respect of the exercise of the Warrants (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Warrantholders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Warrantholders in accordance with Condition 4.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Warrants shall be deemed to expire at 5:00 p.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day (as defined below), the immediately preceding Business Day.

4. Exercise of Warrants

(a) *Exercise*. Warrants may only be exercised on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, in accordance with Condition 4(b).

(b) *Automatic Exercise*. Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by the Closing Level of the Index. If the Closing Level of the Index is greater than the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 5:00 p.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day. The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) below. In the event the Closing Level of the Index is less than or equal to the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 5:00 p.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, and Warrantholders shall not be entitled to receive any payment from the Issuer in respect of the Warrants.

(c) *Settlement*. In respect of Warrants which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the Warrant Agent who will then pay to the relevant Warrantholder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be dispatched by the Warrant Agent as soon as practicable and no later than five Business Days following the Valuation Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Warrantholder only (or, in the case of joint Warrantholders, the first-named Warrantholder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Warrantholder and posted to the Warrantholder's address appearing in the records maintained by CDP (or, in the case of joint Warrantholders, to the address of the first-named Warrantholder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

If the Issuer determines, in its sole discretion, that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level on the basis of its good faith estimate of the Closing Level that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

"**Market Disruption Event**" means:

(i) the occurrence or existence, on a Valuation Date, at any time during the half hour period that ends at the time by reference to which the Issuer determines the value of the Index, of any of:-

(A) the suspension or limitation of the trading of a material number of securities/commodities from time to time comprising the Index; or

(B) the suspension or limitation of the trading of securities/commodities (1) on the SGX-ST or the Relevant Stock Exchange or (2) generally; or

(C) the suspension or limitation of the trading of (1) options or futures relating to the Index on any options or futures exchanges or (2) options or futures generally on any options and/or futures exchanges on which options or futures relating to the Index are traded; or

(D) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount.

(ii) a limitation or closure of the SGX-ST or the Relevant Stock Exchange due to any unforeseen circumstances.

For the purposes of this definition, (aa) the limitation on the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any exchange, and (bb) a limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of the movements in price exceeding the levels permitted by any relevant exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise due to any unforeseen circumstances) on the relevant exchange will constitute a Market Disruption Event.

"**Valuation Date**" means, the date on which the Closing Level is determined or such other date as may be specified in the relevant Supplemental Listing Document.

The Issuer's obligations to pay the Cash Settlement Amount shall be discharged by payment to the Warrant Agent in accordance with the Master Warrant Agent Agreement or Warrant Agent Agreement.

(d) *CDP not liable*. CDP shall not be liable to any Warrantholder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Warrants or otherwise pursuant to or in connection with these Conditions.

(e) *Business Day*. In these Conditions, a "**Business Day**" shall be a day (excluding Saturdays, Sundays and public holidays) on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore and an "**Index Business Day**" shall be a day on which the Index is published by the Index Sponsor or, as the case may be, the Successor Index Sponsor and where the Index closes at the normal trading hours.

5. Warrant Agent

(a) *Warrant Agent*. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Warrants are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Warrantholders in accordance with Condition 9.

(b) *Agent of Issuer*. The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Warrantholders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Warrantholders.

6. Adjustments to the Index

(a) *Successor Sponsor Calculates and Reports Index*. If the Index is (i) not calculated and announced by the Index Sponsor but is calculated and published by a successor to the Index Sponsor (the "**Successor Index Sponsor**") acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Sponsor or that successor index, as the case may be.

(b) *Modification and Cessation of Calculation of Index*. If:-

(i) on or prior to the Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stocks, contracts or commodities and other routine events); or

(ii) on a Valuation Date the Index Sponsor or (if applicable) the Successor Index Sponsor fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities/commodities that comprised the Index immediately prior to that change or failure (other than those securities that have since ceased to be listed on the relevant exchange).

(c) *Other Adjustments.* Except as provided in this Condition 6, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events (including the events as contemplated in Conditions 6(a) to 6(b)) occur which it believes in its sole discretion and irrespective of, in substitution for, or in addition to the provisions contemplated in Conditions 6(a) to 6(b) should, in the context of the issue of the Warrants and the obligations of the Issuer, give rise to such adjustment or as the case may be, amendment provided that such adjustment or as the case may be, amendment is considered by the Issuer (i) not to be materially prejudicial to the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment or amendment in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such adjustment or amendment is approved by SGX-ST.

(d) *Notice of Determinations*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations in accordance with Condition 9.

7. Purchases

The Issuer or its related corporations may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

8. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders*. The Master Warrant Agent Agreement or Warrant Agent Agreement contains provisions for convening meetings of the Warrantholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Warrant Agent Agreement or Warrant Agent Agreement) of a modification of the provisions of the Warrants or of the Master Warrant Agent Agreement or Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Warrantholders.

Such a meeting may be convened by the Issuer or by Warrantholders holding not less than ten per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantholders shall be binding on all the Warrantholders whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

(b) *Modification*. The Issuer may, without the consent of the Warrantholders, effect (i) any modification of the provisions of the Warrants or the Instrument which is not materially prejudicial to the interests of the Warrantholders or (ii) any modification of the provisions of the Warrants or the Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law or (iii) considered by the Issuer to be appropriate and such modification is approved by SGX-ST. Any such modification shall be binding on the Warrantholders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

(a) *Documents*. All cheques and other documents required or permitted by these Conditions to be sent to a Warrantholder or to which a Warrantholder is entitled or which the Issuer shall have agreed to deliver to a Warrantholder may be delivered by hand or sent by post addressed to the Warrantholder at his address appearing in the records maintained by CDP or, in the case of joint Warrantholders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Warrantholder.

(b) *Notices.* All notices to Warrantholders will be validly given if published in English on the website of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the website of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Warrant, give notice of the date of expiry of such Warrant in the manner prescribed above.

10. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further warrants so as to form a single series with the Warrants.

11. Illegality

The Issuer shall have the right to terminate the Warrants if it shall have determined in its absolute discretion that for reasons beyond its control its performance thereunder shall have become unlawful in whole or in part under any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power ("**Applicable Law**"). In such circumstances the Issuer will, however, if and to the extent permitted by the Applicable Law, pay to each Warrantholder in respect of each Warrant held by such Warrantholder an amount calculated by it as the fair market value of the Warrant immediately prior to such termination (ignoring such illegality) less the cost to the Issuer of unwinding any related hedging arrangements. Payment will be made to the Warrantholder in such manner as shall be notified to the Warrantholder in accordance with Condition 9.

12. Governing Law

The Warrants, the Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore.

13. Prescription

Claims against the Issuer for payment of any amount in respect of the Warrants will become void unless made within six years of the Expiry Date and, thereafter, any sums payable in respect of such Warrants shall be forfeited and shall revert to the Issuer.

14. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise expressly provided in the Global Warrant, the Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

SUMMARY OF THE ISSUE

The following is a summary of the issue and should be read in conjunction with, and is qualified by reference to, the other information set out in this document, the Base Listing Document and the Addendum. Terms used in this Summary are defined in the Conditions.

Issuer:	UBS AG, acting through its London Branch
Index:	Hang Seng Index
The Warrants:	European Style Index Call Warrants
Number:	15,000,000 Warrants
Form:	The Warrants will be issued subject to, and with the benefit of, an instrument by way of deed poll dated 27 April 2016 (the "**Instrument**") and executed by the Issuer and a master warrant agent agreement dated 27 February 2008 (the "**Master Warrant Agent Agreement**") and made between the Issuer and the Warrant Agent.
Conversion Ratio (number of Index units per Warrant):	0.001 (i.e. every 1,000 Warrants initially relate to one Index unit)
Board Lot:	100 Warrants
Cash Settlement Amount:	In respect of each Warrant, is the amount (if positive) calculated as follows: [(Closing Level - Strike Level) x Conversion Ratio x Index Currency Amount] ÷ Exchange Rate
Denominations:	Warrants are represented by a global warrant in respect of all the Warrants
Exercise:	Warrantholders shall not be required to deliver an exercise notice. Exercise of Warrants shall be determined by the Closing Level of the Index. If the Closing Level of the Index is greater than the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is positive, all Warrants shall be deemed to have been automatically exercised at 5:00 p.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day. The Cash Settlement Amount less the Exercise Expenses in respect of the Warrants shall be paid in the manner set out in Condition 4(c) of the Warrants. In the event the Closing Level of the Index is less than or equal to the Strike Level and the Cash Settlement Amount (less any Exercise Expenses) is zero or negative, all Warrants shall be deemed to have expired at 5:00 p.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, and Warrantholders shall not be entitled to

	receive any payment from the Issuer in respect of the Warrants.
Exercise and Trading Currency:	Singapore dollars
Transfers of Warrants:	Warrants may only be transferred in Board Lots (or integral multiples thereof). All transfers in Warrants, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records of CDP.
Listing:	Application has been made to the SGX-ST for permission to deal in and for quotation of the Warrants and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Warrants. Issue of the Warrants is conditional on such listing being granted. It is expected that dealings in the Warrants on the SGX-ST will commence on or about 28 April 2016.
Governing Law:	The laws of Singapore
Warrant Agent:	The Central Depository (Pte) Limited 11 North Buona Vista Drive #06-07 The Metropolis Tower 2 Singapore 138589
Further Issues:	Further issues which will form a single series with the Warrants will be permitted.

The above summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this document, the Base Listing Document and the Addendum.

RISK FACTORS

The following risk factors are relevant to the Warrants:-

(a) investment in Warrants involves substantial risks including market risk, liquidity risk, and the risk that the Issuer will be unable to satisfy its/their obligations under the Warrants. Investors should ensure that they understand the nature of all these risks before making a decision to invest in the Warrants. You should consider carefully whether Warrants are suitable for you in light of your experience, objectives, financial position and other relevant circumstances. Warrants are not suitable for inexperienced investors;

(b) the Warrants constitute direct, general and unsecured contractual obligations of the Issuer and if you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against any other person. In particular, it should be noted that the Issuer issues a large number of financial instruments, including Warrants, on a global basis and, at any given time, the financial instruments outstanding may be substantial. If you purchase the Warrants you are relying upon the creditworthiness of the Issuer and have no rights under the Warrants against the sponsor of the Index or any companies forming part of the Index to which the Warrants relate. The Issuer has substantially no obligation to a Warrantholder other than to pay amounts in accordance with the terms thereof as set forth herein and in the Base Listing Document. The Issuer does not in any respect underwrite or guarantee the performance of any Warrant. Any profit or loss realised by a Warrantholder in respect of a Warrant upon exercise or otherwise due to changes in the value of such Warrant, or the Index, is solely for the account of such Warrantholder. In addition, the Issuer shall have the absolute discretion to put in place any hedging transaction or arrangement which it deems appropriate in connection with any Warrant or the Index or any shares comprising the Index. A reduction in the rating, if any, accorded to outstanding debt securities of the Issuer by any one of its rating agencies could result in a reduction in the trading value of the Warrants;

(c) certain events relating to the Index or such shares comprising the Index may cause adverse movements in the level and price of the Index or the shares comprising the Index, as a result of which, the Warrantholders (as defined in the Conditions) may, in certain circumstances, sustain a total loss of their investment if the level of the Index falls below or is equal to the strike level on the relevant expiry date;

(d) due to their nature, the Warrants can be volatile instruments and may be subject to considerable fluctuations in value. The price of the Warrants may fall in value as rapidly as it may rise due to, including but not limited to, variations in the frequency and magnitude of the changes in the level of the Index, the time remaining to expiry and the creditworthiness of the Issuer;

(e) fluctuations in the Index level or the price of the shares comprising the Index will affect the price of the Warrants but not necessarily in the same magnitude and direction, therefore, prospective investors intending to purchase Warrants to hedge their market risk associated with investing in the shares comprising the Index or other securities/derivatives relating to the Index which may be specified herein, should recognise the complexities of utilising the Warrants in this manner;

(f) a Warrantholder must tender a specified number of Warrants at any one time in order to exercise. Thus, Warrantholders with fewer than the specified minimum number of Warrants in a particular series will either have to sell their Warrants or purchase additional Warrants, incurring transactions costs in each case, in order to realise their investment;

(g) if, whilst any of the Warrants remain unexercised, trading of options or futures relating to the relevant Index on any options or futures exchanges is suspended, or options or futures generally on any options and/or futures exchanges on which options or futures relating to the relevant Index are traded is suspended, or if the relevant Index for whatever reason is not calculated, trading in the relevant Warrants may be suspended for a similar period;

(h) investors should note that the Issuer's obligations to pay amounts in accordance with the terms thereof as set forth herein shall be discharged by delivery of the aggregate Cash Settlement Amount (if positive) to all Warrantholders in accordance with the agreement with the Warrant Agent;

(i) certain events relating to Index permit the Issuer to make certain determinations in respect of the Index and thus, permit the Issuer to make certain adjustments or amendments to the Conditions;

(j) a level for the Index may be published by the Index Sponsor at a time when one or more shares comprised in the Index are not trading. If this occurs on a Valuation Date and there is no Market Disruption Event under the terms of the relevant Warrants then the value of such shares may not be included in the closing level of the Index. In addition, certain events relating to the Index (including a material change in the formula or the method of calculating the Index or a failure to publish the Index) permits the Issuer to determine the level of the Index on the basis of the formula or method last in effect prior to such change of formula;

(k) a Warrant is only exercisable on its respective expiry date and may not be exercised by Warrantholders prior to such expiry date. Accordingly, if on such expiry date the Cash Settlement Amount (where applicable) is zero or negative, a Warrantholder will lose the value of his investment;

(l) investors should note that there may be an exchange rate risk where the Cash Settlement Amount may be converted from a foreign currency into Singapore dollars. Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments, and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Warrants. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies;

(m) investors should note that it is not possible to predict the price at which the Warrants will trade in the secondary market or whether such market will be liquid or illiquid. To the extent Warrants of a particular issue are exercised, the number of Warrants of such issue outstanding will decrease, resulting in a diminished liquidity for the remaining Warrants of such issue. A decrease in the liquidity of an issue of Warrants may cause, in turn, an increase in the volatility associated with the price of such issue of Warrants. The Issuer may, but is not obligated to, at any time, purchase Warrants at any price in the open market or by tender or private agreement. Any Warrants so purchased may be held or resold or surrendered for cancellation. To the extent that an issue of Warrants becomes illiquid, an investor may have to exercise such Warrants to realise value;

(n) two or more risk factors may simultaneously have an effect on the value of a Warrant such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a Warrant;

(o) investors should note that they may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the Warrants are transferred. Investors who are in any doubt as to their tax position should consult their own independent tax advisers. In addition, investors should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. Investors should refer to the Taxation Section in pages 240 to 243 of the Base Listing Document;

(p) investors should note that the Issuer may enter into discount, commission or fee arrangements with brokers and/or any of its subsidiaries or affiliates with respect to the primary or secondary market in the Warrants. The arrangements may result in the benefit to investors in Warrants buying and selling Warrants through nominated brokers by reducing or eliminating the commission payable by such Warrantholders. In the event that the commission payable by Warrantholders is eliminated, fee arrangements between the Issuer and brokers and/or any of its subsidiaries or affiliates will continue to apply. Investors in the Warrants should note that any brokers with whom the Issuer has a commission arrangement does not, and cannot be expected to, deal exclusively in the Warrants, therefore any broker and/or any of its subsidiaries or affiliates may from time to time engage in transactions involving the shares comprising the Index and/or structured products of other issuers over the same underlying Index as the Warrants for their proprietary accounts and/or accounts of their clients. The fact that the same broker may deal simultaneously for different clients in competing products in the market place may affect the value of the Warrants and present certain conflicts of interests;

(q) various potential and actual conflicts of interest may arise from the overall activities of the Issuer and any of its subsidiaries and affiliates.

The Issuer and any of its subsidiaries and affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for their own account or the account of others. In addition, the Issuer and any of its subsidiaries and affiliates, in connection with their other business activities, may possess or acquire material information about the Index and/or the shares comprising the Index. Such activities and information may involve or otherwise affect the Index and/or such shares comprising the Index in a manner that may cause consequences adverse to the Warrantholders or otherwise create conflicts of interests in connection with the issue of Warrants by the Issuer. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Issuer and any of its subsidiaries and affiliates have no obligation to disclose such information about the Index and/or such shares or such activities. The Issuer and any of its subsidiaries and affiliates and their officers and directors may engage in any such activities without regard to the issue of Warrants by the Issuer or the effect that such activities may directly or indirectly have on any Warrant;

(r) in the ordinary course of their business, including without limitation in connection with the Issuer or its appointed designated market maker's market making activities, the Issuer and any of its respective subsidiaries and affiliates may effect transactions for their own account or for the account of their customers and hold long or short positions in the shares comprising the Index and/or related derivatives. In addition, in connection with the offering of any Warrants, the Issuer and any of its respective subsidiaries and affiliates may enter into one or more hedging transactions with respect to the shares comprising the Index and/or related derivatives. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer and any of its respective subsidiaries and its affiliates, the Issuer and any of its respective subsidiaries and affiliates may enter into transactions in the shares comprising the Index and/or related derivatives which may affect the market price, liquidity or value of the Warrants and which may affect the interests of Warrantholders;

(s) certain risks relating to the Issuer's operating environment and strategy, including those as set out in the Base Listing Document, may impact the Issuer's ability to execute its strategy and directly affect its business activities, financial condition, results of operations and prospects. As a broad-based international financial services firm, the Issuer is inherently exposed to risks that become apparent only with the benefit of hindsight, risks of which it is not presently aware or which it currently does not consider to be material could also materially affect its business activities, financial condition, results of operations and prospects. The sequence in which the risk factors are set out in the Base Listing Document is not indicative of their likehood of occurrence or the potential magnitude of their financial consequences; and

(t) as the Warrants are represented by a global warrant certificate which will be deposited with The Central Depository (Pte) Limited ("**CDP**"):

  (i) investors should note that no definitive certificate will be issued in relation to the Warrants;

  (ii) there will be no register of Warrantholders and each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Warrants by way of interest (to the extent of such number) in the global warrant certificate in respect of those Warrants represented thereby shall be treated as the holder of such number of Warrants;

  (iii) investors will need to rely on any statements received from their brokers/custodians as evidence of their interest in the Warrants; and

  (iv) notices to such Warrantholders will be published on the website of the SGX-ST. Investors will need to check the website of the SGX-ST regularly and/or rely on their brokers/custodians to obtain such notices.

INFORMATION RELATING TO THE INDEX

All information contained in this document regarding the Index is derived from publicly available information. The Issuer has not independently verified any of such information which appears on the website of Hang Seng Indexes Company Limited at www.hsi.com.hk.

Description of the Index

The Hang Seng Index ("**HSI**") was launched on 24 November 1969 and is one of the earliest stock market indexes in Hong Kong. Also known as the Hong Kong Blue Chip Index, the HSI measures the performance of largest and most liquid companies listed in Hong Kong.

The HSI is managed and compiled by Hang Seng Indexes Company Limited (the "**Index Sponsor**") (formerly HSI Services Limited), which is a wholly-owned subsidiary of Hang Seng Bank.

Constituent Stocks

To better reflect the price movements of the major sectors of the market, four sub-indexes were introduced in 1985. The constituent stocks are grouped under Finance, Utilities, Properties, and Commerce and Industry sub-indexes, and are as follows (effective 14 March 2016):

Finance

Company Name	Stock Code
AIA Group Limited	1299
Bank of China Limited	3988
Bank of Communications Co., Ltd.	3328
BOC Hong Kong (Holdings) Limited	2388
China Construction Bank Corporation	939
China Life Insurance Company Limited	2628
Hang Seng Bank, Limited	11
Hong Kong Exchanges and Clearing Limited	388
HSBC Holdings plc	5
Industrial and Commercial Bank of China Limited	1398
Ping An Insurance (Group) Company of China, Ltd.	2318
The Bank of East Asia, Limited	23

Utilities

Company Name	Stock Code
Cheung Kong Infrastructure Holdings Ltd.	1038
China Resources Power Holdings Company Limited	836
CLP Holdings Limited	2
Power Assets Holdings Limited	6
The Hong Kong and China Gas Company Limited	3

Properties

Company Name	Stock Code
Cheung Kong Property Holdings Limited	1113
China Overseas Land & Investment Limited	688
China Resources Land Limited	1109
Hang Lung Properties Limited	101
Henderson Land Development Company Limited	12
New World Development Company Limited	17
Sino Land Company Limited	83
Sun Hung Kai Properties Limited	16
The Link Real Estate Investment Trust	823
The Wharf (Holdings) Limited	4

Commerce and Industry

Company Name	Stock Code
Belle International Holdings Limited	1880
Cathay Pacific Airways Limited	293
China Mengniu Dairy Co. Ltd.	2319
China Merchants Holdings (International) Company Limited	144
China Mobile Limited	941
China Petroleum & Chemical Corporation	386
China Shenhua Energy Company Limited	1088
China Unicom Limited	762
CITIC Limited	267
CK Hutchison Holdings Limited	1
CNOOC Limited	883
Galaxy Entertainment Group Ltd.	27
Hengan International Group Company Limited	1044
Kunlun Energy Co. Ltd.	135
Lenovo Group Ltd.	992
Li & Fung Limited	494
MTR Corporation Limited	66
PetroChina Company Limited	857
Sands China Ltd.	1928
Swire Pacific Limited ‘A’	19
Tencent Holdings Limited	700
Tingyi (Cayman Islands) Holding Corp.	322
Want Want China Holdings Ltd.	151

Eligibility and Selection Criteria

Constituent stocks of the HSI are selected by a rigorous process of detailed analysis. Only companies with a primary listing on the Main Board of the Stock Exchange of Hong Kong Limited (“**SEHK**”) are eligible potential constituents. Mainland China enterprises that have H-share listing in Hong Kong will be eligible for inclusion in the HSI if they meet any one of the following conditions:

1. the H-share company has 100% of its ordinary share capital in the form of H shares which are listed on the SEHK;

2. the H-share company has completed the process of Share Reform, with the result that there is no unlisted share capital in the company; or

3. for new H-share IPOs, the company has no unlisted share capital.

To be eligible for selection, a company in the Universe:

1. must be among those companies that constitute the top 90% of the total market capitalisation of all primary listed shares on the SEHK (market capitalisation is expressed as an average of the past 12 months);

2. must be among those companies that constitute the top 90% of the total turnover of all primary listed shares on the SEHK (turnover is aggregated and individually assessed for eight quarterly sub-periods for the past 24 months); and

3. should normally have a listing history of 24 months on the SEHK or meet the requirements of the below Guidelines for Handling Large-cap Stocks Listed for Less Than 24 Months.

From the many eligible candidates, final selections are based on the following:

1. the market capitalisation and turnover ranking of the company;

2. the representation of the relevant sub-sector within the HSI directly reflecting that of the market; and

3. the financial performance of the company.

The HSI is reviewed quarterly.

Guidelines for Handling Large-cap Stocks Listed for Less Than 24 Months:

For a newly listed large-cap stock, the minimum listing history required for inclusion in the universe for the HSI review is as follows:

AVERAGE MARKET CAPITALISATION RANKING AT TIME OF REVIEW	MINIMUM LISTING HISTORY
Top 5	3 Months
6-15	6 Months
16-20	12 Months
21-25	18 Months
Below 25	24 Months

Calculation Methodology

The HSI adopts freefloat-adjusted market capitalisation weighted methodology with a 15% cap on each constituent weighting.

$$\text{Current Index} = \frac{\sum(P_t \times IS \times FAF \times CF)}{\sum(P_{t-1} \times IS \times FAF \times CF)} \times \text{Yesterday's Closing Index}$$

P_t : Current Price at Day $_t$
P_{t-1} : Closing Price at Day $_{t-1}$
IS : Number of Issued Shares
(In case of H-share constituents, only H-share portion is taken into calculation)
FAF : Freefloat-adjusted Factor, which is between 0 and 1
CF : Cap Factor, which is between 0 and 1

Freefloat Adjustment

Shares held by any entities (excluding custodians, trustees, mutual funds and investment companies) which control more than 5% of the shareholdings would be considered as non-freefloat and are excluded from index calculation:

1. **Strategic holdings** – Governments and affiliated entities or any other entities which hold substantial shares in the Company would be considered as non-freefloat unless otherwise proved;

2. **Directors' and management holdings** – Directors, members of the board committee, principal officers or founding members;

3. **Corporate cross holdings** – Publicly traded companies or private firms / institutions; and

4. **Lock-up shares**[1] – Shareholdings with a publicly disclosed lock-up arrangement.

Data used for the freefloat adjustment are taken from publicly available sources, including financial reports, IPO prospectuses, company announcements, the Disclosure of Interests Notification History Reports from the Hong Kong Stock Exchange, FactSet and / or other research databases.

The freefloat-adjusted factor ("**FAF**"), representing the proportion of shares that is freefloated as a percentage of the issued shares, is rounded up to the nearest 1% for FAFs below 10% and otherwise to the nearest 5% for index calculation. FAFs are reviewed quarterly. For companies with more than one class of shares, FAF will be calculated separately for each class of shares.

Cap Adjustment

A cap factor ("**CF**") is calculated quarterly, such that no individual constituent in an Index will have a weighting exceeding a predetermined cap level on the index capping date.

Further information on the HSI and its constituent stocks

If investors in the Warrants would like to obtain any other information on the HSI, they may consider taking the following steps:

[1] Any A shares with trading restriction will be classified as non-freefloat, regardless of the shareholding percentage.

(i) to consult with their financial advisers; or

(ii) to visit the website of the Index Sponsor (if there is one) which at the date of this document is *www.hsi.com.hk*. The Index Sponsor may not always maintain a website and may change or add a new website. Intending investors should conduct their own web searches to ensure that they are viewing the most up to date version of the Index Sponsor's website. The Issuer takes no responsibility for the contents of the Index Sponsor's website and makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of the Index Sponsor's website.

Index Disclaimer

The Hang Seng Index (the "**Index**") is published and compiled by Hang Seng Indexes Company Limited pursuant to a licence from Hang Seng Data Services Limited. The mark and name "Hang Seng Index" are proprietary to Hang Seng Data Services Limited. Hang Seng Indexes Company Limited and Hang Seng Data Services Limited have agreed to the use of, and reference to, the Index by the Issuer in connection with the Warrants (the "**Product**"), **BUT NEITHER HANG SENG INDEXES COMPANY LIMITED NOR HANG SENG DATA SERVICES LIMITED WARRANTS OR REPRESENTS OR GUARANTEES TO ANY BROKER OR HOLDER OF THE PRODUCT OR ANY OTHER PERSON (i) THE ACCURACY OR COMPLETENESS OF THE INDEX AND ITS COMPUTATION OR ANY INFORMATION RELATED THERETO; OR (ii) THE FITNESS OR SUITABILITY FOR ANY PURPOSE OF THE INDEX OR ANY COMPONENT OR DATA COMPRISED IN IT; OR (iii) THE RESULTS WHICH MAY BE OBTAINED BY ANY PERSON FROM THE USE OF THE INDEX OR ANY COMPONENT OR DATA COMPRISED IN IT FOR ANY PURPOSE, AND NO WARRANTY OR REPRESENTATION OR GUARANTEE OF ANY KIND WHATSOEVER RELATING TO THE INDEX IS GIVEN OR MAY BE IMPLIED.** The process and basis of computation and compilation of the Index and any of the related formula or formulae, constituent stocks and factors may at any time be changed or altered by Hang Seng Indexes Company Limited without notice. **TO THE EXTENT PERMITTED BY APPLICABLE LAW, NO RESPONSIBILITY OR LIABILITY IS ACCEPTED BY HANG SENG INDEXES COMPANY LIMITED OR HANG SENG DATA SERVICES LIMITED (i) IN RESPECT OF THE USE OF AND/OR REFERENCE TO THE INDEX BY THE ISSUER IN CONNECTION WITH THE PRODUCT; OR (ii) FOR ANY INACCURACIES, OMISSIONS, MISTAKES OR ERRORS OF HANG SENG INDEXES COMPANY LIMITED IN THE COMPUTATION OF THE INDEX; OR (iii) FOR ANY INACCURACIES, OMISSIONS, MISTAKES, ERRORS OR INCOMPLETENESS OF ANY INFORMATION USED IN CONNECTION WITH THE COMPUTATION OF THE INDEX WHICH IS SUPPLIED BY ANY OTHER PERSON; OR (iv) FOR ANY ECONOMIC OR OTHER LOSS WHICH MAY BE DIRECTLY OR INDIRECTLY SUSTAINED BY ANY BROKER OR HOLDER OF THE PRODUCT OR ANY OTHER PERSON DEALING WITH THE PRODUCT AS A RESULT OF ANY OF THE AFORESAID, AND NO CLAIMS, ACTIONS OR LEGAL PROCEEDINGS MAY BE BROUGHT AGAINST HANG SENG INDEXES COMPANY LIMITED AND/OR HANG SENG DATA SERVICES LIMITED** in connection with the Product in any manner whatsoever by any broker, holder or other person dealing with the Product. Any broker, holder or other person dealing with the Product does so therefore in full knowledge of this disclaimer and can place no reliance whatsoever on Hang Seng Indexes Company Limited and Hang Seng Data Services Limited. For the avoidance of doubt, this disclaimer does not create any contractual or quasi-contractual relationship between any broker, holder or other person and Hang Seng Indexes Company Limited and/or Hang Seng Data Services Limited and must not be construed to have created such relationship.

INFORMATION RELATING TO THE DESIGNATED MARKET MAKER

UBS AG, London Branch, has been appointed the designated market maker ("**DMM**") for the Warrants. The DMM will provide competitive buy and sell quotes for the Warrants continuously during the trading hours of the SGX-ST on the following basis:

(a)	Maximum bid and offer spread	:	25 times the minimum permitted price movement in the Warrants in accordance with the rules of the SGX-ST
(b)	Minimum quantity subject to bid and offer spread	:	100 Board Lots Warrants
(c)	Last Trading Day for Market Making	:	The date falling five Exchange Business Days immediately preceding the Expiry Date

In addition, the DMM will/may not provide a quotation in the following circumstances:

(i) during the pre-market opening and five minutes following the opening of the Relevant Stock Exchange on any trading day;

(ii) before the Relevant Stock Exchange has opened and after the Relevant Stock Exchange has closed on any trading day and trading in the securities constituting the Index has ceased for such trading day;

(iii) when the Warrants are suspended from trading for any reason;

(iv) if a Market Disruption Event occurs;

(v) if the Warrant is valueless (where the Issuer's bid price is below the minimum bid size for such securities as prescribed by the SGX-ST), the DMM will not provide the bid price. In such an instance, the DMM will provide the offer price only;

(vi) when trading in the shares or securities relating to or constituting the Index is suspended or limited in a material way for any reason, for the avoidance of doubt, the DMM is not obliged to provide quotations for the Warrants at any time when the shares or securities relating to or constituting the Index are not traded for any reason;

(vii) when the Issuer or the DMM faces technical problems affecting the ability of the DMM to provide the bid and offer prices;

(viii) when the ability of the Issuer to source a hedge or unwind an existing hedge, as determined by the Issuer in good faith, is materially affected by the prevailing market conditions. The Issuer will inform the SGX-ST of its inability to do so as soon as practicable;

(ix) in cases where the Issuer has no Warrants to sell, the DMM will only provide the bid price. Warrants held by Issuer or any of Issuer's affiliates in a fiduciary or agency capacity are not Warrants available for market making;

(x) when the stock market experiences exceptional price movements and volatility; and

(xi) when it is a public holiday in Hong Kong and/or Singapore and/or HKEx and/or the SGX-ST are not open for dealings.

The last trading day on which the DMM will provide competitive Quotations for the Warrants would be the fifth Exchange Business Day immediately preceding the Expiry Date.

PLACING AND SALE

General

No action has been or will be taken by the Issuer that would permit a public offering of the Warrants or possession or distribution of any offering material in relation to the Warrants in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any Warrants, or distribution of any offering material relating to the Warrants may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligation on the Issuer. In the event that the Issuer contemplates a placing, placing fees may be payable in connection with the issue and the Issuer may at its discretion allow discounts to placees.

United Kingdom

All applicable provisions of the Financial Services and Markets Act 2000 (the “**FSMA**”) must be complied with in respect of anything done in relation to any Warrants in, from or otherwise involving the United Kingdom. An invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) may only be communicated or caused to be communicated in connection with the issue or sale of any Warrants in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer.

United States of America

The Warrants have not been, and will not be, registered under the Securities Act. Subject to certain exceptions, Warrants, or interests therein, may not at any time be offered, sold, resold or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person or to others for offering, sale or resale in the United States or to any such U.S. person. Offers and sales of Warrants, or interests therein, in the United States or to U.S. persons would constitute a violation of United States securities laws unless made in compliance with registration requirements of the Securities Act or pursuant to an exemption therefrom. The Warrants will not be offered, sold or delivered within the United States or to U.S. persons. As used herein, “**United States**” means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and “**U.S. person**” means any citizen or resident of the United States, including any corporation, partnership or other entity created or organised in or under the laws of the United States or of any political subdivision thereof, any estate or trust the income of which is subject to United States income taxation regardless of its source, and any other “U.S. person” as such term is defined in Regulation S under the Securities Act.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) the Warrants may not be offered to the public in that Relevant Member State, except that, with effect from and including the Relevant Implementation Date, the Warrants may be offered to the public in that Relevant Member State:

(a) in the period beginning on the date of publication of a prospectus in relation to those Warrants which has been approved by the competent authority in that

Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date specified in such prospectus;

(b) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(c) at any time to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Warrants to the public**" in relation to any Warrants in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Warrants to be offered so as to enable an investor to decide to purchase or subscribe the Warrants, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Warrants may not be circulated or distributed, nor may Warrants be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than pursuant to, and in accordance with the conditions of, any applicable provision of the Securities and Futures Act, Chapter 289 of Singapore.

Hong Kong

No person, other than a person permitted to do so under the securities laws of Hong Kong, has issued, or had in its possession for the purposes of issue, or will issue, or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Warrants, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong other than with respect to Warrants which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong and any rules made thereunder.

SUPPLEMENTAL INFORMATION RELATING TO THE ISSUER

The information set out in Appendix I of this document relates to the recent developments in the Issuer's business.

The information set out in Appendix II of this document is an extract of the audited consolidated financial statements of UBS AG and its subsidiaries for the full year ended 31 December 2015.

For more information on the Issuer, please see http://www.ubs.com/.

Queries regarding the Warrants may be directed to +852 2971 6668 or OL-HKWarrants@ubs.com.

SUPPLEMENTAL GENERAL INFORMATION

The information set out herein is supplemental to, and should be read in conjunction with, the information set out on page 246 of the Base Listing Document, and the Addendum.

1. Save as disclosed in the Base Listing Document (as amended and supplemented by the Addendum) and herein, there is no litigation, arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issue of the Warrants to which the Issuer is a party nor, to the best of its knowledge and belief, is there any threatened litigation, arbitration or administrative proceedings relating to claims or amounts which are material in the context of the issue of the Warrants which would in either case jeopardise its ability to discharge its obligations in respect of the Warrants.

2. UBS AG, Singapore Branch at One Raffles Quay, #50-01 North Tower, Singapore 048583, has been authorised to accept, on behalf of the Issuer, service of process and any other notices required to be served on the Issuer. Any notices required to be served on the Issuer should be sent to UBS AG, Singapore Branch at the above address for the attention of Christie Ng, Legal & Compliance.

3. Settlement of trades done on a normal "ready basis" on the SGX-ST generally take place on the third Business Day following the transaction. Dealing in the Warrants will take place in board lots of 100 Warrants in Singapore dollars. For further details on the transfer of Warrants and their exercise, please refer to the section headed "Summary of the Issue" above.

4. It is not the current intention of the Issuer to apply for a listing of the Warrants on any stock exchange other than the SGX-ST.

5. There has been no adverse change, material in the context of the issue of the Warrants, in the financial position of the Issuer since 31 December 2015.

6. The following contracts, relating to the issue of the Warrants, have been or will be entered into by the Issuer and may be material to the issue of the Warrants:

   (a) the Instrument; and

   (b) the Warrant Agent Agreement.

   None of the directors of the Issuer has any direct or indirect interest in any of the above contracts.

7. The Issuer has appropriate risk management capabilities to manage the issue of the Warrants.

8. Copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the office of Allen & Gledhill LLP at One Marina Boulevard #28-00, Singapore 018989, during the period of 14 days from the date of this document:

   (a) the articles of association of the Issuer;

(b) the latest financial reports (including the notes thereto) of the Issuer;

(c) the Base Listing Document;

(d) the Addendum; and

(e) this document.

APPENDIX I

RECENT DEVELOPMENTS IN THE ISSUER'S BUSINESS

This section supersedes in its entirety the section in the Base Listing Document entitled "Information Relating to UBS AG".

1. Overview

UBS AG ("**Issuer**") with its subsidiaries (together, "**UBS AG (consolidated)**", or "**UBS AG Group**"; together with UBS Group AG, which is the holding company of UBS AG, "**UBS Group**", "**Group**", "**UBS**" or "**UBS Group AG (consolidated)**") provides financial advice and solutions to private, institutional and corporate clients worldwide, as well as private clients in Switzerland. The operational structure of the Group is comprised of the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank. UBS's strategy builds on the strengths of all of its businesses and focuses its efforts on areas in which UBS excels, while seeking to capitalize on the compelling growth prospects in the businesses and regions in which it operates, in order to generate attractive and sustainable returns for shareholders. All of UBS's businesses are capital-efficient and benefit from a strong competitive position in their targeted markets.

On 31 December 2015, UBS Group AG (consolidated) common equity tier 1 ("**CET1**") capital ratio[1] was 14.5% on a fully applied basis and 19.0% on a phase-in basis, invested assets stood at CHF 2,689 billion, equity attributable to UBS Group AG shareholders was CHF 55,313 million and market capitalization was CHF 75,147 million. On the same date, UBS employed 60,099 people[2].

On 31 December 2015, UBS AG (consolidated) CET1 capital ratio[1] was 15.4% on a fully applied basis and 19.5% on a phase-in basis, invested assets stood at CHF 2,689 billion and equity attributable to UBS AG shareholders was CHF 55,248 million. On the same date, UBS AG Group employed 58,131 people[2].

The rating agencies Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"), Moody's Investors Service Ltd. ("Moody's"), Fitch Ratings Limited ("Fitch Ratings"), and Scope Ratings AG ("Scope Ratings") have published solicited credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfill in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings, Standard & Poor's and Scope Ratings may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has a long-term counterparty credit rating of A (outlook: positive) from Standard & Poor's, long-term senior debt rating of A1 (outlook: stable) from Moody's, long-term issuer default rating of A (outlook: positive) from Fitch Ratings and issuer credit-strength rating of A (outlook: stable) from Scope Ratings.

---

[1] Based on the Basel III framework as applicable to Swiss systemically relevant banks. The common equity tier 1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. The information provided on a fully applied basis entirely reflects the effects of prudential filters for the calculation of capital and does not include ineligible capital instruments. The information provided on a phase-in basis gradually reflects those effects and the phase-out of ineligible capital instruments during the transition period. For information as to how common equity tier 1 capital is calculated, refer to the table "Reconciliation IFRS equity to Swiss SRB capital" in the section "Capital management" of the Annual Report 2015 (as defined later on in this document).

[2] Full-time equivalents.

An explanation of the significance of ratings may be obtained from the rating agencies. Generally, rating agencies base their ratings on such material and information, and such of their own investigations, studies and assumptions, as they deem appropriate. The ratings of UBS AG should be evaluated independently from similar ratings of other entities, and from the rating, if any, of its securities. A credit rating is not a recommendation to buy, sell or hold securities issued or guaranteed by the rated entity and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency. All the above-mentioned rating agencies are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011.

No profit forecasts or estimates are included in this document.

No recent events particular to the Issuer have occurred, which are to a material extent relevant to the evaluation of the Issuer's solvency.

Any statements regarding the competitive position of UBS AG, UBS AG Group or the Group contained in this document are made on the basis of the opinion of UBS AG or the Group.

2. Corporate Information

The legal and commercial name of the Issuer is UBS AG.

The company was incorporated under the name SBC AG on 28 February 1978 for an unlimited duration and entered in the Commercial Register of Canton Basel-City on that day. On 8 December 1997, the company changed its name to UBS AG. The company in its present form was created on 29 June 1998 by the merger of Union Bank of Switzerland (founded 1862) and Swiss Bank Corporation (founded 1872). UBS AG is entered in the Commercial Registers of Canton Zurich and Canton Basel-City. The registration number is CHE-101.329.561.

UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations as an *Aktiengesellschaft*, a stock corporation.

According to article 2 of the Articles of Association of UBS AG, dated 15 February 2016 ("**Articles of Association**"), the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad. UBS AG may establish branches and representative offices as well as banks, finance companies and other enterprise of any kind in Switzerland and abroad, hold equity interests in these companies, and conduct their management. UBS AG is authorized to acquire, mortgage and sell real estate and building rights in Switzerland and abroad. UBS AG may provide loans, guarantees and other kinds of financing and security for Group companies and borrow and invest money on the money and capital markets.

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

3. Business Overview

3.1 Organizational Structure of the Issuer

UBS AG is a Swiss bank and the parent company of the UBS AG Group. It is 100% owned by UBS Group AG, which is the holding company of the UBS Group. The UBS Group operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank) and a Corporate Center.

Over the past two years, UBS has undertaken a series of measures to improve the resolvability of the Group in response to too big to fail ("TBTF") requirements in Switzerland and other countries in which the Group operates.

In December 2014, UBS Group AG completed an exchange offer for the shares of UBS AG and established UBS Group AG as the holding company for UBS Group. During 2015, UBS Group AG filed and completed a court procedure under article 33 of the Swiss Stock Exchange Act resulting in the cancellation of the shares of the remaining minority shareholders of UBS AG. As a result, UBS Group AG now owns 100% of the outstanding shares of UBS AG.

In June 2015, UBS AG transferred its Retail & Corporate (now Personal & Corporate Banking) and Wealth Management business booked in Switzerland to UBS Switzerland AG, a banking subsidiary of UBS AG in Switzerland.

In the second quarter of 2015, UBS also completed the implementation of a more self-sufficient business and operating model for UBS Limited, its investment banking subsidiary in the UK, under which UBS Limited bears and retains a larger proportion of the risk and reward in its business activities.

In the third quarter of 2015, UBS established UBS Business Solutions AG as a direct subsidiary of UBS Group AG to act as the Group service company. UBS will transfer the ownership of the majority of its existing service subsidiaries to this entity. UBS expects that the transfer of shared service and support functions into the service company structure will be implemented in a staged approach through 2018. The purpose of the service company structure is to improve the resolvability of the Group by enabling UBS to maintain operational continuity of critical services should a recovery or resolution event occur.

Also during 2015, UBS AG established a new subsidiary, UBS Americas Holding LLC, which UBS intends to designate as its intermediate holding company for its US subsidiaries prior to the 1 July 2016 deadline under new rules for foreign banks in the US pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). During the third quarter of 2015, UBS AG contributed its equity participation in the principal US operating subsidiaries to UBS Americas Holding LLC to meet the requirement under Dodd-Frank that the intermediate holding company own all of UBS's US operations, except branches of UBS AG.

UBS has also established a new subsidiary of UBS AG, UBS Asset Management AG, into which it expects to transfer the majority of the operating subsidiaries of Asset Management during 2016. UBS continues to consider further changes to the legal entities used by Asset Management, including the transfer of operations conducted by UBS AG in Switzerland into a subsidiary of UBS Asset Management AG.

UBS continues to consider further changes to the Group's legal structure in response to capital and other regulatory requirements, and in order to obtain any rebate in capital requirements for which the Group may be eligible. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group AG, consolidation of operating subsidiaries in the European Union, and adjustments to the booking entity or location of products and services. These structural changes are being discussed on an ongoing basis with the Swiss Financial Market Supervisory Authority FINMA ("**FINMA**") and other regulatory authorities, and remain subject to a number of uncertainties that may affect their feasibility, scope or timing.

UBS Group AG's interests in subsidiaries and other entities as of 31 December 2015, including interests in significant subsidiaries, are discussed in the UBS Group AG and UBS AG Annual Report 2015, in English, published on 18 March 2016 (the "**Annual Report 2015**"), on pages 540-549 (inclusive).

UBS AG's interests in subsidiaries and other entities as of 31 December 2015, including interests in significant subsidiaries, are discussed in the Annual Report 2015, on pages 707-716 (inclusive).

UBS AG is the parent company of the UBS AG Group. As such, to a certain extent, it is dependent on certain of its subsidiaries.

3.2 Business Divisions and Corporate Center

UBS operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management, and the Investment Bank) and a Corporate Center. Each of the business divisions and the Corporate Center are described below. A description of the Group's strategy can be found in the Annual Report 2015, on pages 33-37 (inclusive); a description of the businesses, strategies, clients, organizational structures, products and services of the business divisions and the Corporate Center can be found in the Annual Report 2015, on pages 41-58 (inclusive).

3.2.1 Wealth Management

Wealth Management provides comprehensive advice and financial services to wealthy private clients around the world, with the exception of those served by Wealth Management Americas. UBS is a global firm with global capabilities, and its clients benefit from a full spectrum of resources, including wealth planning, investment management solutions and corporate finance advice, banking and lending solutions, as well as a wide range of specific offerings. Wealth Management's guided architecture model gives clients access to a wide range of products from the world's leading third-party institutions that complement its own products.

3.2.2 Wealth Management Americas

Wealth Management Americas is one of the leading wealth managers in the Americas in terms of financial advisor productivity and invested assets. Its business includes UBS's domestic US and Canadian wealth management businesses, as well as international business booked in the US. It provides a fully integrated set of wealth management solutions designed to address the needs of ultra high net worth and high net worth clients.

3.2.3 Personal & Corporate Banking

Personal & Corporate Banking provides comprehensive financial products and services to UBS's private, corporate and institutional clients in Switzerland, maintaining a leading position in these segments and embedding its offering in a multi-channel approach. The business is a central element of UBS's universal bank delivery model in Switzerland, supporting other business divisions by referring clients and growing the wealth of the firm's private clients so they can be transferred to Wealth Management. Personal & Corporate Banking leverages the cross-selling potential of UBS's asset-gathering and investment bank businesses, and manages a substantial part of UBS's Swiss infrastructure and banking products platform.

3.2.4 Asset Management

Asset Management is a large-scale asset manager, with a presence in 22 countries. It offers investment capabilities and investment styles across all major traditional and alternative asset classes to institutions, wholesale intermediaries and wealth management clients around the world. It is a leading fund house in Europe, the largest mutual fund manager in Switzerland, the third-largest international asset manager in Asia, the second largest fund of hedge funds manager and one of the largest real estate investment managers in the world.

3.2.5 Investment Bank

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative solutions, execution and comprehensive access to international capital markets. It offers advisory services and provides in-depth cross-asset research, along with access to equities, foreign exchange, precious metals and selected rates and credit markets, through its business units, Corporate Client Solutions and Investor Client Services. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

3.2.6 Corporate Center

Corporate Center is comprised of Services, Group Asset and Liability Management ("Group ALM") and Non-core and Legacy Portfolio. Services includes the Group's control functions such as finance, risk control (including compliance) and legal. In addition, it provides all logistics and support services, including operations, information technology, human resources, regulatory relations and strategic initiatives, communications and branding, corporate services, physical security, information security as well as outsourcing, nearshoring and offshoring. Group ALM is responsible for centrally managing the Group's liquidity and funding position, as well as providing other balance sheet and capital management services to the Group. Non-core and Legacy Portfolio is comprised of the non-core businesses and legacy positions that were part of the Investment Bank prior to its restructuring.

3.3 Competition

The financial services industry is characterized by intense competition, continuous innovation, detailed, and sometimes fragmented, regulation and ongoing consolidation. UBS faces competition at the level of local markets and individual business lines, and from global financial institutions that are comparable to UBS in their size and breadth. Barriers to entry in individual markets and pricing levels are being eroded by new technology. UBS expects these trends to continue and competition to increase.

3.4 Recent Developments

3.4.1 UBS AG (consolidated) key figures

Selected consolidated financial information

UBS AG derived the selected consolidated financial information included in the table below for the years ended 31 December 2015, 2014 and 2013 from the Annual Report 2015, which contains the audited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the year ended 31 December 2015 and comparative figures for the years ended 31 December 2014 and 2013. The consolidated financial statements for the years ended on 31 December 2015, 31 December 2014 and 31 December 2013 were prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (IASB) and stated in Swiss francs ("**CHF**"). Information for the years ended 31 December 2015, 2014 and 2013 which is indicated as being unaudited in the table below was included in the Annual Report 2015 but has not been audited on the basis that the respective disclosures are not required under IFRS, and therefore are not part of the audited financial statements. Prospective investors should read the whole of this document, the Annual Report 2015 and the Annual Report 2014 and should not rely solely on the summarized information set out below:

	As of or for the year ended		
CHF million, except where indicated	31.12.15	31.12.14	31.12.13
	audited, except where indicated		
Results			
Operating income	30,605	28,026	27,732
Operating expenses	25,198	25,557	24,461
Operating profit / (loss) before tax	5,407	2,469	3,272
Net profit / (loss) attributable to UBS AG shareholders	6,235	3,502	3,172
Key performance indicators			
Profitability			
Return on tangible equity (%)[1]	13.5*	8.2*	8.0*
Return on assets, gross (%)[2]	3.1*	2.8*	2.5*
Cost / income ratio (%)[3]	82.0*	90.9*	88.0*
Growth			
Net profit growth (%)[4]	78.0*	10.4*	-
Net new money growth for combined wealth management businesses (%)[5]	2.2*	2.5*	3.4*
Resources			
Common equity tier 1 capital ratio (%, fully applied)[6, 7]	15.4*	14.2*	12.8*
Leverage ratio (phase-in, %)[8, 9]	5.7*	5.4*	4.7*
Additional information			
Profitability			
Return on equity (RoE) (%)	11.7*	7.0*	6.7*
Return on risk-weighted assets, gross (%)[10]	14.1*	12.4*	11.4*
Resources			
Total assets	943,256	1,062,327	1,013,355
Equity attributable to UBS AG shareholders	55,248	52,108	48,002
Common equity tier 1 capital (fully applied)[7]	32,042	30,805	28,908
Common equity tier 1 capital (phase-in)[7]	41,516	44,090	42,179

Risk-weighted assets (fully applied)[7]	208,186*	217,158*	225,153*
Risk-weighted assets (phase-in)[7]	212,609*	221,150*	228,557*
Common equity tier 1 capital ratio (%, phase-in)[6, 7]	19.5*	19.9*	18.5*
Total capital ratio (%) (fully applied)[7]	21.0*	19.0*	15.4*
Total capital ratio (%) (phase-in)[7]	24.9*	25.6*	22.2*
Leverage ratio (fully applied, %)[8, 9]	4.9*	4.1*	3.4*
Leverage ratio denominator (fully applied)[9]	898,251*	999,124*	1,015,306*
Leverage ratio denominator (phase-in)[9]	904,518*	1,006,001*	1,022,924*
Other			
Invested assets (CHF billion)[11]	2,689	2,734	2,390
Personnel (full-time equivalents)	58,131*	60,155*	60,205*

* unaudited

[1] Net profit attributable to UBS AG shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to UBS AG shareholders less average goodwill and intangible assets of UBS AG. [2] Operating income before credit loss (expense) or recovery (annualized as applicable) / average total assets. [3] Operating expenses / operating income before credit loss (expense) or recovery. [4] Change in net profit attributable to UBS AG shareholders from continuing operations between current and comparison periods / net profit attributable to UBS AG shareholders from continuing operations of comparison period. Not meaningful and not included if either the reporting period or the comparison period is a loss period. [5] Combined Wealth Management and Wealth Management Americas' net new money for the period (annualized as applicable) / invested assets at the beginning of the period. Based on adjusted net new money, which excludes the negative effect on net new money in 2015 of CHF 9.9 billion from UBS's balance sheet and capital optimization program. [6] Common equity tier 1 capital / risk-weighted assets. [7] Based on the Basel III framework as applicable to Swiss systemically relevant banks. [8] Common equity tier 1 capital and loss-absorbing capital / leverage ratio denominator. [9] Calculated in accordance with Swiss SRB rules. From 31 December 2015 onward, the Swiss SRB leverage ratio denominator calculation is fully aligned with the BIS Basel III rules. Prior-period figures are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. [10] Based on phase-in risk-weighted assets. [11] Includes invested assets for Personal & Corporate Banking.

3.4.2 Proposed new requirements for Swiss systemically relevant banks

In December 2015, the Swiss Federal Department of Finance published for consultation a revised TBTF ordinance based on the cornerstones announced by the Swiss Federal Council in October 2015. For Swiss systemically relevant banks ("SRB") that operate internationally, the proposal would revise existing Swiss SRB capital requirements and would establish additional gone concern requirements, which, together with the going concern requirement, represents the total loss-absorbing capacity ("TLAC"). TLAC encompasses regulatory capital such as common equity tier 1, additional tier 1 and tier 2 capital as well as liabilities that can be written down or converted into equity in case of resolution or recovery measures. The proposal would make the Swiss capital regime among the most demanding in the world.

The proposed going concern capital requirements consist of basic requirements for all Swiss SRB to maintain a leverage ratio of 4.5% and a ratio of capital to RWA of 12.9%. A progressive buffer would be added on top of the basic requirements, reflecting the degree of systemic importance. The progressive buffer for UBS is expected to be 0.5% of LRD and 1.4% of RWA, resulting in total going concern capital requirements of 5.0% of LRD and 14.3% of RWA (excluding countercyclical buffer requirements). The going concern leverage ratio proposal would require a minimum CET1 capital ratio of 3.5% of LRD and of up to 1.5% in high-trigger AT1 capital instruments. The minimum CET1 capital requirement will remain unchanged at 10% of RWA, and the balance of the RWA-based capital requirement, i.e. 4.3%, may be met with high-trigger AT1 instruments.

The gone concern requirements would be 5.0% of LRD and 14.3% of RWA for internationally active Swiss SRB and may be met with senior debt that is TLAC-eligible. Banks would be eligible for a reduction of the gone concern requirements if they demonstrate improved resolvability.

The proposal envisages transitional arrangements for outstanding low- and high-trigger tier 2 instruments to qualify as going concern capital until the earlier of 31 December 2019 or their maturity or first call date. Thereafter, they may be used to meet the gone concern requirement until one year before maturity. Low-trigger AT1 capital instruments will continue to qualify as going concern capital until the first call date and thereafter may also be used to meet the gone concern requirement. The proposed Swiss TBTF ordinance would permit a reduction of up to 2% of the LRD and 5.7% of RWA gone concern requirements for measures taken to improve resolvability. The amount and timing of any such reduction will be determined by FINMA as such measures are implemented.

The new rules are expected to come into force as of 1 July 2016. UBS intends to use the four-year phase-in period to fully implement the new requirements. UBS intends to meet the new CET1 leverage ratio requirement of 3.5% by retaining sufficient earnings while maintaining its commitment to total capital returns to shareholders of at least 50% of net profit attributable to shareholders, provided that UBS maintains a fully applied CET1 capital ratio of at least 13%, and consistent with its objective of maintaining a post-stress fully applied CET1 capital ratio of at least 10%. Furthermore, UBS plans to continue its issuance of AT1 instruments and TLAC-eligible senior debt to meet the new requirements without increasing overall liabilities.

In addition to defining the new going concern capital and gone concern requirements, the Swiss Federal Council has proposed that the implementation of a Swiss emergency plan be completed by the end of 2019. The Swiss emergency plan defines the measures required to ensure a continuation of systemically relevant functions in Switzerland.

3.4.3 Basel Committee on Banking Supervision proposes changes to the standardized approach for credit risk

The Basel Committee on Banking Supervision ("BCBS") released a second consultative document on revisions to the standardized approach for credit risk in December 2015. The proposal would reintroduce the use of external credit ratings for exposures to banks and corporates and would adopt a loan-to-value approach to risk weighting of real estate loans. The consultation ran until 11 March 2016 and the BCBS intends to finalize the revisions by the end of 2016.

3.4.4 Basel Committee on Banking Supervision issues revised market risk framework

In January 2016, the BCBS published a revised market risk framework, which defines minimum capital requirements for market risk exposures. The market risk framework includes stricter rules on the designation of instruments as either trading or banking book, a more prescriptive internal-model approach aimed at increasing consistency across banks, as well as a revised and more risk-sensitive standardized approach, which may also be used as a fall back to the internal-model approach. The BCBS will conduct further quantitative impact studies in order to monitor the effect of the capital requirements and to ensure consistency in the application of the framework. UBS expects Switzerland to finalize these changes in the domestic regulations no later than 1 January 2019, the deadline set by the BCBS.

3.4.5 Basel Committee on Banking Supervision review of risk-based capital framework

The BCBS also published two consultation papers during 2015 as part of its review of the capital framework to balance simplicity and risk sensitivity, and to promote comparability. The first paper is a consultation on the risk management, capital treatment and supervision of interest rate risk in the banking book, expanding upon and intending to ultimately replace the Basel Committee's 2004 principles for the management and supervision of interest rate risk. The second paper is a consultation on the Credit Valuation Adjustment ("CVA") Risk Framework, intending to ensure that all important drivers of credit valuation adjustment risk and its hedges are covered in the Basel regulatory capital standard, in order to align the capital standard with the fair value measurement of CVA employed under various accounting regimes, and to ensure consistency with the proposed revisions to the market risk framework under the Basel Committee's fundamental review of the trading book.

In addition, as part of its quarterly review, the Bank for International Settlements ("BIS") published a paper on the leverage ratio calibration. Subject to various caveats, the paper finds that there is considerable room to raise the leverage ratio requirement above its original 3% "test" level, to within a range of about 4–5%. The BCBS intends to complete the final calibration of the leverage ratio, and any further adjustments to its definition, by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018.

3.4.6 US Federal Reserve Board proposes TLAC rules, as well as long-term debt and clean holding company requirements

In October 2015, the Federal Reserve Board proposed a rule for TLAC and long-term debt ("LTD") requirements for covered bank holding companies and the Intermediate Holding Companies ("IHCs") of foreign banks. The proposal would require IHCs, such as that of UBS, to hold internal LTD based on the greatest of 7% of RWA, 3% of total leverage exposure if subject to the supplementary leverage ratio ("SLR"), and 4% of average total consolidated assets. The internal TLAC requirement would depend on whether the IHC is a non-resolution entity or a resolution entity, as defined in the rule. Non-resolution IHCs, which require certification from the home country regulator, would be required to hold the greatest of 16% of RWA, 6% of total leverage exposure if subject to the SLR, and 8% of average total consolidated assets. Resolution IHCs would be required to hold the greatest of 18% of RWA, 6.75% of total leverage exposure if subject to the SLR, and 9% of average total consolidated assets. UBS intends to seek the certification necessary to classify its IHC as a non-resolution IHC.

The proposal also applies an internal TLAC buffer of 2.5% plus any applicable countercyclical capital buffer. A breach would subject the IHC to restrictions on distributions and discretionary bonus payments. The proposal's clean holding company requirements would prohibit or limit IHCs from entering into certain financial arrangements that could create obstacles to orderly resolution. The UBS IHC would be subject to the requirements under the proposal.

For information on additional regulatory and legal developments, see the section "Regulatory and legal developments" in the Annual Report 2015.

3.5 Trend Information

As indicated in UBS's fourth quarter 2015 earnings release, issued on 2 February 2016, many of the underlying macroeconomic challenges and geopolitical risks that have been highlighted in previous reporting remain and are unlikely to be resolved in the foreseeable future. Negative market performance and substantial market volatility since the start of 2016, low interest rates, and the relative strength of the Swiss franc, particularly against the euro, continue to present headwinds. In addition, the proposed changes to the Swiss too big to fail framework will cause substantial ongoing interest costs. Further changes to the international regulatory framework for banks will likely impose additional costs. UBS will continue to execute the measures it announced to mitigate these effects as it works toward its financial targets. UBS remains committed to its strategy and its disciplined execution in order to deliver sustainable returns to UBS shareholders.

No later outlook statement has been issued by UBS.

4. Administrative, Management and Supervisory Bodies of the Issuer

UBS AG is subject to, and compliant with, all relevant Swiss legal and regulatory requirements regarding corporate governance.

UBS AG operates under a strict dual board structure, as mandated by Swiss banking law. The Board of Directors ("**BoD**") exercises the ultimate supervision over management, whereas the Group Executive Board ("**GEB**"), headed by the Group Chief Executive Officer ("**Group CEO**"), has executive management responsibility. The functions of Chairman of the BoD and Group CEO are assigned to two different people, ensuring a separation of power. This structure establishes checks and balances and preserves the institutional independence of the BoD from the day-to-day management of UBS AG, for which responsibility is delegated to the GEB under the leadership of the Group CEO.

No member of one board may simultaneously be a member of the other. The supervision and control of the GEB remains with the BoD. The Articles of Association and the Organization Regulations of UBS AG with their annexes govern the authorities and responsibilities of the two bodies.

4.1 Board of Directors

The BoD is the most senior body of UBS AG. The BoD consists of at least six and a maximum of twelve members. All the members of the BoD are elected individually by the Annual General Meeting of Shareholders ("**AGM**") for a term of office of one year, which expires after completion of the next AGM. Shareholders also elect the Chairman and the members of the Compensation Committee.

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

4.1.1 Members of the Board of Directors

Member	Title	Term of office	Current principal positions outside UBS AG
Axel A. Weber	Chairman	2016	Chairman of the Board of Directors of UBS Group AG. Member of the board of the Swiss Bankers Association, of the Board of Trustees of Avenir Suisse, of the Advisory Board of Zukunft Finanzplatz, of the Board of the Swiss Finance Council, of the Board of the Institute of International Finance, of the Board of the International Monetary Conference; member of the European Financial Services Roundtable and the European Banking Group; member of the International Advisory Panel, Monetary Authority of Singapore; member of the board of the Financial Services Professional Board, Kuala Lumpur; member of the Group of Thirty, Washington, D.C.; Chairman of the DIW Berlin Board of Trustees; advisory board member of the Department of Economics at the University of Zurich.
Michel Demaré	Independent Vice Chairman	2016	Independent Vice Chairman of the Board of Directors of UBS Group AG. Chairman of the board of Syngenta; board member of Louis-Dreyfus Commodities Holdings BV; Supervisory Board member of IMD, Lausanne; Chairman of the Syngenta Foundation for Sustainable Agriculture. Member of the advisory board of the Department of Banking and Finance, University of Zurich. Member of the Advisory Board of Zukunft Finanzplatz.
David Sidwell	Senior Independent Director	2016	Senior Independent Director of the Board of Directors of UBS Group AG. Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; board member of Chubb Limited; board member of GAVI Alliance; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.

Reto Francioni	Member	2016	Member of the Board of Directors of UBS Group AG. Professor, University of Basel; member of the board of Francioni AG, Swiss International Air Lines and MedTech Innovation Partners AG.
Ann F. Godbehere	Member	2016	Member of the Board of Directors of UBS Group AG. Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc and Rio Tinto Limited. Member of the board of British American Tobacco plc.
William G. Parrett	Member	2016	Member of the Board of Directors of UBS Group AG. Member of the board and Chairperson of the Audit Committee of the Eastman Kodak Company; board member of the Blackstone Group LP (chairman of audit committee and chairman of the conflicts committee); board member of Thermo Fisher Scientific Inc. (chairman of audit committee); member of the Committee on Capital Markets Regulation; member of the Carnegie Hall Board of Trustees; Past Chairman of the Board of the United States Council for International Business; Past Chairman of United Way Worldwide.
Isabelle Romy	Member	2016	Member of the Board of Directors of UBS Group AG. Partner at Froriep, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; Vice Chairman of the Sanction Commission of SIX Swiss Exchange; Member of the Fundraising committee of the Swiss national committee for UNICEF.
Beatrice Weder di Mauro	Member	2016	Member of the Board of Directors of UBS Group AG. Professor at the Johannes Gutenberg University, Mainz; member of the supervisory board of Robert Bosch GmbH, Stuttgart. Member of the ETH Zurich Foundation Board of Trustees. Member of the economic advisory board of Fraport AG; member of the advisory board of Deloitte Germany. Deputy Chairman of the University Council of the University of Mainz. Member of the Senate of the Max Planck Society.
Joseph Yam	Member	2016	Member of the Board of Directors of UBS Group AG. Executive Vice President of the China Society for Finance and Banking. Member of the board of Johnson Electric Holdings Limited, of UnionPay International Co., Ltd. and of The Community Chest of Hong Kong. International Advisory Council member of China Investment Corporation; Distinguished Research Fellow at the Institute of Global Economics and Finance at the Chinese University of Hong Kong.

4.1.2 Organizational principles and structure

Following each AGM, the BoD meets to appoint one or more Vice Chairmen, a Senior Independent Director, BoD committee members, other than the members of the Compensation Committee who are elected by the shareholders, and their respective Chairpersons. At the same meeting, the BoD appoints a Company Secretary, who acts as secretary to the BoD and its committees.

The BoD committees comprise the Audit Committee, the Compensation Committee, the Corporate Culture and Responsibility Committee, the Governance and Nominating Committee, and the Risk Committee. The BoD has also established a Special Committee, which is an ad-hoc committee, called and held on an ad-hoc basis, focused on internal and regulatory investigations related to foreign exchange.

4.1.3 Audit Committee

The Audit Committee ("**AC**") consists of five BoD members, all of whom were determined by the BoD to be fully independent. The Audit Committee members, as a group, must have the necessary qualifications and skills to perform all of their duties and must, together, possess financial literacy and experience in banking and risk management.

The AC itself does not perform audits, but monitors the work of the external auditors who in turn are responsible for auditing UBS AG's consolidated and standalone annual financial statements and for reviewing the quarterly financial statements.

The function of the AC is to serve as an independent and objective body with oversight of the following: (i) UBS AG's and the Group's accounting policies, financial reporting and disclosure controls and procedures, (ii) the quality, adequacy and scope of external audit, (iii) UBS AG's and the Group's compliance with financial reporting requirements, (iv) senior management's approach to internal controls with respect to the production and integrity of the financial statements and disclosure of the financial performance, and (v) the performance of UBS's Group Internal Audit in conjunction with the Chairman of the BoD.

The AC reviews the annual and quarterly consolidated as well as standalone financial statements of UBS AG, as proposed by management, with the external auditors and Group Internal Audit in order to recommend their approval (including any adjustments the AC considers appropriate) to the BoD.

Periodically, and at least annually, the AC assesses the qualifications, expertise, effectiveness, independence and performance of the external auditors and their lead audit partner, in order to support the BoD in reaching a decision in relation to the appointment or dismissal of the external auditors and the rotation of the lead audit partner. The BoD then submits these proposals for approval at the AGM.

The members of the AC are William G. Parrett (Chairperson), Michel Demaré, Ann F. Godbehere, Isabelle Romy and Beatrice Weder di Mauro.

4.2 Group Executive Board

Under the leadership of the Group CEO, the GEB has executive management responsibility for the business. All GEB members (with the exception of the Group CEO) are proposed by the Group CEO. The appointments are made by the BoD.

4.2.1 Members of the Group Executive Board

Member and business address	Function
Sergio P. Ermotti UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Executive Officer
Christian Bluhm UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Risk Officer
Markus U. Diethelm UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group General Counsel
Kirt Gardner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Financial Officer
Sabine Keller-Busse UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Head Human Resources
Ulrich Körner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	President Asset Management and President UBS Europe, Middle East and Africa
Axel P. Lehmann UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	Group Chief Operating Officer

Tom Naratil UBS AG, 1200 Harbor Boulevard, Weehawken, NJ 07086 USA	President Wealth Management Americas and President UBS Americas
Andrea Orcel UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	President Investment Bank
Kathryn Shih UBS AG, 2 International Finance Centre, 8 Finance Street, Central, Hong Kong	President UBS Asia Pacific
Jürg Zeltner UBS AG, Bahnhofstrasse 45, CH-8001 Zurich	President Wealth Management

No member of the GEB has any significant business interests outside UBS.

4.3 Potential Conflicts of Interest

Members of the BoD and GEB may act as directors or executive officers of other companies (for current principal positions outside UBS AG, if any, of BoD members, please see section 4.1.1 above) and may have economic or other private interests that differ from those of UBS AG. Potential conflicts of interest may arise from these positions or interests. UBS AG is confident that its internal corporate governance practices and its compliance with relevant legal and regulatory provisions reasonably ensure that any conflicts of interest of the type described above are appropriately managed, including through disclosure when appropriate.

5. Auditors

Based on article 39 of the Articles of Association, UBS AG shareholders elect the auditors for a term of office of one year. At the AGM of 2 May 2013, 7 May 2014 and 7 May 2015, Ernst & Young Ltd., Aeschengraben 9, CH-4002 Basel ("**Ernst & Young**") were elected as auditors for the consolidated and standalone financial statements of UBS AG for a one-year term.

Ernst & Young is a member of EXPERTsuisse, the Swiss Expert Association for Audit, Tax and Fiduciary.

6. Major Shareholders of the Issuer

UBS Group AG owns 100% of the outstanding shares of UBS AG.

7. Financial Information concerning the Issuer's Assets and Liabilities, Financial Position and Profits and Losses

7.1 Historical Annual Financial Information

Detailed information about UBS AG (consolidated) and UBS AG assets and liabilities, financial position and profits and losses for financial year 2015 is available in the sections "Consolidated financial statements" and "Legal entity financial and regulatory information" of the Annual Report 2015, respectively; and for financial year 2014 it is available in the "Financial information" section of the UBS Group AG and UBS AG annual report 2014, in English, published on 13 March 2015

("Annual Report 2014"). The consolidated and standalone financial accounts are closed on 31 December of each year.

With respect to the financial year 2015, reference is made to the following parts of the Annual Report 2015:

(i) the UBS AG consolidated financial statements, in particular to the Income statement on page 568, the Balance sheet on page 571, the Statement of changes in equity on pages 572-575 (inclusive), the Statement of cash flows on pages 577-578 (inclusive) and the Notes to the consolidated financial statements on pages 579-738 (inclusive); and

(ii) the UBS AG standalone financial statements, in particular to the Income statement on page 772, the Balance sheet on page 773-774, the Statement of appropriation of retained earnings and proposed dividend distribution on page 775, and the Notes to the UBS AG standalone financial statements on pages 776-792 (inclusive).

With respect to the financial year 2014, reference is made to the following parts of the Annual Report 2014:

(i) the UBS AG consolidated financial statements, in particular to the Income statement on page 554, the Balance sheet on page 557, the Statement of changes in equity on pages 558-561 (inclusive), the Statement of cash flows on pages 563-564 (inclusive) and the Notes to the consolidated financial statements on pages 565-724 (inclusive); and

(ii) the UBS AG standalone financial statements, in particular to the Income statement on page 748, the Balance sheet on page 749, the Statement of appropriation of retained earnings and proposed distribution of capital contribution reserve on page 750, the Notes to the UBS AG standalone financial statements on pages 751-760 (inclusive) and the Financial review on pages 745-747 (inclusive).

The annual financial reports form an essential part of UBS AG's reporting. They include the audited consolidated financial statements of UBS AG, prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and the audited standalone financial statements of UBS AG, prepared in accordance with Swiss GAAP, as well as certain additional disclosures required under US Securities and Exchange Commission regulations. The annual reports also include discussions and analysis of the consolidated financial and business results of UBS, its business divisions and the Corporate Center.

7.2 Auditing of Historical Annual Financial Information

The consolidated financial statements of UBS AG and the standalone financial statements of UBS AG for financial years 2015 and 2014 were audited by Ernst & Young. The reports of the auditors on the consolidated financial statements can be found on pages 566-567(inclusive) of the Annual Report 2015 and on pages 552-553 (inclusive) of the Annual Report 2014. The reports of the auditors on the standalone financial statements of UBS AG can be found on pages 793-794 (inclusive) of the Annual Report 2015 and on pages 761-762 (inclusive) of the Annual Report 2014.

There are no qualifications in the auditors' reports on the consolidated financial statements of UBS AG and the standalone financial statements of UBS AG for the years ended on 31 December 2015 and 31 December 2014.

7.3 Provisions and Litigation, Regulatory and Similar Matters

7.3.1 Provisions

CHF million	Operational risks[1]	Litigation, regulatory and similar matters[2]	Restructuring	Loan commitments and guarantees	Real estate	Employee benefits[5]	Other	**Total 31.12.15**	Total 31.12.14
Balance at the beginning of the year	50	3,053	647	23	153	215	224	**4,366**	2,971
Increase in provisions recognized in the income statement	43	1,263	361	6	27	7	71	**1,778**	3,308
Release of provisions recognized in the income statement	(7)	(166)	(102)	(3)	(1)	(18)	(40)	**(337)**	(528)
Provisions used in conformity with designated purpose	(37)	(1,174)	(287)	0	(28)	(1)	(133)	**(1,660)**	(1,659)
Capitalized reinstatement costs	0	0	0	0	5	0	0	**5**	0
Reclassifications	0	0	0	9	0	0	0	**9**	8
Foreign currency translation / unwind of discount	(1)	7	5	0	2	(5)	(3)	**3**	266
Balance at the end of the year	47	2,983	624[3]	35	157[4]	198	120	**4,163**	4,366

[1] Comprises provisions for losses resulting from security risks and transaction processing risks. [2] Comprises provisions for losses resulting from legal, liability and compliance risks. [3] Includes personnel related restructuring provisions of CHF 110 million as of 31 December 2015 (31 December 2014: CHF 116 million) and provisions for onerous lease contracts of CHF 514 million as of 31 December 2015 (31 December 2014: CHF 530 million). [4] Includes reinstatement costs for leasehold improvements of CHF 94 million as of 31 December 2015 (31 December 2014: CHF 98 million) and provisions for onerous lease contracts of CHF 62 million as of 31 December 2015 (31 December 2014: CHF 55 million). [5] Includes provisions for sabbatical and anniversary awards as well as provisions for severance which are not part of restructuring provisions.

Restructuring provisions primarily relate to onerous lease contracts and severance payments. The utilization of onerous lease provisions is driven by the maturities of the underlying lease contracts. Severance-related provisions are utilized within a short time period, usually within six months, but potential changes in amount may be triggered when natural staff attrition reduces the number of people affected by a restructuring and therefore the estimated costs.
Information on provisions and contingent liabilities in respect of Litigation, regulatory and similar matters, as a class, is included in the section "Litigation, Regulatory and Similar Matters" below. There are no material contingent liabilities associated with the other classes of provisions.

7.3.2 Litigation, Regulatory and Similar Matters

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

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. UBS makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that UBS has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against the Group, but are nevertheless expected to be, based on the Group's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

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

In the case of certain matters below, UBS states that it has established a provision, and for the other matters, it makes no such statement. When UBS makes this statement and it expects disclosure of the amount of a provision to prejudice seriously its position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, UBS does not disclose that amount. In some cases, UBS is subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which UBS does not state whether it has established a provision, either (a) it has not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard or (b) it has established a provision but expects disclosure of that fact to prejudice seriously its position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

With respect to certain litigation, regulatory and similar matters for which UBS has established provisions, UBS is able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which it is able to estimate expected timing is immaterial relative to its current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in the section "Provisions" above. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although UBS therefore cannot provide a numerical estimate of the future losses that could arise from litigation, regulatory and similar matters, it believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the non-prosecution agreement ("**NPA**") described in paragraph 5 of this section, which UBS entered into with the US Department of Justice ("**DOJ**"), Criminal Division, Fraud Section in connection with UBS's submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate ("**LIBOR**"), was terminated by the DOJ based on its determination that UBS had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG has pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, and has agreed to pay a USD 203 million fine and accept a three-year term of probation. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require UBS to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations and may permit financial market utilities to limit, suspend or terminate UBS's participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining UBS's capital requirements. Information concerning UBS's capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of the Annual Report 2015.

Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit[1, 2]

CHF million	WM	WMA	P&C	AM	IB	CC – Services	CC – Group ALM	CC – NcLP	**Total 31.12.15**	**Total 31.12.14**
Balance at the beginning of the year	188	209	92	53	1,258	312	0	941	**3,053**	**1,622**
Increase in provisions recognized in the income statement	114	372	0	0	17	15	0	744	**1,263**	**2,941**
Release of provisions recognized in the income statement	(10)	(19)	(3)	(3)	(15)	(1)	0	(115)	**(166)**	**(395)**
Provisions used in conformity with designated purpose	(36)	(110)	(5)	(33)	(675)	(13)	0	(302)	**(1,174)**	**(1,286)**
Reclassifications	0	0	0	0	0	0	0	0	**0**	**(2)**
Foreign currency translation / unwind of discount	(12)	7	(2)	(1)	0	(3)	0	18	**7**	**172**
Balance at the end of the year	**245**	**459**	**83**	**16**	**585**	**310**	**0**	**1,284**	2,983	3,053

[1] WM = Wealth Management; WMA = Wealth Management Americas; P&C = Personal & Corporate Banking; AM = Asset Management; IB = Investment Bank; CC–Services = Corporate Center – Services; CC – Group ALM = Corporate Center – Group Asset and Liability Management; CC-NcLP = Corporate Center - Non-core and Legacy Portfolio. [2] Provisions, if any, for the matters described in this section are recorded in Wealth Management (item 3), Wealth Management Americas (item 4), Corporate Center – Services (item 7) and Corporate Center – Non-core and Legacy Portfolio (items 2 and 8). Provisions, if any, for the matters described in this section in items 1 and 6 are allocated between Wealth Management and Personal & Corporate Banking, and provisions, if any, for the matters described in this section in item 5 are allocated between the Investment Bank, Corporate Center– Services and Corporate Center – Non-core and Legacy Portfolio.

1. Inquiries regarding cross-border wealth management businesses

Tax and regulatory authorities in a number of countries have made inquiries, served requests for information or examined employees located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. It is possible that implementation of automatic tax information exchange and other measures relating to cross-border provision of financial services could give rise to further inquiries in the future.

As a result of investigations in France, in 2013, UBS (France) S.A. and UBS AG were put under formal examination (**mise en examen**) for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance (**témoin assisté**) regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In 2014, UBS AG was placed under formal examination with respect to the potential charges of laundering of proceeds of tax fraud, and the investigating judges ordered UBS to provide bail (caution) of EUR 1.1 billion. UBS AG appealed the determination of the bail amount, but both the appeal court (**Cour d'Appel**) and the French Supreme Court (**Cour de Cassation**) upheld the bail amount and rejected the appeal in full in late 2014. UBS AG has filed and has had accepted a petition to the European Court of Human Rights to challenge various aspects of the French court's decision. In September 2015, the former CEO of UBS Wealth Management was placed under formal examination in connection with these proceedings. In addition, the investigating judges have sought to issue arrest warrants against three Swiss-based former employees of UBS AG who did not appear when summoned by the investigating judge. In February 2016, the investigating judge notified UBS that he does not intend to conduct further investigation. This notification commences a period in which the prosecutor may file a request for a judge to issue formal charges.

In March 2015, UBS (France) S.A. was placed under formal examination for complicity regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons for the years 2004 until 2008 and declared witness with legal assistance for the years 2009 to 2012. A bail of EUR 40 million was imposed, and was reduced by the Court of Appeals in May 2015 to EUR 10 million.

Separately, in 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and know your customer obligations. It imposed a penalty of EUR 10 million, which was paid.

UBS AG has been notified by the Brussels public prosecutor's office that it is investigating various aspects of UBS's cross-border business.

In January 2015, UBS received inquiries from the US Attorney's Office for the Eastern District of New York and from the US Securities and Exchange Commission ("**SEC**"), which are investigating potential sales to US persons of bearer bonds and other unregistered securities in possible violation of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the registration requirements of the US securities laws. UBS is cooperating with the authorities in these investigations.

UBS has, and reportedly numerous other financial institutions have, received inquiries from authorities concerning accounts relating to the Fédération Internationale de Football Association (FIFA) and other constituent soccer associations and related persons and entities. UBS is cooperating with authorities in these inquiries.

UBS's balance sheet at 31 December 2015 reflected provisions with respect to matters described in this item 1 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

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

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

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

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

RMBS-related lawsuits concerning disclosures: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in lawsuits related to approximately USD 6.2 billion in original face amount of RMBS underwritten or issued by UBS. Of the USD 6.2 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3.2 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans ("**UBS-sponsored RMBS**"). The remaining USD 3 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter ("**third-party RMBS**").

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights.

UBS is a defendant in two lawsuits brought by the National Credit Union Administration ("**NCUA**"), as conservator for certain failed credit unions, asserting misstatements and omissions in the offering documents for RMBS purchased by the credit unions. Both lawsuits were filed in US District Courts, one in the District of Kansas and the other in the Southern District of New York ("**SDNY**"). The original principal balance at issue in the Kansas case is approximately USD 1.15 billion and the original principal balance at issue in the SDNY case is approximately USD 400 million. In February 2016, UBS made an offer of judgment to NCUA in the SDNY case, which NCUA has accepted, pursuant to which UBS will pay USD 33 million plus an amount of prejudgment interest that will be determined by the court and reasonable attorneys' fees. Once these amounts are determined and judgment is entered, the SDNY case will end. Prejudgment interest and attorneys' fees are expected to significantly increase the total amount to be paid in the SDNY case.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust aggregating approximately USD 4.1 billion in original principal balance. Of this amount, UBS considers claims relating to approximately USD 2 billion in original principal balance to be resolved, including claims barred by the statute of limitations. Substantially all of the remaining claims are in litigation, including the matters described in the next paragraph. UBS believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

In 2012, certain RMBS trusts filed an action ("Trustee Suit") in the SDNY seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations ("**Transactions**") with an original principal balance of approximately USD 2 billion, for which Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, had previously demanded repurchase. In January 2015, the court rejected plaintiffs' efforts to seek damages for all loans purportedly in breach of representations and warranties in any of the three Transactions and limited plaintiffs to pursuing claims based solely on alleged breaches for loans identified in the complaint or other breaches that plaintiffs can establish were independently discovered by UBS. In February 2015, the court denied plaintiffs' motion seeking reconsideration of its ruling. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. Trial is currently scheduled for April 2016.

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

Mortgage-related regulatory matters: In 2014, UBS received a subpoena from the US Attorney's Office for the Eastern District of New York issued pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("**FIRREA**"), which seeks documents and information related to UBS's RMBS business from 2005 through 2007. In September 2015, the Eastern District of New York identified a number of transactions that are currently the focus of their inquiry, as to which UBS is providing additional information. UBS continues to respond to the FIRREA subpoena and to subpoenas from the New York State Attorney General ("**NYAG**") relating to its RMBS business. In addition, UBS has also been responding to inquiries from both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through the present. UBS is cooperating with the authorities in these matters. Numerous other banks reportedly are responding to similar inquiries from these authorities.

As reflected in the table "Provision for claims related to sales of residential mortgage-backed securities and mortgages", UBS's balance sheet at 31 December 2015 reflected a provision of USD 1,218 million with respect to matters described in this item 2. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

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

USD million	*31.12.15*	*31.12.14*
Balance at the beginning of the year	*849*	*817*
Increase in provision recognized in the income statement	*662*	*239*
Release of provision recognized in the income statement	*(94)*	*(120)*
Provision used in conformity with designated purpose	*(199)*	*(87)*
Balance at the end of the year	*1,218*	*849*

3. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC ("**BMIS**") investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including FINMA and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without, however, being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals were filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In July 2014, the Luxembourg Court of Appeal dismissed one test appeal in its entirety, which decision was appealed by the investor. In July 2015, the Luxembourg Supreme Court found in favor of UBS and dismissed the investor's appeal. In the US, the BMIS Trustee filed claims in 2010 against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. Following a motion by UBS, in 2011, the SDNY dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit affirmed the District Court's decision and, in June 2014, the US Supreme Court denied the BMIS Trustee's petition seeking review of the Second Circuit ruling. In December 2014, several claims, including a purported class action, were filed in the US by BMIS customers against UBS entities, asserting claims similar to the ones made by the BMIS Trustee, seeking unspecified damages. One claim was voluntarily withdrawn by the plaintiff. In July 2015, following a motion by UBS, the SDNY dismissed the two remaining claims on the basis that the New York courts did not have jurisdiction to hear the claims against the UBS entities. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds. In January 2015, a court of appeal reversed a lower court decision in favor of UBS in one such case and ordered UBS to pay EUR 49 million, plus interest (approximately EUR 15.3 million). UBS filed an application for leave to appeal the decision. That application was rejected by the German Federal Supreme Court in December 2015, meaning that the Court of Appeal's decision is final.

4. Puerto Rico

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds (the "funds") that are sole-managed and co-managed by UBS Trust Company of Puerto Rico and distributed by UBS Financial Services Incorporated of Puerto Rico ("**UBS PR**") have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of USD 1.6 billion, of which claims with aggregate claimed damages of approximately USD 374 million have been resolved through settlements or arbitration. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and/or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions in losses in the funds. In 2015, defendants' motion to dismiss was denied. Defendants are seeking leave to appeal that ruling to the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management, and the co-manager of certain of the funds seeking damages for investor losses in the funds during the period from May 2008 through May 2014. Defendants have moved to dismiss that complaint. In March 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA in December 2013 based on plaintiffs' allegation that the loans are not valid.

In 2014, UBS reached a settlement with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico ("**OCFI**") in connection with OCFI's examination of UBS's operations from January 2006 through September 2013. Pursuant to the settlement, UBS contributed USD 3.5 million to an investor education fund, offered USD 1.68 million in restitution to certain investors and, among other things, committed to undertake an additional review of certain client accounts to determine if additional restitution would be appropriate. That review resulted in an additional USD 2.1 million in restitution being offered to certain investors.

In September 2015, the SEC and the Financial Industry Regulatory Authority ("FINRA") announced settlements with UBS PR of their separate investigations stemming from the 2013 market events. Without admitting or denying the findings in either matter, UBS PR agreed in the SEC settlement to pay USD 15 million (which includes USD 1.18 million in disgorgement, a civil penalty of USD 13.63 million and pre-judgment interest), and USD 18.5 million in the FINRA matter (which includes up to USD 11 million in restitution to 165 UBS PR customers and a civil penalty of USD 7.5 million). The SEC settlement involves a charge against UBS PR of failing to supervise the activities of a former financial advisor who had recommended the impermissible investment of non-purpose loan proceeds into the UBS PR closed-end funds, in violation of firm policy and the customer loan agreements. In the FINRA settlement, UBS PR is alleged to have failed to supervise certain customer accounts which were both more than 75% invested in UBS PR closed-end funds and leveraged against those positions. UBS also understands that the DOJ is conducting a criminal inquiry into the impermissible reinvestment of non-purpose loan proceeds. UBS is cooperating with the authorities in this inquiry.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico ("**System**") against over 40 defendants, including UBS PR and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim, but that dismissal was subsequently overturned on appeal. Defendants have renewed their motion to dismiss the complaint on grounds not addressed when the court issued its prior ruling.

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012. Beginning in 2012, two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities, certain of the funds, and certain members of UBS PR senior management, seeking damages for investor losses in the funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. A motion for class certification was denied without prejudice to the right to refile the motion after limited discovery, and that motion has since been refiled.

In June 2015 Puerto Rico's Governor stated that the Commonwealth is unable to meet its obligations. In addition, certain agencies and public corporations of the Commonwealth have held discussions with their creditors to restructure their outstanding debt, and certain agencies and public corporations of the Commonwealth have defaulted on certain interest payments that were due in August 2015 and January 2016. The United States Supreme Court has agreed to hear Puerto Rico's appeal of a US District Court's invalidation of the Puerto Rico Public Corporations Debt Enforcement and Recovery Act (the "Act"), under which Puerto Rico's public corporations would be permitted to effect a mandatory restructuring of their respective debts with a specified creditor vote that would be binding on all applicable creditors, once approved by a court or, alternatively, under a court-supervised bankruptcy type restructuring. The foregoing events, any further defaults by the Commonwealth or its agencies and public corporations on (or any debt restructurings proposed by them with respect to) their outstanding debt, a Supreme Court decision upholding the Act (or sending it back to the District Court for further proceedings) and any further actions taken by Puerto Rico's public corporations under the Act, as well as any market reactions to any of the foregoing, may increase the number of claims against UBS concerning Puerto Rico securities as well as potential damages sought.

UBS's balance sheet at 31 December 2015 reflected provisions with respect to matters described in this item 4 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that UBS has recognized.

5. Foreign exchange, LIBOR, and benchmark rates, and other trading practices

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes its precious metals and related structured products businesses. Since then, various authorities have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission ("WEKO"), the DOJ, the SEC, the US Commodity Futures Trading Commission ("CFTC"), the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the UK Financial Conduct Authority ("FCA") (to which certain responsibilities of the UK Financial Services Authority ("FSA") have passed), the UK Serious Fraud Office ("SFO"), the Australian Securities and Investments Commission ("ASIC"), the Hong Kong Monetary Authority ("HKMA"), the Korea Fair Trade Commission (KFTC) and the Brazil Competition Authority (CADE). In addition, WEKO is, and a number of other authorities reportedly are, investigating potential manipulation of precious metals prices. UBS has taken and will take appropriate action with respect to certain personnel as a result of its ongoing review.

In 2014, UBS reached settlements with the FCA and the CFTC in connection with their foreign exchange investigations, and FINMA issued an order concluding its formal proceedings with respect to UBS relating to its foreign exchange and precious metals businesses. UBS has paid a total of approximately CHF 774 million to these authorities, including GBP 234 million in fines to the FCA, USD 290 million in fines to the CFTC, and CHF 134 million to FINMA representing confiscation of costs avoided and profits.

In May 2015, the Federal Reserve Board and the Connecticut Department of Banking issued an Order to Cease and Desist and Order of Assessment of a Civil Monetary Penalty Issued upon Consent ("Federal Reserve Order") to UBS AG. As part of the Federal Reserve Order, UBS AG paid a USD 342 million civil monetary penalty.

In May 2015, the DOJ's Criminal Division ("Criminal Division") terminated the December 2012 NPA with UBS AG related to UBS's submissions of benchmark interest rates. As a result, UBS AG entered into a plea agreement with the Criminal Division pursuant to which UBS AG agreed to and did plead guilty to a one-count criminal information filed in the US District Court for the District of Connecticut charging UBS AG with one count of wire fraud in violation of 18 USC Sections 1343 and 2. Under the plea agreement, UBS AG agreed to a sentence that includes a USD 203 million fine and a three-year term of probation. The criminal information charges that between approximately 2001 and 2010, UBS AG engaged in a scheme to defraud counterparties to interest rate derivatives transactions by manipulating benchmark interest rates, including Yen LIBOR. Sentencing is currently scheduled for 9 May 2016. The Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA, including fraudulent and deceptive currency trading and sales practices in conducting certain foreign exchange market transactions with clients and collusion with other participants in certain foreign exchange markets.

UBS has ongoing obligations to cooperate with these authorities and to undertake certain remediation, including actions to improve processes and controls.

UBS has been granted conditional immunity by the Antitrust Division of the DOJ ("Antitrust Division") from prosecution for EUR/USD collusion and entered into a non-prosecution agreement covering other currency pairs. As a result, UBS AG will not be subject to prosecutions, fines or other sanctions for antitrust law violations by the Antitrust Division, subject to UBS AG's continuing cooperation. However, the conditional immunity grant does not bar government agencies from asserting other claims and imposing sanctions against UBS AG, as evidenced by the settlements and ongoing investigations referred to above. UBS has also been granted conditional leniency by authorities in certain jurisdictions, including WEKO, in connection with potential competition law violations relating to precious metals, and as a result, will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in those jurisdictions, subject to UBS AG's continuing cooperation.

In October 2015, UBS AG settled charges with the SEC relating to structured notes issued by UBS AG that were linked to the UBS V10 Currency Index with Volatility Cap.

Investigations relating to foreign exchange and precious metals matters by numerous authorities, including the CFTC, remain ongoing notwithstanding these resolutions.

Foreign exchange-related civil litigation: Putative class actions have been filed since November 2013 in US federal courts and in other jurisdictions against UBS and other banks on behalf of putative classes of persons who engaged in foreign currency transactions with any of the defendant banks. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. In 2015, additional putative class actions were filed in federal court in New York against UBS and other banks on behalf of a putative class of persons who entered into or held any foreign exchange futures contracts and options on foreign exchange futures contracts since 1 January 2003. The complaints assert claims under the Commodity Exchange Act ("CEA") and the US antitrust laws. In July 2015, a consolidated complaint was filed on behalf of both putative classes of persons covered by the US federal court class actions described above. UBS has entered into a settlement agreement that would resolve all of these US federal court class actions. The agreement, which has been preliminarily approved by the court and is subject to final court approval, requires, among other things, that UBS pay an aggregate of USD 141 million and provide cooperation to the settlement classes.

In June 2015, a putative class action was filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries, and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 ("ERISA") for whom a defendant bank provided foreign currency exchange transactional services, exercised discretionary authority or discretionary control over management of such ERISA plan, or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA.

In 2015, UBS was added to putative class actions pending against other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the antitrust laws and the CEA and other claims.

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the SFO, the Monetary Authority of Singapore ("MAS"), the HKMA, FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to LIBOR and other benchmark rates. These investigations focus on whether there were improper attempts by UBS, among others, either acting on its own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time, FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, USD 500 million in fines to the DOJ, and CHF 59 million in disgorgement to FINMA. UBS Securities Japan Co. Ltd. ("UBSSJ") entered into a plea agreement with the DOJ under which it entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. UBS entered into an NPA with the DOJ, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency/immunity grants described below, required UBS to pay the USD 500 million fine to the DOJ after the sentencing of UBSSJ, and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. Under the NPA, UBS agreed, among other things, that for two years from 18 December 2012 UBS would not commit any US crime, and UBS would advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. The term of the NPA was extended by one year to 18 December 2015. In May 2015, the Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA. As a result, UBS entered into a plea agreement with the DOJ under which it entered a guilty plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and agreed to pay a fine of USD 203 million and accept a three-year term of probation. Sentencing is currently scheduled for 9 May 2016.

In 2014, UBS reached a settlement with the European Commission ("EC") regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC. The MAS, HKMA and the Japan Financial Services Agency have also resolved investigations of UBS (and in some cases, other banks). UBS has ongoing obligations to cooperate with the authorities with whom it has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions.

Investigations by the CFTC, ASIC and other governmental authorities remain ongoing notwithstanding these resolutions.

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

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in, or expected to be transferred to, the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives. Also pending are actions asserting losses related to various products whose interest rate was linked to USD LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest-bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including USD LIBOR, Euroyen TIBOR, Yen LIBOR, EURIBOR, CHF LIBOR, GBP LIBOR or USD ISDAFIX rates and seek unspecified compensatory and other damages under varying legal theories. In 2013, the court in the USD action dismissed the federal antitrust and racketeering claims of certain USD LIBOR plaintiffs and a portion of their claims brought under the CEA and state common law. Plaintiffs have appealed the dismissal and the appeal remains pending. In 2014, the court in one of the Euroyen TIBOR lawsuits dismissed certain of the plaintiff's claims, including federal antitrust claims. In 2015, the same court dismissed plaintiff's federal racketeering claims and affirmed its previous dismissal of plaintiff's antitrust claims. UBS and other defendants in other lawsuits including those related to EURIBOR, CHF LIBOR and GBP LIBOR have filed motions to dismiss.

Since September 2014, putative class actions have been filed in federal court in New York and New Jersey against UBS and other financial institutions, among others, on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The complaints, which have since been consolidated into an amended complaint, allege that the defendants conspired to manipulate ISDAFIX rates from 1 January 2006 through January 2014, in violation of US antitrust laws and the CEA, among other theories, and seeks unspecified compensatory damages, including treble damages. UBS and other defendants have filed a motion to dismiss, which remains pending.

Government bonds: Putative class actions have been filed in US federal courts against UBS and other banks on behalf of persons who participated in markets for US Treasury securities since 2007. The complaints generally allege that the banks colluded with respect to and manipulated prices of US Treasury securities sold at auction. They assert claims under the antitrust laws and the CEA and for unjust enrichment. The cases have been consolidated in the SDNY. Following filing of these complaints, UBS and reportedly other banks have received requests for information from various authorities regarding US Treasury securities and other government bond trading practices.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 31 December 2015 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

6. Swiss retrocessions

The Federal Supreme Court of Switzerland ruled in 2012, in a test case against UBS, that distribution fees paid to a firm for distributing third party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the firm, absent a valid waiver.

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

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

UBS's balance sheet at 31 December 2015 reflected a provision with respect to matters described in this item 6 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence, as in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

7. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. ("**Pactual**") by UBS to BTG Investments, LP ("**BTG**"), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.4 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. The majority of these assessments relate to the deductibility of goodwill amortization in connection with UBS's 2006 acquisition of Pactual and payments made to Pactual employees through various profit-sharing plans. These assessments are being challenged in administrative and judicial proceedings. In May 2015, the administrative court issued a decision that was largely in favor of the tax authority with respect to the goodwill amortization assessment. This decision has been appealed.

8. Matters relating to the CDS market

In 2013, the EC issued a Statement of Objections against 13 credit default swap ("**CDS**") dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association ("**ISDA**"). The Statement of Objections broadly alleges that the dealers infringed European Union antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. In December 2015, the EC issued a statement that it had decided to close its investigation against all 13 dealers, including UBS. The EC's investigation regarding Markit and ISDA is ongoing. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. In 2014, putative class action plaintiffs filed consolidated amended complaints in the SDNY against 12 dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act and common law. Plaintiffs allege that the defendants unlawfully conspired to restrain competition in and / or monopolize the market for CDS trading in the US in order to protect the dealers' profits from trading CDS in the over-the-counter market. In September 2015, UBS and the other defendants entered into settlement agreements to resolve the litigation, pursuant to which UBS has paid USD 75 million out of a total settlement amount paid by all defendants of approximately USD 1.865 billion. The agreements have received preliminary court approval but are subject to final court approval.

The specific litigation, regulatory and other matters described above include all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects as described in Note 22b "Litigation, regulatory and similar matters" to the UBS AG audited consolidated financial statements included in the Annual Report 2015.

The proceedings indicated below are matters that have recently been considered material, but are not currently considered material, by UBS. Besides the proceedings described above and those described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which UBS AG is aware) which may have, or have had in the recent past, significant effects on UBS AG Group's and/or UBS AG's financial position or profitability and are or have been pending during the last twelve months until the date of this document.

Equities trading systems and practices.

In January 2015, the SEC announced the resolution of its investigation concerning the operation of UBS's alternative trading system ("**ATS**") between 2008 and 2012, which focused on certain order types and disclosure practices that were discontinued two years ago. Under the SEC settlement order, which charges UBS with, among other things, violations of Section 17(a)(2) of the Securities Act of 1933 and Rule 612 of Regulation NMS (known as the sub-penny rule), UBS has paid a total of USD 14.5 million, which includes a fine of USD 12 million and disgorgement of USD 2.4 million. UBS is cooperating in the ongoing regulatory matters, including by the SEC.

UBS is responding to inquiries concerning the operation of UBS's ATS (also referred to as a dark pool) and its securities order routing and execution practices from various authorities, including the SEC, the NYAG and FINRA, who reportedly are pursuing similar investigations industry-wide.

Kommunale Wasserwerke Leipzig GmbH ("KWL").

In 2006, KWL entered into a single-tranche collateralized debt obligation/credit default swap ("STCDO/CDS") transaction with UBS, with latter legs being intermediated in 2006 and 2007 by Landesbank Baden-Württemberg ("LBBW") and Depfa Bank plc ("Depfa"). KWL retained UBS Asset Management to act as portfolio manager under the STCDO/CDS. UBS and the intermediating banks terminated the STCDO/CDS following non-payment by KWL under the STCDOs. UBS initiated proceedings against KWL, Depfa and LBBW seeking declarations and/or to enforce the terms of the STCDO/CDS contracts, and each of KWL, Depfa and LBBW filed counterclaims. Following trial, the Court ruled that UBS cannot enforce the STCDO/CDS entered into with KWL, LBBW or Depfa, which have been rescinded, granted the fraudulent misrepresentation claims of LBBW and Depfa against UBS, ruled that UBS Asset Management breached its duty in the management of the underlying portfolios and dismissed KWL's monetary counterclaim against UBS. These rulings were implemented and additional claims relating to interest on collateral and the costs of separate proceedings in Germany were deferred. UBS was also ordered to pay part of the other parties' costs in the proceedings, which have not been fully determined.

UBS sought leave to appeal the judgment. While the Court of Appeal denied UBS's application for leave to appeal on written submissions in February 2015, in October 2015, following oral argument, the Court granted UBS's application for permission to appeal on all requested grounds.

In December 2015, KWL sought permission to cross-appeal and also sought to uphold the trial court judgment on additional grounds. KWL's application for permission to appeal has not yet been determined. Thereafter, Depfa and LBBW each sought to uphold the trial judgment on additional grounds. Neither sought permission to cross-appeal. The date for the appeal hearing has not yet been fixed.

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

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

<u>RMBS-related lawsuits concerning disclosures</u>: A class action in which UBS was named as a defendant was settled by a third-party issuer and received final approval by the district court in 2013. The settlement reduced the original face amount of third-party RMBS at issue in the cases pending against UBS by approximately USD 24 billion. The third-party issuer will fund the settlement at no cost to UBS. In 2014, certain objectors to the settlement filed a notice of appeal from the district court's approval of the settlement.

<u>Loan repurchase demands</u>: Payments that UBS has made to date to resolve repurchase demands equate to approximately 62% of the original principal balance of the related loans. Most of the payments that UBS has made to date have related to so-called Option ARM loans; severity rates may vary for other types of loans with different characteristics. Losses upon repurchase would typically reflect the estimated value of the loans in question at the time of repurchase, as well as, in some cases, partial repayment by the borrowers or advances by servicers prior to repurchase.

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

Any future repurchase demands should be time-barred.

<u>Lawsuits related to contractual representations and warranties concerning mortgages and RMBS</u>: In 2012, the Federal Housing Finance Agency, on behalf of the Federal Home Loan Mortgage Corporation ("Freddie Mac"), filed a notice and summons in New York Supreme Court initiating suit against UBS RESI for breach of contract and declaratory relief arising from alleged breaches of representations and warranties in connection with certain mortgage loans and UBS RESI's alleged

failure to repurchase such mortgage loans. The lawsuit seeks, among other relief, specific performance of UBS RESI's alleged loan repurchase obligations for at least USD 94 million in original principal balance of loans for which Freddie Mac had previously demanded repurchase; no damages are specified. In 2013, the Court dismissed the complaint for lack of standing, on the basis that only the RMBS trustee could assert the claims in the complaint, and the complaint was unclear as to whether the trustee was the plaintiff and had proper authority to bring suit. The trustee subsequently filed an amended complaint, which UBS moved to dismiss. The motion remains pending.

Foreign exchange, LIBOR, and benchmark rates, and other trading practices

Foreign exchange-related regulatory matters: In 2014, the HKMA announced the conclusion of its investigation into foreign exchange trading operations of banks in Hong Kong. The HKMA found no evidence of collusion among the banks or of manipulation of foreign exchange benchmark rates in Hong Kong. The HKMA also found that certain banks had internal control deficiencies with respect to their foreign exchange trading operations.

Except as disclosed in this document, there is no litigation of which the Issuer is aware, which may have, or has had during the 12 months prior to the date of this document, a major impact on the financial position of UBS AG and its subsidiaries taken as a whole.

7.4 Material Contracts

No material contracts have been entered into outside of the ordinary course of UBS AG's or UBS AG Group's business, which could result in any member of the UBS AG Group being under an obligation or entitlement that is material to UBS AG's ability to meet its obligations to the investors in relation to the issued securities.

7.5 Significant Changes in the Financial or Trading Position; Material Adverse Change in Prospects

There has been no significant change in the financial or trading position of UBS AG or UBS AG Group since 31 December 2015, which is the end of the last financial period for which audited financial information has been published.

There has been no material adverse change in the prospects of UBS AG or UBS AG Group since 31 December 2015.

8. Share Capital

As reflected in its Articles of Association most recently registered with the Commercial Register of Zurich and the Commercial Register of Basel-City, UBS AG has (i) fully paid and issued share capital of CHF 385,840,846.60, divided into 3,858,408,466 registered shares with a par value of CHF 0.10 each (article 4), (ii) no authorized capital and (iii) conditional capital in the amount of (a) CHF 13,620,031.20, comprising 136,200,312 registered shares with a par value of CHF 0.10 each that can be issued upon exercise of employee options; and (b) CHF 38,000,000, comprising 380,000,000 registered shares with a par value of CHF 0.10 each that can be issued upon the voluntary or mandatory exercise of conversion rights and/or warrants (article 4a).

9. Documents on Display

- The annual report of UBS Group AG and UBS AG as of 31 December 2015, comprising the introductory section, as well as the sections (1) Operating environment and strategy, (2) Financial and operating performance, (3) Risk, treasury and capital management, (4) Corporate governance, responsibility and compensation, (5) Consolidated financial statements (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements"), (6) Legal entity financial and regulatory information (including the "Report of the statutory auditor on the financial statements"), (7) Additional regulatory information, and the Appendix;

- The annual report of UBS Group AG and UBS AG as of 31 December 2014, comprising the introductory section, as well as the sections (1) UBS Group - Changes to our legal structure; (2) Operating environment and strategy, (3) Financial and operating performance, (4) Risk, treasury and capital management, (5) Corporate governance, responsibility and compensation, (6) Financial information (including the "Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements" and the "Report of the statutory auditor on the financial statements"), and the Appendix; and

- The Articles of Association of UBS AG,

shall be maintained in printed format, for free distribution, at the offices of the Issuer for a period of twelve months after the publication of this document. In addition, the annual and quarterly reports, or quarterly result materials, of UBS Group AG and UBS AG are published on UBS's website, at www.ubs.com/investors or a successor address. The Articles of Association of UBS AG are also available on UBS's Corporate Governance website, at www.ubs.com/governance.

APPENDIX II

EXTRACT OF
THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF
UBS AG AND ITS SUBSIDIARIES
FOR THE FULL YEAR ENDED 31 DECEMBER 2015

Audited |

Income statement

		For the year ended			% change from
CHF million, except per share data	Note	**31.12.15**	31.12.14	31.12.13	31.12.14
Interest income	3	**13,178**	13,194	13,137	0
Interest expense	3	**(6,449)**	(6,639)	(7,351)	(3)
Net interest income	3	**6,729**	6,555	5,786	3
Credit loss (expense) / recovery	12	**(117)**	(78)	(50)	50
Net interest income after credit loss expense		**6,612**	6,477	5,736	2
Net fee and commission income	4	**17,184**	17,076	16,287	1
Net trading income	3	**5,696**	3,841	5,130	48
Other income	5	**1,112**	632	580	76
Total operating income		**30,605**	28,026	27,732	9
Personnel expenses	6	**15,954**	15,280	15,182	4
General and administrative expenses	7	**8,219**	9,377	8,380	(12)
Depreciation and impairment of property, equipment and software	16	**918**	817	816	12
Amortization and impairment of intangible assets	17	**107**	83	83	29
Total operating expenses		**25,198**	25,557	24,461	(1)
Operating profit / (loss) before tax		**5,407**	2,469	3,272	119
Tax expense / (benefit)	8	**(908)**	(1,180)	(110)	(23)
Net profit / (loss)		**6,314**	3,649	3,381	73
Net profit / (loss) attributable to preferred noteholders		**77**	142	204	(46)
Net profit / (loss) attributable to non-controlling interests		**3**	5	5	(40)
Net profit / (loss) attributable to UBS AG shareholders		**6,235**	3,502	3,172	78

Statement of comprehensive income

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Comprehensive income attributable to UBS AG shareholders			
Net profit / (loss)	**6,235**	3,502	3,172
Other comprehensive income that may be reclassified to the income statement			
Foreign currency translation			
Foreign currency translation movements, before tax	**(174)**	1,839	(440)
Foreign exchange amounts reclassified to the income statement from equity	**(90)**	2	(36)
Income tax relating to foreign currency translation movements	**(1)**	(7)	5
Subtotal foreign currency translation, net of tax	**(266)**	1,834	(471)
Financial investments available-for-sale			
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	**180**	335	(57)
Impairment charges reclassified to the income statement from equity	**1**	76	41
Realized gains reclassified to the income statement from equity	**(298)**	(244)	(265)
Realized losses reclassified to the income statement from equity	**45**	25	56
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	**8**	(52)	71
Subtotal financial investments available-for-sale, net of tax	**(64)**	140	(154)
Cash flow hedges			
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	**550**	2,086	(652)
Net realized (gains) / losses reclassified to the income statement from equity	**(1,199)**	(1,197)	(1,261)
Income tax relating to cash flow hedges	**131**	(196)	393
Subtotal cash flow hedges, net of tax	**(518)**	693	(1,520)
Total other comprehensive income that may be reclassified to the income statement, net of tax	**(848)**	2,667	(2,145)
Other comprehensive income that will not be reclassified to the income statement			
Defined benefit plans			
Gains / (losses) on defined benefit plans, before tax	**322**	(1,454)	1,178
Income tax relating to defined benefit plans	**(19)**	247	(239)
Subtotal defined benefit plans, net of tax	**304**	(1,208)	939
Property revaluation surplus			
Gains on property revaluation, before tax	**0**	0	0
Net (gains) / losses reclassified to retained earnings	**0**	0	(6)
Income tax relating to gains on property revaluation	**0**	0	0
Subtotal changes in property revaluation surplus, net of tax	**0**	0	(6)
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**304**	(1,208)	933
Total other comprehensive income	**(545)**	1,459	(1,211)
Total comprehensive income attributable to UBS AG shareholders	**5,690**	4,961	1,961

Table continues on the next page.

Statement of comprehensive income (continued)

Table continued from previous page.

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Comprehensive income attributable to preferred noteholders			
Net profit / (loss)	**77**	142	204
Other comprehensive income that will not be reclassified to the income statement			
Foreign currency translation movements, before tax	**(59)**	119	355
Income tax relating to foreign currency translation movements	**0**	0	0
Subtotal foreign currency translation, net of tax	**(59)**	119	355
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**(59)**	119	355
Total comprehensive income attributable to preferred noteholders	**18**	260	559
Comprehensive income attributable to non-controlling interests			
Net profit / (loss)	**3**	5	5
Other comprehensive income that will not be reclassified to the income statement			
Foreign currency translation movements, before tax	**(2)**	3	(1)
Income tax relating to foreign currency translation movements	**0**	0	0
Subtotal foreign currency translation, net of tax	**(2)**	3	(1)
Total other comprehensive income that will not be reclassified to the income statement, net of tax	**(2)**	3	(1)
Total comprehensive income attributable to non-controlling interests	**1**	7	4
Total comprehensive income			
Net profit / (loss)	**6,314**	3,649	3,381
Other comprehensive income	**(606)**	1,580	(857)
of which: other comprehensive income that may be reclassified to the income statement	***(848)***	*2,667*	*(2,145)*
of which: other comprehensive income that will not be reclassified to the income statement	***243***	*(1,087)*	*1,288*
Total comprehensive income	**5,709**	5,229	2,524

Balance sheet

CHF million	Note	31.12.15	31.12.14	% change from 31.12.14
Assets				
Cash and balances with central banks		**91,306**	104,073	(12)
Due from banks	10, 12	**11,866**	13,334	(11)
Cash collateral on securities borrowed	11, 26	**25,584**	24,063	6
Reverse repurchase agreements	11, 26	**67,893**	68,414	(1)
Trading portfolio assets	13, 24	**124,047**	138,156	(10)
of which: assets pledged as collateral which may be sold or repledged by counterparties	*25*	***51,943***	*56,018*	*(7)*
Positive replacement values	14, 24, 26	**167,435**	256,978	(35)
Cash collateral receivables on derivative instruments	11, 26	**23,763**	30,979	(23)
Financial assets designated at fair value	24, 26, 27	**5,808**	4,493	29
Loans	10, 12	**312,723**	315,984	(1)
Financial investments available-for-sale	15, 24	**62,543**	57,159	9
Investments in associates	30	**954**	927	3
Property, equipment and software	16	**7,683**	6,854	12
Goodwill and intangible assets	17	**6,568**	6,785	(3)
Deferred tax assets	8	**12,833**	11,060	16
Other assets	18	**22,249**	23,069	(4)
Total assets		**943,256**	1,062,327	(11)
Liabilities				
Due to banks	19	**11,836**	10,492	13
Cash collateral on securities lent	11, 26	**8,029**	9,180	(13)
Repurchase agreements	11, 26	**9,653**	11,818	(18)
Trading portfolio liabilities	13, 24	**29,137**	27,958	4
Negative replacement values	14, 24, 26	**162,430**	254,101	(36)
Cash collateral payables on derivative instruments	11, 26	**38,282**	42,372	(10)
Financial liabilities designated at fair value	20, 24, 26	**62,995**	75,297	(16)
Due to customers	19	**402,522**	410,979	(2)
Debt issued	21	**82,359**	91,207	(10)
Provisions	22	**4,163**	4,366	(5)
Other liabilities	8, 23	**74,606**	70,392	6
Total liabilities		**886,013**	1,008,162	(12)
Equity				
Share capital		**386**	384	1
Share premium		**29,477**	32,057	(8)
Treasury shares		**0**	(37)	(100)
Retained earnings		**29,433**	22,902	29
Other comprehensive income recognized directly in equity, net of tax		**(4,047)**	(3,199)	27
Equity attributable to UBS AG shareholders		**55,248**	52,108	6
Equity attributable to preferred noteholders		**1,954**	2,013	(3)
Equity attributable to non-controlling interests		**41**	45	(9)
Total equity		**57,243**	54,165	6
Total liabilities and equity		**943,256**	1,062,327	(11)

Statement of changes in equity

CHF million	Share capital	Share premium	Treasury shares	Retained earnings
Balance as of 1 January 2013	**384**	**33,862**	**(1,071)**	**16,491**
Issuance of share capital	1			
Acquisition of treasury shares			(846)	
Disposal of treasury shares			887	
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		203		
Premium on shares issued and warrants exercised		30		
Employee share and share option plans		305		
Tax (expense) / benefit recognized in share premium		91		
Dividends		(564)[2]		
Equity classified as obligation to purchase own shares		(9)		
Preferred notes				
New consolidations and other increases / (decreases)				6
Deconsolidations and other decreases		(11)		
Total comprehensive income for the year				4,111
of which: Net profit / (loss)				*3,172*
of which: Other comprehensive income that may be reclassified to the income statement, net of tax				
of which: Other comprehensive income that will not be reclassified to the income statement, net of tax – defined benefit plans				*939*
of which: Other comprehensive income that will not be reclassified to the income statement, net of tax – foreign currency translation				
Balance as of 31 December 2013	**384**	**33,906**	**(1,031)**	**20,608**
Issuance of share capital	0			
Acquisition of treasury shares			(953)	
Disposal of treasury shares			1,946	
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		24		
Premium on shares issued and warrants exercised		802		
Employee share and share option plans		(1,785)		
Tax (expense) / benefit recognized in share premium		3		
Dividends		(938)[2]		
Equity classified as obligation to purchase own shares		46		
Preferred notes				
New consolidations and other increases / (decreases)				
Deconsolidations and other decreases				
Total comprehensive income for the year				2,294
of which: Net profit / (loss)				*3,502*
of which: Other comprehensive income that may be reclassified to the income statement, net of tax				
of which: Other comprehensive income that will not be reclassified to the income statement, net of tax – defined benefit plans				*(1,208)*
of which: Other comprehensive income that will not be reclassified to the income statement, net of tax – foreign currency translation				

Other comprehensive income recognized directly in equity, net of tax[1]	*of which: Foreign currency translation*	*of which: Financial investments available-for-sale*	*of which: Cash flow hedges*	Total equity attributable to UBS AG shareholders	Preferred noteholders	Non-controlling interests	Total equity
(3,715)	*(6,954)*	*249*	*2,983*	**45,949**	**3,109**	**42**	**49,100**
				1			1
				(846)			(846)
				887			887
				203			203
				30			30
				305			305
				91			91
				(564)	(204)	(6)	(773)
				(9)			(9)
				0	(1,572)		(1,572)
				6			6
				(11)	0		(11)
(2,151)	*(471)*	*(154)*	*(1,520)*	1,961	559	4	2,524
				3,172	*204*	*5*	*3,381*
(2,145)	*(471)*	*(154)*	*(1,520)*	*(2,145)*			*(2,145)*
				939			*939*
				0	*355*	*(1)*	*355*
(5,866)	*(7,425)*	*95*	*1,463*	**48,002**	**1,893**	**41**	**49,936**
				0			0
				(953)			(953)
				1,946			1,946
				24			24
				802			802
				(1,785)			(1,785)
				3			3
				(938)	(142)	(4)	(1,084)
				46			46
				0	1		1
				0		1	1
				0			0
2,667	*1,834*	*140*	*693*	4,961	260	7	5,229
				3,502	*142*	*5*	*3,649*
2,667	*1,834*	*140*	*693*	*2,667*			*2,667*
				(1,208)			*(1,208)*
				0	*119*	*3*	*121*

Statement of changes in equity (continued)

CHF million	Share capital	Share premium	Treasury shares	Retained earnings
Balance as of 31 December 2014	**384**	**32,057**	**(37)**	**22,902**
Issuance of share capital	1			
Acquisition of treasury shares			(292)	
Disposal of treasury shares			328	
Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity		42		
Premium on shares issued and warrants exercised		290		
Employee share and share option plans		(6)		
Tax (expense) / benefit recognized in share premium		9		
Dividends		(2,914)[2]		(8)
Equity classified as obligation to purchase own shares		0		
Preferred notes				
New consolidations and other increases / (decreases)				
Deconsolidations and other decreases				
Total comprehensive income for the year				6,538
of which: Net profit / (loss)				*6,235*
of which: Other comprehensive income that may be reclassified to the income statement, net of tax				
of which: Other comprehensive income that will not be reclassified to the income statement, net of tax – defined benefit plans				*304*
of which: Other comprehensive income that will not be reclassified to the income statement, net of tax – foreign currency translation				
Balance as of 31 December 2015	**386**	**29,477**	**0**	**29,433**

1 Excludes defined benefit plans that are recorded directly in retained earnings. 2 Reflects the payment out of the capital contribution reserve of UBS AG of CHF 0.75 (2014: CHF 0.25, 2013: CHF 0.15) per CHF 0.10 par value share.

Other comprehensive income recognized directly in equity, net of tax[1]	*of which: Foreign currency translation*	*of which: Financial investments available-for-sale*	*of which: Cash flow hedges*	Total equity attributable to UBS AG shareholders	Preferred noteholders	Non-controlling interests	Total equity
(3,199)	*(5,591)*	*236*	*2,156*	**52,108**	**2,013**	**45**	**54,165**
				1			1
				(292)			(292)
				328			328
				42			42
				290			290
				(6)			(6)
				9			9
				(2,922)	(77)	(5)	(3,004)
				0			0
				0	1		1
				0			0
				0		(1)	(1)
(848)	*(266)*	*(64)*	*(518)*	5,690	18	1	5,709
				6,235	*77*	*3*	*6,314*
(848)	*(266)*	*(64)*	*(518)*	*(848)*			*(848)*
				304			*304*
				0	*(59)*	*(2)*	*(61)*
(4,047)	*(5,857)*	*172*	*1,638*	55,248	1,954	41	57,243

UBS AG shares issued and treasury shares held

As of 31 December 2015, shares issued by UBS AG totaled 3,858,408,466 (31 December 2014: 3,844,560,913 shares).

As of 1 January 2015, UBS AG held 2,115,255 treasury shares, which were exchanged with UBS Group AG shares in 2015. No treasury shares were held as of 31 December 2015.

➔ **Refer to the "UBS shares" section of this report for more information**

Conditional share capital

As of 31 December 2015, UBS AG's share capital could have been increased through the issuance of 136,200,312 shares upon exercise of employee options.

Additional conditional capital up to a maximum number of 380,000,000 shares was available as of 31 December 2015 for conversion rights and warrants granted in connection with the issuance of bonds or similar financial instruments.

Furthermore, UBS AG's share capital could have been increased by a maximum of 36,152,447 shares as of 31 December 2015 through the exercise of options granted in connection with the cash or title dividend distributed in 2015.

Statement of cash flows

	For the year ended		
CHF million	**31.12.15[1]**	31.12.14[1]	31.12.13[1]
Cash flow from / (used in) operating activities			
Net profit / (loss)	**6,314**	3,649	3,381
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation and impairment of property, equipment and software	**918**	817	816
Amortization and impairment of intangible assets	**107**	83	83
Credit loss expense / (recovery)	**117**	78	50
Share of net profits of associates	**(169)**	(94)	(49)
Deferred tax expense / (benefit)	**(1,614)**	(1,635)	(545)
Net loss / (gain) from investing activities	**(934)**	(227)	(522)
Net loss / (gain) from financing activities	**(1,654)**	2,135	3,988
Other net adjustments	**3,628**	(7,250)	5,326
Net change in operating assets and liabilities:			
Due from / to banks	**1,768**	(1,235)	(7,551)
Cash collateral on securities borrowed and reverse repurchase agreements	**(2,712)**	32,262	43,754
Cash collateral on securities lent and repurchase agreements	**(2,909)**	(3,698)	(23,659)
Trading portfolio, replacement values and financial assets designated at fair value	**5,407**	(2,879)	43,944
Cash collateral on derivative instruments	**3,285**	(7,301)	(22,412)
Loans	**841**	(20,427)	(7,108)
Due to customers	**(17,362)**	8,803	19,195
Other assets, provisions and other liabilities	**7,516**	4,751	(3,935)
Income taxes paid, net of refunds	**(551)**	(600)	(382)
Net cash flow from / (used in) operating activities	**1,997**	7,231	54,374
Cash flow from / (used in) investing activities			
Purchase of subsidiaries, associates and intangible assets	**(13)**	(18)	(49)
Disposal of subsidiaries, associates and intangible assets[2]	**477**	70	136
Purchase of property, equipment and software	**(1,841)**	(1,915)	(1,236)
Disposal of property, equipment and software	**547**	350	639
Net (investment in) / divestment of financial investments available-for-sale[3]	**(7,605)**	4,108	5,966
Net cash flow from / (used in) investing activities	**(8,434)**	2,596	5,457

Table continues on the next page.

Statement of cash flows (continued)

Table continued from previous page.

	For the year ended		
CHF million	**31.12.15**[1]	31.12.14[1]	31.12.13[1]
Cash flow from / (used in) financing activities			
Net short-term debt issued / (repaid)	**(6,404)**	(2,921)	(4,290)
Net movements in treasury shares and own equity derivative activity	**0**	(719)	(341)
Capital issuance	**0**	0	1
Distributions paid on UBS AG shares	**(2,626)**	(938)	(564)
Issuance of long-term debt, including financial liabilities designated at fair value	**47,790**	40,982	28,014
Repayment of long-term debt, including financial liabilities designated at fair value	**(44,221)**	(34,210)	(68,954)
Dividends paid and repayments of preferred notes	**(108)**	(110)	(1,415)
Net changes of non-controlling interests	**(5)**	(3)	(6)
Net cash flow from / (used in) financing activities	**(5,573)**	2,081	(47,555)
Effects of exchange rate differences on cash and cash equivalents	**(1,742)**	8,522	(2,705)
Net increase / (decrease) in cash and cash equivalents	**(13,753)**	20,430	9,569
Cash and cash equivalents at the beginning of the year	**116,715**	96,284	86,715
Cash and cash equivalents at the end of the year	**102,962**	116,715	96,284
Cash and cash equivalents comprise:			
Cash and balances with central banks	**91,306**	104,073	80,879
Due from banks	**10,732**	11,772	11,117
Money market paper[4]	**924**	869	4,288
Total[5]	**102,962**	116,715	96,284
Additional information			
Net cash flow from / (used in) operating activities include:			
Cash received as interest	**11,144**	11,321	12,148
Cash paid as interest	**5,267**	5,360	7,176
Cash received as dividends on equity investments, investment funds and associates[6]	**2,120**	1,961	1,421

1 In 2015, UBS AG refined its definition of cash and cash equivalents to exclude cash collateral receivables on derivatives with bank counterparties. Prior periods were restated. Refer to Note 1b for more information. 2 Includes dividends received from associates. 3 Includes gross cash inflows from sales and maturities (CHF 93,584 million for the year ended 31 December 2015, CHF 140,438 million for the year ended 31 December 2014, CHF 153,887 million for the year ended 31 December 2013) and gross cash outflows from purchases of (CHF 101,189 million for the year ended 31 December 2015, CHF 136,330 million for the year ended 31 December 2014, CHF 147,921 million for the year ended 31 December 2013). 4 Money market paper is included in the balance sheet under Trading portfolio assets (31 December 2015: CHF 795 million, 31 December 2014: CHF 835 million, 31 December 2013: CHF 1,716 million) and Financial investments available-for-sale (31 December 2015: CHF 129 million, 31 December 2014: CHF 34 million, 31 December 2013: CHF 2,571 million). 5 CHF 3,963 million, CHF 4,178 million and CHF 4,534 million of cash and cash equivalents (mainly reflected in Due from banks) were restricted as of 31 December 2015, 31 December 2014 and 31 December 2013, respectively. Refer to Note 25 for more information. 6 Includes dividends received from associates (2015: CHF 114 million, 2014: CHF 54 million, 2013: CHF 69 million) reported within cash flow from / (used in) investing activities.

Notes to the UBS AG consolidated financial statements

Note 1 Summary of significant accounting policies

a) Significant accounting policies

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

1) Basis of accounting

UBS AG provides a broad range of financial services including: advisory services, underwriting, financing, market-making, asset management and brokerage on a global level, and retail banking in Switzerland. UBS AG was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged. UBS Group AG was established in 2014 as the holding company of the Group and in 2015 it increased its ownership interest in UBS AG to 100%, following the successful completion of the procedure under article 33 of the Swiss Stock Exchange Act (SESTA procedure). Refer to Note 32 for more information.

The Financial Statements are prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), and are presented in Swiss francs (CHF), the currency of Switzerland, where UBS AG is incorporated. On 10 March 2016, the Financial Statements were authorized for issue by the Board of Directors. The Financial Statements are prepared using uniform accounting policies for similar transactions and other events. Intercompany transactions and balances have been eliminated.

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

2) Use of estimates

Preparation of these Financial Statements under IFRS requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and liabilities. These estimates and assumptions are based on the best available information. Actual results in the future could differ from such estimates and such differences may be material to the Financial Statements. Estimates are reviewed regularly and revisions are recognized in the period in which they occur.

The following notes to the Financial Statements contain information about those areas of estimation uncertainty considered to require critical judgment and have the most significant effect on the amounts recognized in the Financial Statements: Note 8 *Income taxes,* Note 12 *Allowances and provisions for credit losses,* Note 17 *Goodwill and intangible assets,* Note 22 *Provisions and contingent liabilities,* Note 24 *Fair value measurement,* Note 28 *Pension and other post-employment benefit plans,* Note 29 *Equity participation and other compensation plans* and Note 30 *Interests in subsidiaries and other entities.*

3) Subsidiaries and structured entities

The Financial Statements comprise those of UBS AG and its subsidiaries, including controlled structured entities (SEs), presented as a single economic entity. *Equity attributable to non-controlling interests* is presented on the consolidated balance sheet within *Equity,* separately from *Equity attributable to UBS AG shareholders.*

UBS AG controls an entity when it has power over the relevant activities of the entity, exposure to variable returns and the ability to use its power to affect its returns.

Where an entity is governed by voting rights, control is generally indicated by a direct shareholding of more than one-half of the voting rights.

Note 1 Summary of significant accounting policies (continued)

In other cases, the assessment of control is more complex and requires greater use of judgment. Where UBS AG has an interest in an entity that absorbs variability, UBS AG considers whether it has power over the entity that allows it to affect the variability of its returns. Consideration is given to all facts and circumstances to determine whether UBS AG has power over another entity, that is, the current ability to direct the relevant activities of an entity when decisions about those activities need to be made. Factors such as the purpose and design of the entity, rights held through contractual arrangements such as call rights, put rights or liquidation rights, as well as potential decision-making rights are all considered in this assessment. Where UBS AG has power over the relevant activities, a further assessment is made to determine whether, through that power, it has the ability to affect its own returns – that is, assessing whether power is held in a principal or agent capacity. Consideration is given to (i) the scope of decision-making authority, (ii) rights held by other parties, including removal or other participating rights and (iii) exposure to variability, including remuneration, relative to total variability of the entity as well as whether that exposure is different from other investors. If, after review of these factors, UBS AG concludes that it can exercise its power to affect its own returns, the entity is consolidated

Subsidiaries, including SEs, are consolidated from the date control is obtained and are deconsolidated from the date control ceases. Control, or the lack thereof, is reassessed if facts and circumstances indicate that there is a change to one or more of the elements needed to establish that control is present.

➔ **Refer to Note 30 for more information on subsidiaries and structured entities**

Structured entities (SEs)

SEs are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. Such entities generally have a narrow and well-defined objective and include those historically referred to as special purpose entities (SPEs) and some investment funds. UBS AG assesses whether an entity is an SE by considering the nature of the activities of the entity as well as the substance of voting or similar rights afforded to other parties, including investors and independent boards or directors. UBS AG considers rights such as the ability to liquidate the entity or remove the decision maker to be similar to voting rights when the holder has the substantive ability to exercise such rights without cause. In the absence of such rights or in cases where the existence of such rights cannot be fully established, the entity is considered to be an SE.

UBS AG sponsors the formation of SEs and interacts with non-sponsored SEs for a variety of reasons including allowing clients to obtain or be exposed to particular risk profiles, to provide funding or to sell or purchase credit risk. Many SEs are established as bankruptcy remote, meaning that only the assets in the SE are available for the benefit of the SE's investors and such investors have no other recourse to UBS AG. UBS AG is deemed to be the sponsor of an SE when it is involved in its creation, establishment and promotion and facilitates its ongoing success through the transfer of assets or the provision of explicit or implicit financial, operational or other support. Where UBS AG acts purely as an advisor, administrator or placement agent for an SE created by a third-party entity, it is not considered to be sponsored by UBS AG.

Each individual entity is assessed for consolidation in line with the consolidation principles described above, considering the nature and scope of UBS AG's involvement. As the nature and extent of UBS AG's involvement is unique to each entity, there is no uniform consolidation outcome by entity – certain entities within a class are consolidated and others are not. When UBS AG does not consolidate an SE but has an interest in an SE or has sponsored an SE, additional disclosures are provided in Note 30 on the nature of these interests and sponsorship activities. The classes of SEs UBS AG is involved with include the following:

- *Securitization structured entities* are established to issue securities to investors that are backed by assets held by the SE and whereby (i) significant credit risk associated with the securitized exposures has been transferred to third parties and (ii) there is more than one risk position or tranche issued by the securitization vehicle in line with the Basel III securitization definition. All securitization entities are classified as SEs.
- *Client investment structured entities* are established predominantly for clients to invest in specific assets or risk exposures through purchasing notes issued by the SE, predominantly on a fixed-term basis. The SE may source assets via a transfer from UBS AG or through an external market transaction. In some cases, UBS AG may enter into derivatives with the SE to either align the cash flows of the entity with the investor's intended investment objective or to introduce other desired risk exposures. In certain cases, UBS AG may have interests in a third-party sponsored SE to hedge specific risks or participate in asset-backed financing.
- *Investment fund structured entities* have a collective investment objective, are managed by an investment manager and are either passively managed, such that any decision-making does not have a substantive effect on variability, or are actively managed and investors or their governing bodies do not have substantive voting or similar rights. UBS creates and sponsors a large number of funds in which it may have an interest through the receipt of variable management fees and/or a direct investment. In addition, UBS AG has interests in a number of funds created and sponsored by third parties, including exchange-traded funds and hedge funds, to hedge issued structured products.

Business combinations

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

The cost of an acquisition is the aggregate of the assets transferred, the liabilities owed to former owners of the acquiree, and the equity instruments issued, measured at acquisition-date fair values. Acquisition-related costs are expensed as incurred. Any contingent consideration that may be transferred by UBS AG is recognized at fair value as of the date of acquisition.

If the contingent consideration is classified as an asset or liability, subsequent changes in the fair value of the contingent consideration are recognized in the income statement. If the contingent consideration is classified as equity, it is not remeasured and its subsequent settlement is accounted for within *Equity.* Any excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed is considered goodwill and is recognized as a separate asset on the balance sheet, initially measured at cost. If the fair value of the net assets of the subsidiary acquired exceeds the aggregate of the consideration transferred and the amount recognized for non-controlling interests, the difference is recognized in the income statement on the acquisition date.

➔ **Refer to Note 31 for more information on business combinations**

4) Associates and joint ventures

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

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

Investments in associates and interests in joint ventures are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Refer to item 29 for more information.

➔ **Refer to Note 30 for more information on associates and joint ventures**

5) Recognition and derecognition of financial instruments

UBS AG recognizes financial instruments on its balance sheet when UBS AG becomes a party to the contractual provisions of the instruments, provided the recognition criteria are met. UBS AG also acts in a trustee or other fiduciary capacity, which results in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Unless the recognition criteria are satisfied, these assets and the related income are excluded from UBS AG's Financial Statements, as they are not assets of UBS AG.

Financial assets

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

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

Note 1 Summary of significant accounting policies (continued)

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

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

➔ **Refer to Note 25b and 25c for more information on transferred financial assets**

Financial liabilities

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

6) Determination of fair value

Fair value is the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market (or most advantageous market, in the absence of a principal market) as of the measurement date.

➔ **Refer to Note 24 for more information on fair value measurement**

7) Trading portfolio assets and liabilities

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

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

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

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

UBS AG uses settlement date accounting when recognizing assets and liabilities in the trading portfolio. From the date a purchase transaction is entered into (trade date) until settlement date, UBS AG recognizes any unrealized profits and losses arising from changes in fair value in *Net trading income.* The corresponding receivable or payable is presented on the balance sheet as a *Positive replacement value* or *Negative replacement value*. On settlement date, the resulting financial asset is recognized on the balance sheet at the fair value of the consideration given or received, plus or minus the change in fair value of the contract since the trade date. From the trade date of a sales transaction, unrealized profits and losses are no longer recognized and, on settlement date, the asset is derecognized.

Trading portfolio assets transferred to external parties that do not qualify for derecognition (refer to item 5 for more information) and where the transferee has obtained the right to sell or repledge the assets continue to be classified on the UBS AG balance sheet as *Trading portfolio assets* but are identified as *Assets pledged as collateral which may be sold or repledged by counterparties.* Such assets continue to be measured at fair value.

➔ **Refer to Note 13 and 24 for more information on trading portfolio assets and liabilities.**

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

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

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

UBS AG has used the fair value option to designate most of its issued hybrid debt instruments as financial liabilities designated at fair value through profit or loss, on the basis that such financial instruments include embedded derivatives and/or are managed on a fair value basis. Such hybrid debt instruments predominantly include the following:

- *Equity-linked bonds or notes:* linked to a single stock, a basket of stocks or an equity index;
- *Credit-linked bonds or notes:* linked to the performance (coupon and/or redemption amount) of single names (such as a company or a country) or a basket of reference entities and
- *Rates-linked bonds or notes:* linked to a reference interest rate, interest rate spread or formula.

The fair value option is also applied to certain loans and loan commitments, otherwise accounted for at amortized cost, which are hedged predominantly with credit derivatives. The application of the fair value option to the loans and loan commitments reduces an accounting mismatch, as the credit derivatives are accounted for as derivative instruments at fair value through profit or loss. Similarly, UBS AG has applied the fair value option to certain structured loans and reverse repurchase and securities borrowing agreements which are part of portfolios managed on a fair value basis.

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

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

UBS AG applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments in the trading portfolio. Refer to items 5 and 7 for more information.

➔ **Refer to Notes 3, 20, 24e and 27d for more information on financial assets and liabilities designated at fair value**

9) Financial investments classified as available-for-sale

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

Financial investments classified as available-for-sale include: (a) debt securities held as part of a large multi-currency portfolio of unencumbered, high-quality assets managed centrally by Corporate Center – Group Asset and Liability Management, a majority of which is short-term, (b) strategic equity investments, (c) certain investments in real estate funds, (d) certain equity instruments including private equity investments, and (e) debt instruments and non-performing loans acquired in the secondary market.

Financial investments that are classified as available-for-sale are recognized initially at fair value less transaction costs and are measured subsequently at fair value. Unrealized gains and losses are reported in *Other comprehensive income* within *Equity,* net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. Unrealized gains before tax are presented separately from unrealized losses before tax in Note 15.

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

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

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

Note 1 Summary of significant accounting policies (continued)

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

For debt investments, objective evidence of impairment includes significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments, or it becoming probable that the borrower will enter bankruptcy or financial reorganization. If an available-for-sale financial investment is determined to be impaired, the related cumulative net unrealized loss previously recognized in *Other comprehensive income* within *Equity* is reclassified to the income statement within *Other income*. For equity instruments, any further loss is recognized directly in the income statement, whereas for debt instruments, any further loss is recognized in the income statement only if there is additional objective evidence of impairment. After an impairment of an equity instrument that is classified as available-for-sale, increases in the fair value are reported in *Other comprehensive income* within *Equity.* Subsequent increases in the fair value of debt instruments up to an amount that equals their amortized cost in original currency are recognized in *Other income,* provided that the fair value increase is related to an event occurring after the impairment loss was recorded. Increases in excess of that amount are reported in *Other comprehensive income* within *Equity.*

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

➔ Refer to Note 15 and 24 for more information on financial investments available-for-sale

10) Loans and receivables

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

- originated loans where funding is provided directly to the borrower;
- participation in a loan from another lender and purchased loans; and
- securities which were classified as loans and receivables at acquisition date, such as municipal auction rate securities in the Corporate Center – Non-core and Legacy Portfolio (refer to Note 27c for more information).

Loans and receivables are recognized when UBS AG becomes a party to the contractual provisions of the instrument, which is when funding is advanced to borrowers. They are recorded initially at fair value, based on the amount provided to originate or purchase the assets, together with any transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost using the EIR method, less allowances for credit losses. Refer to item 11 for information on allowances for credit losses and to Note 27a for an overview of the financial assets classified as loans and receivables.

Interest on loans and receivables is included in *Interest earned on loans and advances* and is recognized on an accrual basis. Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments are generally deferred and amortized to *Interest earned on loans and advances* over the life of the loan using the EIR method. For loan commitments that are not expected to result in a loan being advanced, the fees are recognized in *Net fee and commission income* over the commitment period. For loan syndication fees where UBS AG does not retain a portion of the syndicated loan, or where UBS AG does retain a portion of the syndicated loan at the same effective yield for comparable risk as other participants, fees are credited to *Net fee and commission income* when the services have been provided.

Presentation of receivables from central banks

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

Financial assets reclassified to loans and receivables

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

➔ Refer to Note 27c for more information on reclassified assets

Renegotiated loans

A renegotiated or restructured loan is a loan for which the terms have been modified or for which additional collateral has been requested that was not contemplated in the original contract.

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

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

If a loan is renegotiated on a non-preferential basis (e.g., additional collateral is provided by the client, or new terms and conditions are agreed which meet the normal market criteria, for the quality of the obligor and the type of loan), the loan will be re-rated using UBS AG's regular rating scale. In these circumstances, the loan is removed from impaired status and included in the collective assessment of loan loss allowances, unless an indication of impairment exists, in which case the loan is assessed for impairment on an individual basis. For the purposes of measuring credit losses within the collective loan loss assessment, these loans are not segregated from other loans which have not been renegotiated. Management regularly reviews all loans to ensure that all criteria according to the loan agreement continue to be met and that future payments are likely to occur. Refer to item 11 for more information on allowances and provisions for credit losses.

A restructuring of a loan could lead to a fundamental change in the terms and conditions of a loan, resulting in the original loan being derecognized and a new loan being recognized.

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

11) Allowances and provisions for credit losses

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

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

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

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

Note 1 Summary of significant accounting policies (continued)

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

A loan is classified as non-performing when the payment of interest, principal or fees is overdue by more than 90 days, when insolvency proceedings have commenced, or when obligations have been restructured on preferential terms. Loans are evaluated individually for impairment when amounts have been overdue by more than 90 days, or if other objective evidence indicates that a loan may be impaired.

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

Reclassified securities and similar acquired securities carried at amortized cost: Estimated cash flows associated with financial assets reclassified from the held for trading category to loans and receivables in accordance with the requirements in item 10 and other similar assets acquired subsequently are reviewed periodically. Adverse revisions in cash flow estimates related to credit events are recognized in the income statement as *Credit loss expense / recovery*. For a reclassified loan, a change in expectation regarding the recoverability of the security and its future cash receipts requires an adjustment to the EIR on the loan from the date of change (refer to Note 27c for more information).

➔ **Refer to Note 12 for more information on allowances and provisions for credit losses**

12) Securitization structures set up by UBS AG

UBS AG securitizes certain financial assets, generally selling *Trading portfolio assets* to SEs that issue securities to investors. UBS AG applies the policies set out in item 3 in determining whether the respective SE must be consolidated and those set out in item 5 in determining whether derecognition of transferred financial assets is appropriate. The following statements mainly apply to transfers of financial assets that qualify for derecognition.

Gains or losses related to the sale of *Trading portfolio assets* involving a securitization are recognized when the derecognition criteria are satisfied; the resulting gain or loss is included in *Net trading income*.

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

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

➔ **Refer to Note 30c for more information on the UBS AG's involvement with securitization vehicles**

13) Securities borrowing and lending

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

Cash collateral received is recognized with a corresponding obligation to return it (*Cash collateral on securities lent*) and cash collateral delivered is derecognized and a corresponding receivable reflecting UBS AG's right to receive it back is recorded (*Cash collateral on securities borrowed*). The securities which have been transferred are not recognized on, or derecognized from, the balance sheet unless the risks and rewards of ownership are also transferred. Refer to item 5 for more information. UBS AG-owned securities transferred to a borrower that is granted the right to sell or repledge those transferred securities are presented on the balance sheet as *Trading portfolio assets, of which: assets pledged as collateral which may be sold or repledged by counterparties.* Securities received in a borrowing transaction are disclosed as off-balance-sheet items if UBS AG has the right to resell or repledge them, with additional disclosure provided for securities that UBS AG has actually resold or repledged. The sale of securities which is settled by delivering securities received in a borrowing transaction generally triggers the recognition of a trading liability (short sale). Where securities are either received or delivered in lieu of cash (securities-for-securities transactions), neither the securities received or delivered nor the obligation to return or right to receive the securities are recognized on the balance sheet, as derecognition criteria are not met. Refer to item 5 for more information.

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

➔ **Refer to Notes 11, 25 and 26 for more information on securities borrowing and lending**

14) Repurchase and reverse repurchase transactions

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

In a reverse repurchase agreement, the cash delivered is derecognized and a corresponding receivable, including accrued interest, is recorded in the balance sheet line *Reverse repurchase agreements,* representing UBS AG's right to receive the cash back. Similarly, in a repurchase agreement, the cash received is recognized and a corresponding obligation, including accrued interest, is recorded in the balance sheet line *Repurchase agreements*. Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized on or derecognized from the balance sheet, unless the risks and rewards of ownership are transferred. UBS AG-owned securities transferred to a recipient who is granted the right to resell or repledge them are presented on the balance sheet as *Trading portfolio assets, of which: assets pledged as collateral which may be sold or repledged by counterparties.* Securities received in reverse repurchase agreements are disclosed as off-balance-sheet items if UBS AG has the right to resell or repledge them, with additional disclosure provided for securities that UBS AG has actually resold or repledged (refer to Note 25d for more information). Additionally, the sale of securities which is settled by delivering securities received in reverse repurchase transactions generally triggers the recognition of a trading liability (short sale).

Note 1 Summary of significant accounting policies (continued)

Interest is recognized in the income statement on an accrual basis and is recorded as *Interest income* or *Interest expense*. *Interest income* includes interest earned on reverse repurchase agreements and negative interest on repurchase agreements. *Interest expense* includes interest on repurchase agreements and negative interest on reverse repurchase agreements.

UBS AG generally offsets reverse repurchase agreements and repurchase agreements with the same counterparty, maturity, currency and Central Securities Depository (CSD) in accordance with the relevant accounting requirements. Refer to item 35 for more information.

➔ Refer to Notes 11, 25 and 26 for more information on repurchase and reverse repurchase transactions

15) Derivative instruments and hedge accounting

Derivative instruments that UBS AG enters into are initially recognized, and remain carried, at fair value. Fair value changes are generally recognized in the income statement unless and to the extent they are designated in hedge relationships which require recognition of the effective portion of such changes within other comprehensive income.

Derivative instruments are generally reported on the balance sheet as *Positive replacement values* or *Negative replacement values*. Exchange-traded derivatives that economically settle on a daily basis, and certain OTC derivatives that in substance net settle on a daily basis, are classified as *Cash collateral receivables on derivative instruments* or *Cash collateral payables on derivative instruments.* Products that receive this treatment include futures contracts, 100% daily margined exchange-traded options and interest rate swaps transacted with the London Clearing House. Changes in the fair value of derivative instruments are recorded in *Net trading income,* unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships.

➔ Refer to Note 14 for more information on derivative instruments and hedge accounting

Hedge accounting

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

At the time a financial instrument is designated in a hedge relationship, UBS AG 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, UBS AG 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: (i) 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 (ii) 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. UBS AG discontinues hedge accounting voluntarily, or when UBS AG 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 in the present value of expected 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 *Interest income*.

Fair value hedges

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

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

Cash flow hedges

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

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

Hedges of net investments in foreign operations

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

Economic hedges that do not qualify for hedge accounting

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

➔ Refer to Note 14 for more information on economic hedges

Embedded derivatives

Derivatives may be embedded in other financial instruments (host contracts). For example, they could be represented by the conversion feature embedded in a convertible bond. Such hybrid instruments arise predominantly from the issuance of certain structured debt instruments. An embedded derivative is generally required to be separated from the host contract and accounted for as a standalone derivative instrument at fair value through profit or loss if: (i) the host contract is not carried at fair value with changes in fair value reported in the income statement, (ii) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and (iii) the terms of the embedded derivative would meet the definition of a standalone derivative were they contained in a separate contract. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract, and are shown in Note 27a in the Held for trading category, reflecting the measurement and recognition principles applied.

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

16) Loan commitments

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

Loan commitments that can be cancelled at any time by UBS AG at its discretion, according to their general terms and conditions, are not recognized on the balance sheet and are not included in the off-balance-sheet disclosures. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with *Loans and receivables.* Refer to item 10 for more information.

Note 1 Summary of significant accounting policies (continued)

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

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

17) Financial guarantee contracts

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

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

18) Cash and cash equivalents

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

19) Physical commodities

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

20) Property, equipment and software

Property, equipment and software includes own-used properties, leasehold improvements, information technology hardware, externally purchased and internally generated software and communication and other similar equipment. All *Property, equipment and software* is carried at cost (which includes capitalized interest from associated borrowings, where applicable), less accumulated depreciation and impairment losses, and is reviewed periodically for impairment.

➔ **Refer to Note 16 for more information on property and equipment**

Leasehold improvements

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

Reinstatement costs are recognized in the income statement through depreciation of the capitalized leasehold improvements over their estimated useful lives and the resulting liability is extinguished as cash payments are made.

Property held for sale

Where UBS AG has decided to sell non-current assets such as property or equipment and the sale of these assets is highly probable to occur within 12 months, these assets are classified as non-current assets held for sale and are reclassified to *Other assets*. Upon classification as held for sale, they are no longer depreciated and are carried at the lower of book value or fair value less cost to sell.

Software

Software development costs are capitalized only when the costs can be measured reliably and it is probable that future economic benefits will arise.

Estimated useful life of property, equipment and software

An asset within property, equipment and software is depreciated on a straight-line basis over its estimated useful life. Depreciation of an asset within property, equipment and software begins when it is available for use; that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Estimated useful life of property, equipment and software

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

21) Goodwill and intangible assets

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

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

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

➔ **Refer to Note 17 for more information on goodwill and intangible assets**

22) Income taxes

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

Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet that reflect the expectation that certain items will give rise to taxable income in future periods. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled.

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

Note 1 Summary of significant accounting policies (continued)

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

➔ Refer to Note 8 for more information on income taxes

23) Debt issued

Debt issued is carried at amortized cost. In cases where there is a legal mechanism for write-down or conversion into equity (as is the case for instance with senior unsecured debt issued by UBS AG that is subject to write-down or conversion under resolution authority granted to FINMA under Swiss law) this is not part of the contractual terms, and, therefore, it does not affect the amortized cost accounting treatment applied to these instruments. If the debt were to be written down or converted into equity in a future period, this would result in the full or partial derecognition of the financial liabilities, with the difference between the carrying value of the debt written down or converted into equity and the fair value of any equity shares issued recognized in the income statement.

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

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

➔ Refer to Note 21 for more information on debt issued

24) Pension and other post-employment benefit plans

UBS AG sponsors a number of post-employment benefit plans for its employees worldwide, which include defined benefit and defined contribution pension plans, and other post-employment benefits such as medical and life insurance benefits that are payable after the completion of employment. The major defined benefit pension plans are located in Switzerland, the UK, the US and Germany.

➔ Refer to Note 28 for more information on pension and other post-employment benefit plans

Defined benefit pension plans

Defined benefit pension plans specify an amount of benefit that an employee will receive, which is usually dependent on one or more factors such as age, years of service and compensation. The defined benefit liability recognized in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets at the balance sheet date. If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the recognition of the resulting net defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. UBS AG applies the projected unit credit method to determine the present value of its defined benefit obligations, the related current service cost and, where applicable, past service cost. These amounts, which take into account the specific features of each plan, including risk sharing between the employee and employer, are calculated periodically by independent qualified actuaries.

Defined contribution plans

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

Other post-retirement benefits

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

25) Equity participation and other compensation plans

Transfer of deferred compensation plans

As part of the Group reorganization in 2014, UBS Group AG assumed obligations of UBS AG as grantor in connection with certain outstanding awards under employee share, option, notional fund and deferred cash compensation plans. This section separately describes the accounting policies applied to these plans during the periods prior to and post the Group reorganization and transfer of deferred compensation plans.

Periods prior to the Group reorganization and transfer of deferred compensation plans

Equity participation plans

UBS AG has established several equity participation plans which include mandatory, discretionary and voluntary plans. UBS AG recognizes the fair value of awards granted under these plans, determined at the date of grant, as compensation expense, over the period during which the employee is required to provide services in order to earn the award.

If the employee is not required to provide future services, such as for awards granted to employees who are retirement eligible, including those employees who meet full career retirement criteria, compensation expense is recognized on or prior to the grant date. Such awards may remain forfeitable until the legal vesting date if certain non-vesting conditions are not met. Forfeiture events resulting from breach of a non-vesting condition do not result in a reversal of compensation expense.

If future service is required, compensation expense is recognized over that future period. For awards that are delivered in tranches, each tranche is considered a separate award and amortized separately. Plans may contain provisions that shorten the required service period due to achievement of retirement eligibility or upon termination due to redundancy. In such instances, compensation expense is recognized over the period from grant date to the retirement eligibility or redundancy date. Forfeiture of these awards that occurs during the service period results in a reversal of compensation expense.

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

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

➔ **Refer to Note 29 for more information on equity participation plans**

Other compensation plans

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

➔ **Refer to Note 29 for more information on other compensation plans**

Periods post the Group reorganization and transfer of deferred compensation plans

Equity participation plans

UBS Group AG has established, and maintains the obligation to settle, several equity participation plans which are granted to employees of UBS AG. UBS Group AG's equity participation plans include mandatory, discretionary and voluntary plans. UBS AG recognizes the fair value of awards granted to its employees, determined at the grant date, over the period that the employee is required to provide services in order to earn the award.

Note 1 Summary of significant accounting policies (continued)

If the employee is not required to provide future services, such as for awards granted to employees who are retirement eligible, including those employees who meet full career retirement criteria, compensation expense is recognized on or prior to the grant date. Such awards may remain forfeitable until the legal vesting date if certain non-vesting conditions are not met. Forfeiture events resulting from breach of a non-vesting condition do not result in a reversal of compensation expense.

If future service is required, compensation expense is recognized over that future period. For awards that are delivered in tranches, each tranche is considered a separate award and amortized separately. Plans may contain provisions that shorten the required service period due to achievement of retirement eligibility or upon termination due to redundancy. In such instances, compensation expense is recognized over the period from grant date to the retirement eligibility or redundancy date. Forfeiture of these awards that occurs during the service period results in a reversal of compensation expense.

UBS AG has no obligation to settle the awards and therefore awards over UBS Group AG shares are classified as equity settled share-based payment transactions. The fair value of an equity-settled award is determined at the date of grant and is not subsequently remeasured, unless its terms are modified such that the fair value immediately after modification exceeds the fair value immediately prior to modification. Any increase in fair value resulting from a modification is recognized as compensation expense, either over the remaining service period or, for vested awards, immediately.

➔ **Refer to Note 29 for more information on equity participation plans**

Other compensation plans

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

➔ **Refer to Note 29 for more information on other compensation plans**

26) Amounts due under unit-linked investment contracts

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

➔ **Refer to Notes 13 and 23 for more information on unit-linked investment contracts**

27) Provisions

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

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

UBS AG recognizes provisions for litigation, regulatory and similar matters when, in the opinion of management after seeking legal advice, it is more likely than not that UBS AG has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against UBS AG, but are nevertheless expected to be, based on the experience of UBS AG with similar asserted claims.

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

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

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

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

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

➔ Refer to Note 22 for more information on provisions

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

Non-controlling interests and preferred noteholders

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

UBS AG shares held (treasury shares)

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

Preferred notes issued to non-consolidated preferred securities entities

UBS AG issued subordinated notes (that is, the preferred notes) to certain non-consolidated entities that issued preferred securities. UBS AG has fully and unconditionally guaranteed all contractual payments on the preferred securities. UBS AG's obligations under these guarantees are subordinated to the full prior payment of the deposit liabilities of UBS AG and all other liabilities of UBS AG. The preferred notes do not contain a contractual obligation to deliver cash and, therefore, they are classified as equity instruments. They are presented as *Equity attributable to preferred noteholders* on the consolidated balance sheet and statement of changes in equity. Distributions on these preferred notes are presented as *Net profit attributable to preferred noteholders* in the consolidated income statement and statement of comprehensive income.

Net cash settlement contracts

Prior to the share-for-share exchange, UBS AG issued contracts on own shares that required net cash settlement, or provided the counterparty or UBS AG with a settlement option which included a choice of settling net in cash. These contracts were classified as held for trading, with changes in fair value reported in the income statement as *Net trading income*.

Following the share-for-share exchange, these contracts continue to be accounted for in the same manner, however, they are no longer classified as contracts on own shares.

Note 1 Summary of significant accounting policies (continued)

29) Non-current assets and disposal groups held for sale

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

➔ **Refer to Notes 18 and 23 for more information on non-current assets and disposal groups held for sale**

30) Leasing

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

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

Lease contracts classified as operating leases where UBS AG is the lessee are disclosed in Note 33. These contracts include non-cancellable long-term leases of office buildings in most UBS AG locations. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences with control of the physical use of the property. Lease incentives are treated as a reduction of rental expense and are recognized on a consistent basis over the lease term.

Where UBS AG acts as lessor under a finance lease, a receivable is recognized in *Loans* at an amount equal to the present value of the aggregate of the minimum lease payments plus any unguaranteed residual value that UBS AG expects to recover at the end of the lease term. Initial direct costs are also included in the initial measurement of the lease receivable. Lease payments received during the lease term are allocated to repayment of the outstanding receivable and interest income to reflect a constant periodic rate of return on UBS AG's net investment using the interest rate implicit in the lease. UBS AG reviews the estimated unguaranteed residual value annually and if the estimated residual value to be realized is less than the amount assumed at lease inception, a loss is recognized for the expected shortfall.

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

➔ **Refer to Note 33 for more information on operating leases and finance leases**

31) Fee income

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

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

➔ Refer to Note 4 for more information on net fee and commission income

32) Foreign currency translation

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

Upon consolidation, assets and liabilities of foreign operations are translated into Swiss francs (CHF), UBS AG's presentation currency, at the closing exchange rate on the balance sheet date, and income and expense items are translated at the average rate for the period. The resulting foreign currency translation differences attributable to UBS AG shareholders are recognized directly in *Foreign currency translation* within *Equity* which forms part of *Total equity attributable to UBS AG shareholders,* whereas the foreign currency translation differences attributable to non-controlling interests are shown within *Equity attributable to non-controlling interests.*

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

➔ Refer to Note 36 for more information on currency translation rates

33) Earnings per share (EPS)

During 2015, UBS AG shares were delisted from the SIX and the NYSE. As of 31 December 2015, 100% of UBS AG's issued shares were held by UBS Group AG and therefore were not publicly traded. Accordingly, earnings per share information is not provided for UBS AG.

34) Segment reporting

UBS AG's businesses are organized globally into five business divisions: Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank, supported by the Corporate Center. The five business divisions qualify as reportable segments for the purpose of segment reporting and, together with the Corporate Center and its components, reflect the management structure of UBS AG. Additionally, the non-core activities and legacy positions formerly in the Investment Bank are managed and reported as a separate reportable segment within the Corporate Center as Non-core and Legacy Portfolio. Financial information about the five business divisions and the Corporate Center (with its components) is presented separately in internal management reports to the Group Executive Board, which is considered the "chief operating decision maker" within the context of IFRS 8 *Operating Segments*.

Note 1 Summary of significant accounting policies (continued)

UBS AG's internal accounting policies, which include management accounting policies and service level agreements, determine the revenues and expenses directly attributable to each reportable segment. Internal charges and transfer pricing adjustments are reflected in operating results of the reportable segments. Transactions between the reportable segments are carried out at internally agreed rates and are also reflected in the operating results of the reportable segments. Revenue-sharing agreements are used to allocate external client revenues to reportable segments where several reportable segments are involved in the value-creation chain. Commissions are credited to the reportable segments based on the corresponding client relationship. Net interest income is generally allocated to the reportable segments based on their balance sheet positions. Interest income earned from managing UBS AG's consolidated equity is allocated to the reportable segments based on average attributed equity. Own credit gains and losses on financial liabilities designated at fair value are excluded from the measurement of performance of the business divisions, are considered reconciling differences to UBS AG results and are reported collectively under Corporate Center – Group Asset and Liability Management (Group ALM).

Assets and liabilities of the reportable segments are funded through and invested with Corporate Center – Group Asset and Liability Management, and the net interest margin is reflected in the results of each reportable segment. Total intersegment revenues for UBS AG are immaterial as the majority of the revenues are allocated across the segments by means of revenue-sharing agreements.

Segment balance sheet assets are based on a third-party view and do not include intercompany balances. This view is in line with internal reporting to management. Certain assets managed centrally by Corporate Center – Services and Corporate Center – Group Asset and Liability Management (including property and equipment and certain financial assets) may be allocated to the segments on a basis different to that which the corresponding costs and/or revenues are allocated. For example, certain assets that are reported in Corporate Center – Services or Corporate Center – Group Asset and Liability Management may be retained on the balance sheets of these components of Corporate Center notwithstanding that the costs and/or revenues associated with these assets may be entirely or partially allocated to the segments. Similarly, certain assets are reported in the business divisions, whereas the corresponding costs and/or revenues are entirely or partially allocated to Corporate Center – Services and Corporate Center – Group Asset and Liability Management.

For the purpose of segment reporting under IFRS 8, non-current assets consist of investments in associates and joint ventures, goodwill, other intangible assets and property, equipment and software.

➔ Refer to Note 2 for more information on segment reporting

35) Netting

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

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

➔ Refer to Note 26 for more information on offsetting financial assets and financial liabilities

36) Negative interest

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

➔ Refer to Note 3 for more information on interest income and interest expense

b) Changes in accounting policies, comparability and other adjustments

Statement of cash flows – definition of cash and cash equivalents
In 2015, UBS AG refined its definition of cash and cash equivalents presented in the statement of cash flows to exclude cash collateral receivables on derivative instruments with bank counterparties. The refined definition is consistent with the treatment of these receivables in UBS AG's liquidity and funding management framework and with liquidity and funding regulations, which became effective in 2015, and is considered to result in the presentation of more relevant information.

Comparative period information was restated accordingly. As a result, cash and cash equivalents as of 31 December 2014, 31 December 2013 and 31 December 2012 were reduced by CHF 10,265 million, CHF 8,982 million and CHF 12,393 million, respectively. On a restated basis, cash flow from operating activities for the year ended 31 December 2014 decreased by CHF 1,195 million (2013: increase by CHF 3,415 million) and the gain from effects of exchange rate differences on cash and cash equivalents decreased by CHF 89 million for the same period (2013: loss from currency effects increased by CHF 3 million).

Review of actuarial assumptions used in calculating defined benefit obligations
UBS AG regularly reviews the actuarial assumptions used in calculating its defined benefit obligations to determine their continuing relevance.

In 2015, UBS AG carried out a methodology review of the actuarial assumptions used in calculating its defined benefit obligation for its Swiss pension plan. As a result, UBS AG enhanced its methodology for estimating the discount rate by improving the construction of the yield curve where the market for long tenor maturities of Swiss high-quality corporate bonds was not sufficiently deep. Furthermore, UBS AG refined its approach to estimating the rate of salary increases, the rate of interest credit on retirement savings, the employee turnover rate, the rate of employee disabilities and the rate of marriage. These improvements in estimates resulted in a total net decrease in the defined benefit obligation (DBO) of the Swiss pension plan of CHF 2.1 billion, of which CHF 1.0 billion related to demographic assumptions and CHF 1.0 billion related to financial assumptions, and a corresponding increase in *Other comprehensive income*.

Furthermore, UBS AG enhanced methodologies and refined approaches used to estimate various actuarial assumptions for its UK and other pension plans. These improvements in estimates resulted in a total net decrease in the DBO of the UK pension plan of CHF 0.2 billion, of which CHF 0.1 billion related to demographic assumptions and CHF 0.1 billion related to financial assumptions, and a corresponding increase in *Other comprehensive income*.

Valuation methodology for the own credit component of financial liabilities designated at fair value
In 2015, UBS AG made enhancements to its valuation methodology for the own credit component of fair value of financial liabilities designated at fair value. Prior to the fourth quarter of 2015, own credit was estimated using a funds transfer pricing curve (FTP), which was derived by discounting UBS Group AG (consolidated) new issuance senior debt curve spreads, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS Group AG (consolidated) debt and the levels at which UBS Group AG (consolidated) medium-term notes (MTN) were issued. A decline in long-dated UBS Group AG (consolidated) MTN issuance volumes, following UBS Group AG's (consolidated) business transformation, resulted in a reduction in the observable market data available to benchmark the FTP. From the fourth quarter of 2015 onwards, own credit is estimated using an own credit adjustment curve (OCA), which incorporates more observable market data, including market-observed secondary prices for UBS Group AG (consolidated) senior debt, UBS Group AG (consolidated) credit default swap (CDS) spreads and senior debt curves of peers. This change in accounting estimate was finalized in the fourth quarter of 2015, following a multi-period implementation project to develop an enhanced fair value approach supported by related infrastructure enhancements. The change was implemented on a prospective basis in the fourth quarter of 2015 and resulted in a gain of CHF 260 million on a total carrying amount of CHF 63 billion in financial liabilities designated at fair value.

Note 1 Summary of significant accounting policies (continued)

Additionally, UBS AG will early adopt the own credit presentation requirements of IFRS 9 in the first quarter of 2016. No restatement of prior periods is required. Under IFRS 9, changes in the fair value of financial liabilities designated at fair value through profit and loss related to own credit will be recognized in Other comprehensive income and will not be reclassified to the income statement. UBS AG will adopt the other requirements of IFRS 9 (classification and measurement, impairment and hedge accounting) as of the mandatory effective date in 2018.

Global Asset Management renamed Asset Management

During 2015, the business division Global Asset Management was renamed Asset Management. This change is reflected throughout this report.

Retail & Corporate renamed Personal & Corporate Banking

Effective 2016, the business division Retail & Corporate has been renamed Personal & Corporate Banking. This change is reflected throughout this report.

New structure of the Corporate Center

As of 1 January 2015, Corporate Center – Core Functions was reorganized into two new units, Corporate Center – Services and Corporate Center – Group Asset and Liability Management (Group ALM). Therefore, UBS AG now reports: (i) Corporate Center – Services, (ii) Corporate Center – Group ALM and (iii) Corporate Center – Non-Core and Legacy Portfolio separately, which enhances the transparency on Corporate Center activities.

Group ALM is responsible for centrally managing UBS AG's liquidity and funding position, as well as providing other balance sheet and capital management services to UBS AG. Most of the income generated and expenses incurred by Group ALM from these activities continues to be allocated to the business divisions and other Corporate Center units. Additional transparency on revenue allocations from Group ALM to business divisions and other Corporate Center units is provided in Note 2. Own credit gains and losses on financial liabilities designated at fair value are presented in Group ALM.

Corporate Center – Services includes UBS AG's central control functions and all logistics and support functions serving the business divisions and other Corporate Center units. Most of the expenses of Corporate Center – Services are allocated to the business divisions and other Corporate Center units.

➔ **Refer to Note 2 for more information**

Service and personnel allocations from Corporate Center – Services to business divisions and other Corporate Center units

In 2015, UBS AG revised the presentation of service allocations from Corporate Center – Services to the business divisions and other Corporate Center units to better reflect the economic relation-ship between them. These cost allocations were previously presented within the *Personnel expenses, General and administrative expenses* and *Depreciation and impairment of property, equipment and software* line items and are newly presented in the *Services (to)/from business divisions and Corporate Center* line items. Prior-period information was restated to reflect this change. This change in presentation did not affect total operating expenses or performance before tax of the business divisions and Corporate Center units for any period presented. Similarly, personnel of Corporate Center – Services are no longer allocated to the business divisions and other Corporate Center units. Prior-period information was restated accordingly.

➔ **Refer to Note 2 for more information**

Change in segment reporting related to fair value gains and losses on certain internal funding transactions

Consistent with changes in the manner in which operating segment performance is assessed, beginning in 2015, UBS AG has applied fair value accounting for certain internal funding transactions between Corporate Center – Group ALM and the Investment Bank and Corporate Center – Non-core and Legacy Portfolio rather than applying amortized cost accounting. This treatment better aligns with the mark-to-market basis on which these internal transactions are risk managed within the Investment Bank and Corporate Center – Non-core and Legacy Portfolio. The terms of the funding transactions remain otherwise unchanged. Prior periods have been restated to reflect this change. As a result, Investment Bank operating income and performance before tax decreased by CHF 37 million for the year ended 31 December 2014 and by CHF 162 million for the year ended 31 December 2013, with offsetting increases in Corporate Center. This change did not affect UBS AG's total operating income or net profit for any period presented.

➔ **Refer to Note 2 for more information**

c) International Financial Reporting Standards and Interpretations to be adopted in 2016 and later and other adjustments

IFRS 9, Financial Instruments

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

The standard requires all financial assets, except equity instruments, to be classified at fair value through profit or loss, fair value through other comprehensive income (OCI) or amortized cost on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. If a financial asset meets the criteria to be measured at amortized cost or at fair value through OCI, it can be designated at fair value through profit or loss under the fair value option if doing so would significantly reduce or eliminate an accounting mismatch. Equity instruments that are not held for trading may be accounted for at fair value through OCI, with no subsequent reclassification of realized gains or losses to the income statement, while all other equity instruments will be accounted for at fair value through profit or loss.

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

In addition, the standard introduces a forward-looking expected credit loss impairment model, replacing the incurred loss model of IAS 39. IFRS 9 also incorporates a reformed approach to hedge accounting that introduces substantial changes to hedge effectiveness and eligibility requirements as well as new disclosures. The standard does not explicitly address macro hedge accounting strategies.

The mandatory effective date of the new standard is 1 January 2018, with earlier adoption permitted. Adoption of the IFRS 9 hedge accounting requirements is optional, pending the completion by the IASB of its project on macro hedge accounting strategies.

UBS AG will adopt the own credit presentation changes in the first quarter of 2016 and is currently assessing the impact of the other requirements of IFRS 9 on its financial statements.

IFRS 15, Revenue from Contracts with Customers

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

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, *Leases*. The standard substantially changes the accounting by lessees as operating leases previously accounted for as off-balance sheet financing arrangements will be recognized as on-balance sheet liabilities with a corresponding right of use asset also being recorded. The standard replaces IAS 17, *Leases* and is effective for UBS AG from 1 January 2019. Early application is permitted for companies that also apply IFRS 15, *Revenue from Contracts with Customers*. UBS AG is currently assessing the impact of the new standard on its financial statements. UBS AG's undiscounted minimum lease payments for operating leases are disclosed in Note 33.

Note 1 Summary of significant accounting policies (continued)

Amendments to IFRS 11, Joint Arrangements; IAS 16, Property, Plant and Equipment and IAS 38, Intangible Assets
In May 2014, the IASB issued amendments to IFRS 11, *Joint Arrangements*, IAS 16, *Property, Plant and Equipment* and IAS 38, *Intangible Assets*. The standard is effective for UBS AG reporting periods beginning on 1 January 2016. The amendments will have no material impact on UBS AG's financial statements. UBS AG's joint arrangements are immaterial, both individually and in aggregate (refer to Note 30), and UBS AG does not use revenue-based depreciation methodologies, which the amendments to IAS 16 and IAS 38 prohibit.

Annual Improvements to IFRSs 2012 – 2014 Cycle
In September 2014, the IASB issued *Annual Improvements to IFRSs 2012 – 2014 Cycle* that resulted in amendments to four IFRSs (IFRS 5, *Non-current asset held for sale and discontinued operations*, IFRS 7, *Financial Instruments Disclosures*, IAS 19, *Employee Benefits* and IAS 34, *Interim Financial Reporting)*. Generally, the amendments are effective for UBS AG on 1 January 2016. UBS AG expects that the adoption of these amendments will not have a material impact on its financial statements.

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

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

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

Note 2a Segment reporting

The operational structure of UBS AG is comprised of the Corporate Center and five business divisions: Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank.

Wealth Management

Wealth Management provides comprehensive financial services to wealthy private clients around the world, with the exception of those served by Wealth Management Americas. UBS AG is a global firm with global capabilities, and its clients benefit from a full spectrum of resources, including wealth planning, investment management solutions and corporate finance advice, banking and lending solutions as well as a wide range of specific offerings. Wealth Management's guided architecture model gives clients access to a wide range of products from the world's leading third-party institutions that complement its own products.

Wealth Management Americas

Wealth Management Americas is one of the leading wealth managers in the Americas in terms of financial advisor productivity and invested assets. Its business includes UBS AG's domestic US and Canadian wealth management businesses, as well as international business booked in the US. It provides a fully integrated set of wealth management solutions designed to address the needs of ultra high net worth and high net worth clients.

Personal & Corporate Banking

Personal & Corporate Banking provides comprehensive financial products and services to UBS AG's private, corporate and institutional clients in Switzerland, maintaining a leading position in these segments and embedding its offering in a multi-channel approach. The business is a central element of UBS AG's universal bank delivery model in Switzerland, supporting other business divisions by referring clients and growing the wealth of the firm's private clients so they can be transferred to Wealth Management. Personal & Corporate Banking leverages the cross-selling potential of UBS AG's asset-gathering and investment bank businesses, and manages a substantial part of UBS AG's Swiss infrastructure and banking products platform.

Asset Management

Asset Management is a large-scale global asset manager. It offers investment capabilities and investment styles across all major traditional and alternative asset classes to institutions, wholesale intermediaries and wealth management clients around the world.

Investment Bank

The Investment Bank provides corporate, institutional and wealth management clients with expert advice, innovative solutions, execution and comprehensive access to international capital markets. It offers advisory services and provides in-depth cross-asset research, along with access to equities, foreign exchange, precious metals and selected rates and credit markets, through its business units, Corporate Client Solutions and Investor Client Services. The Investment Bank is an active participant in capital markets flow activities, including sales, trading and market-making across a range of securities.

Corporate Center

Corporate Center is comprised of Services, Group Asset and Liability Management (Group ALM) and Non-core and Legacy Portfolio. Services includes UBS AG's control functions such as finance, risk control (including compliance) and legal. In addition, it provides all logistics and support services, including operations, information technology, human resources, regulatory relations and strategic initiatives, communications and branding, corporate services, physical security, information security as well as outsourcing, nearshoring and offshoring. Group ALM is responsible for centrally managing UBS AG's liquidity and funding position, as well as providing other central internal balance sheet and capital management services. Non-core and Legacy Portfolio is comprised of the non-core businesses and legacy positions that were part of the Investment Bank prior to its restructuring.

Note 2a Segment reporting (continued)

CHF million	Wealth Management	Wealth Management Americas	Personal & Corporate Banking	Asset Management	Investment Bank	Corporate Center – Services	Corporate Center – Group ALM	Corporate Center – Non-core and Legacy Portfolio	UBS
For the year ended 31 December 2015									
Net interest income	1,825	1,067	1,890	(34)	1,573	(337)	789	(44)	6,729
Non-interest income	5,859	6,213	1,603	2,077	7,525	434	361	(79)	23,993
Allocations from Corporate Center – Group ALM to business divisions and other CC units	471	104	421	15	(211)	145	(876)	(71)	0
Income[1,2]	8,155	7,384	3,913	2,057	8,889	243	275	(195)	30,721
Credit loss (expense) / recovery	0	(4)	(37)	0	(68)	0	0	(8)	(117)
Total operating income	8,155	7,381	3,876	2,057	8,821	243	275	(203)	30,605
Personnel expenses	2,532	4,579	873	729	3,220	3,875	30	116	15,954
General and administrative expenses	650	848	264	233	882	4,517	20	805	8,219
Services (to) / from other business divisions and Corporate Center	2,289	1,209	1,077	502	2,816	(8,214)	(56)	378	0
of which: services from CC – Services	*2,209*	*1,193*	*1,180*	*523*	*2,730*	*(8,243)*	*95*	*314*	*0*
Depreciation and impairment of property, equipment and software	5	3	17	2	26	866	0	0	918
Amortization and impairment of intangible assets[3]	3	51	0	8	24	21	0	0	107
Total operating expenses[4]	5,478	6,689	2,231	1,475	6,969	1,065	(6)	1,298	25,198
Operating profit / (loss) before tax	**2,676**	**692**	**1,646**	**583**	**1,852**	**(822)**	**281**	**(1,501)**	**5,407**
Tax expense / (benefit)									(908)
Net profit / (loss)									**6,314**
Additional Information									
Total assets	119,850	60,993	141,174	12,874	253,571	22,866	237,560	94,369	943,256
Additions to non-current assets	6	4	14	1	18	1,844	0	1	1,888

1 Impairments of financial investments available-for-sale for the year ended 31 December 2015 totaled CHF 1 million, of which CHF 1 million was incurred in Wealth Management. 2 Refer to Note 24 for more information on own credit in Corporate Center – Group ALM. 3 Refer to Note 17 for more information. 4 Refer to Note 32 for information on restructuring expenses.

Note 2a Segment reporting (continued)[1]

CHF million	Wealth Management	Wealth Management Americas	Personal & Corporate Banking	Asset Management	Investment Bank	Corporate Center – Services	Corporate Center – Group ALM	Corporate Center – Non-core and Legacy Portfolio	UBS
For the year ended 31 December 2014									
Net interest income	1,693	864	1,801	(39)	1,583	(338)	816	174	6,555
Non-interest income	5,726	6,004	1,575	1,914	6,823	157	307	(956)	21,549
Allocations from Corporate Center – Group ALM to business divisions and other CC units	481	116	461	27	(100)	217	(1,120)	(82)	0
Income[2,3]	7,902	6,984	3,836	1,902	8,306	35	2	(863)	28,104
Credit loss (expense) / recovery	(1)	15	(95)	0	2	0	0	2	(78)
Total operating income	7,901	6,998	3,741	1,902	8,308	35	2	(862)	28,026
Personnel expenses	2,467	4,363	850	643	2,964	3,843	26	124	15,280
General and administrative expenses	918	550	293	305	2,671	4,113	21	507	9,377
Services (to) / from other business divisions and Corporate Center	2,180	1,137	1,074	478	2,711	(8,046)	(47)	513	0
of which: services from CC – Services	*2,122*	*1,121*	*1,196*	*495*	*2,658*	*(8,084)*	*82*	*411*	*0*
Depreciation and impairment of property, equipment and software	4	0	17	2	32	762	0	0	817
Amortization and impairment of intangible assets[4]	5	48	0	9	15	6	0	0	83
Total operating expenses[5]	5,574	6,099	2,235	1,435	8,392	679	0	1,144	25,557
Operating profit / (loss) before tax	**2,326**	**900**	**1,506**	**467**	**(84)**	**(643)**	**2**	**(2,005)**	**2,469**
Tax expense / (benefit)									(1,180)
Net profit / (loss)									**3,649**
Additional Information									
Total assets	127,588	56,026	143,711	15,207	292,347	19,720	237,901	169,826	1,062,327
Additions to non-current assets	7	6	9	2	7	1,677	0	0	1,708

1 Figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. Refer to Note 1b for more information. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2014 totaled CHF 76 million, of which CHF 49 million were incurred in the Investment Bank and CHF 23 million were incurred in Corporate Center – Non-core and Legacy Portfolio. 3 Refer to Note 24 for more information on own credit in Corporate Center – Group ALM. 4 Refer to Note 17 for more information. 5 Refer to Note 32 for information on restructuring expenses.

Note 2a Segment reporting (continued)[1]

CHF million	Wealth Management	Wealth Management Americas	Personal & Corporate Banking	Asset Management	Investment Bank	Corporate Center – Services	Corporate Center – Group ALM	Corporate Center – Non-core and Legacy Portfolio	UBS
For the year ended 31 December 2013									
Net interest income	1,568	742	1,822	(44)	1,102	(388)	624	359	5,786
Non-interest income	5,519	5,629	1,556	1,954	7,552	347	(544)	(18)	21,997
Allocations from Corporate Center – Group ALM to business divisions and other CC units	486	193	396	23	(217)	218	(921)	(179)	0
Income[2,3]	7,573	6,565	3,774	1,935	8,436	178	(841)	163	27,782
Credit loss (expense) / recovery	(10)	(27)	(18)	0	2	0	0	3	(50)
Total operating income	7,563	6,538	3,756	1,935	8,438	178	(841)	166	27,732
Personnel expenses	2,433	4,102	843	609	2,899	4,065	26	205	15,182
General and administrative expenses	708	383	297	218	843	4,249	14	1,668	8,380
Services (to) / from other business divisions and Corporate Center	2,165	1,145	1,140	521	2,517	(8,276)	3	785	0
of which: services from CC – Services	*2,074*	*1,127*	*1,301*	*535*	*2,487*	*(8,304)*	*87*	*693*	*0*
Depreciation and impairment of property, equipment and software	3	0	19	4	28	761	0	0	816
Amortization and impairment of intangible assets[4]	7	49	0	8	13	4	0	2	83
Total operating expenses[5]	5,316	5,680	2,298	1,359	6,300	804	43	2,660	24,461
Operating profit / (loss) before tax	**2,247**	**858**	**1,458**	**576**	**2,138**	**(626)**	**(884)**	**(2,494)**	**3,272**
Tax expense / (benefit)									(110)
Net profit / (loss)									**3,381**
Additional Information									
Total assets	109,758	45,491	141,369	14,223	239,971	17,203	230,204	215,135	1,013,355
Additions to non-current assets	5	1	17	1	81	1,236	0	0	1,341

1 Figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. Refer to Note 1b for more information. 2 Impairments of financial investments available-for-sale for the year ended 31 December 2013 totaled CHF 41 million, of which CHF 10 million was incurred in Wealth Management, CHF 20 million was incurred in the Investment Bank and CHF 8 million was incurred in Corporate Center – Non-core and Legacy Portfolio. 3 Refer to Note 24 for more information on own credit in Corporate Center – Group ALM. 4 Refer to Note 17 for more information. 5 Refer to Note 32 for information on restructuring expenses.

Note 2b Segment reporting by geographic location

The operating regions shown in the table below correspond to the regional management structure of UBS AG. The allocation of operating income to these regions reflects, and is consistent with, the basis on which the business is managed and its performance evaluated. These allocations involve assumptions and judgments that management considers to be reasonable, and may be refined to reflect changes in estimates or management structure. The main principles of the allocation methodology are that client revenues are attributed to the domicile of the client and trading and portfolio management revenues are attributed to the country where the risk is managed. This revenue attribution is consistent with the mandate of the country and regional Presidents. Certain revenues, such as those related to Corporate Center – Non-core and Legacy Portfolio, are managed at a global level. These revenues are included in the *Global* line.

The geographic analysis of non-current assets is based on the location of the entity in which the assets are recorded.

For the year ended 31 December 2015

	Total operating income		Total non-current assets	
	CHF billion	**Share %**	**CHF billion**	**Share %**
Americas	**11.3**	**37**	**7.1**	**47**
of which: USA	***10.7***	***35***	***6.7***	***44***
Asia Pacific	**5.0**	**16**	**0.5**	**3**
Europe, Middle East and Africa	**6.8**	**22**	**1.7**	**11**
Switzerland	**7.1**	**23**	**5.9**	**39**
Global	**0.5**	**2**	**0.0**	**0**
Total	**30.6**	**100**	**15.2**	**100**

For the year ended 31 December 2014

	Total operating income		Total non-current assets	
	CHF billion	Share %	CHF billion	Share %
Americas	10.7	38	7.0	48
of which: USA	*10.1*	*36*	*6.6*	*45*
Asia Pacific	4.6	16	0.4	3
Europe, Middle East and Africa	6.8	24	1.5	10
Switzerland	6.8	24	5.6	38
Global	(0.9)	(3)	0.0	0
Total	**28.0**	**100**	**14.6**	**100**

For the year ended 31 December 2013

	Total operating income		Total non-current assets	
	CHF billion	Share %	CHF billion	Share %
Americas	10.2	37	6.1	46
of which: USA	*9.6*	*35*	*5.6*	*43*
Asia Pacific	4.5	16	0.4	3
Europe, Middle East and Africa	6.6	24	1.5	11
Switzerland	6.8	25	5.3	40
Global	(0.4)	(1)	0.0	0
Total	**27.7**	**100**	**13.1**	**100**

Income statement notes

Note 3 Net interest and trading income

	For the year ended			% change from
CHF million	**31.12.15**	31.12.14	31.12.13	31.12.14
Net interest and trading income				
Net interest income	**6,729**	6,555	5,786	3
Net trading income	**5,696**	3,841	5,130	48
Total net interest and trading income	**12,425**	10,396	10,915	20
Wealth Management	**3,034**	2,845	2,868	7
Wealth Management Americas	**1,537**	1,352	1,323	14
Personal & Corporate Banking	**2,613**	2,536	2,485	3
Asset Management	**(5)**	0	9	
Investment Bank	**5,186**	4,517	4,852	15
of which: Corporate Client Solutions	***1,001***	*1,030*	*1,146*	*(3)*
of which: Investor Client Services	***4,185***	*3,487*	*3,707*	*20*
Corporate Center	**61**	(855)	(622)	
of which: Services	***(1)***	*33*	*(166)*	
of which: Group ALM	***375***	*16*	*(535)*	
of which: own credit on financial liabilities designated at fair value[1]	***553***	*292*	*(283)*	*89*
of which: Non-core and Legacy Portfolio	***(313)***	*(904)*	*79*	*(65)*
Total net interest and trading income	**12,425**	10,396	10,915	20
Net interest income				
Interest income				
Interest earned on loans and advances[2]	**8,626**	8,722	8,686	(1)
Interest earned on securities financing transactions[3]	**896**	752	852	19
Interest and dividend income from trading portfolio	**3,071**	3,196	2,913	(4)
Interest income on financial assets designated at fair value	**194**	208	364	(7)
Interest and dividend income from financial investments available-for-sale	**391**	315	322	24
Total	**13,178**	13,194	13,137	0
Interest expense				
Interest on amounts due to banks and customers	**774**	708	893	9
Interest on securities financing transactions[4]	**976**	827	829	18
Interest expense from trading portfolio[5]	**1,670**	1,804	1,846	(7)
Interest on financial liabilities designated at fair value	**730**	919	1,197	(21)
Interest on debt issued	**2,299**	2,382	2,586	(3)
Total	**6,449**	6,639	7,351	(3)
Net interest income	**6,729**	6,555	5,786	3
Net trading income				
Investment Bank Corporate Client Solutions	**321**	276	425	16
Investment Bank Investor Client Services	**3,494**	2,760	3,541	27
Other business divisions and Corporate Center	**1,882**	806	1,164	133
Net trading income	**5,696**	3,841	5,130	48
of which: net gains / (losses) from financial assets designated at fair value	***(119)***	*(81)*	*99*	*47*
of which: net gains / (losses) from financial liabilities designated at fair value[1,6]	***3,701***	*(2,380)*	*(2,056)*	

1 Refer to Note 24 for more information on own credit. 2 Includes interest income on impaired loans and advances of CHF 16 million for 2015, CHF 15 million for 2014 and CHF 15 million for 2013. 3 Includes interest income on securities borrowed and reverse repurchase agreements and negative interest, including fees, on securities lent and repurchase agreements. 4 Includes interest expense on securities lent and repurchase agreements and negative interest, including fees, on securities borrowed and reverse repurchase agreements. 5 Includes expense related to dividend payment obligations on trading liabilities. 6 Excludes fair value changes of hedges related to financial liabilities designated at fair value and foreign currency translation effects arising from translating foreign currency transactions into the respective functional currency, both of which are reported within net trading income.

Note 4 Net fee and commission income

	For the year ended			% change from
CHF million	**31.12.15**	31.12.14	31.12.13	31.12.14
Underwriting fees	**1,290**	1,470	1,374	(12)
of which: equity underwriting fees	***836***	*947*	*850*	*(12)*
of which: debt underwriting fees	***455***	*522*	*524*	*(13)*
M&A and corporate finance fees	**737**	731	613	1
Brokerage fees	**3,930**	3,918	4,035	0
Investment fund fees	**3,567**	3,717	3,803	(4)
Portfolio management and advisory fees	**7,858**	7,343	6,625	7
Other	**1,678**	1,760	1,725	(5)
Total fee and commission income	**19,060**	18,940	18,176	1
Brokerage fees paid	**869**	818	839	6
Other	**1,007**	1,045	1,050	(4)
Total fee and commission expense	**1,876**	1,863	1,889	1
Net fee and commission income	**17,184**	17,076	16,287	1
of which: net brokerage fees	***3,060***	*3,100*	*3,196*	*(1)*

Note 5 Other income

	For the year ended			% change from
CHF million	**31.12.15**	31.12.14	31.12.13	31.12.14
Associates and subsidiaries				
Net gains / (losses) from disposals of subsidiaries[1]	**264**[2]	56	111	371
Net gains / (losses) from disposals of investments in associates	**0**	69	0	(100)
Share of net profits of associates	**169**	94	49	80
Total	**433**	219	160	98
Financial investments available-for-sale				
Net gains / (losses) from disposals	**252**	219	209	15
Impairment charges	**(1)**	(76)	(41)	(99)
Total	**251**	143	168	76
Net income from properties (excluding net gains / (losses) from disposals)[3]	**28**	30	35	(7)
Net gains / (losses) from investment properties[4]	**(1)**	2	(16)	
Net gains / (losses) from disposals of properties held for sale	**378**	44	291	759
Net gains / (losses) from disposals of loans and receivables	**26**	39	53	(33)
Other	**(4)**[5]	155	(111)	
Total other income	**1,112**	632	580	76

1 Includes foreign exchange gains / (losses) reclassified from other comprehensive income related to disposed or dormant subsidiaries. 2 Includes a net gain on sale of subsidiaries of CHF 113 million in Wealth Management and a net gain on sale of subsidiaries of CHF 56 million in Asset Management. Refer to Note 32 for more information. 3 Includes net rent received from third parties and net operating expenses. 4 Includes unrealized and realized gains / (losses) from investment properties and foreclosed assets. 5 Includes a net gain on sale of businesses of CHF 56 million in Wealth Management. Refer to Note 32 for more information.

Note 6 Personnel expenses

	For the year ended			% change from
CHF million	**31.12.15**	31.12.14	31.12.13	31.12.14
Salaries[1]	**6,260**	6,269	6,268	0
Variable compensation – performance awards[2]	**3,209**	2,820	2,986	14
of which: guarantees for new hires	***38***	*48*	*76*	*(21)*
Variable compensation – other[2]	**346**	466	288	(26)
of which: replacement payments[3]	***76***	*81*	*78*	*(6)*
of which: forfeiture credits	***(86)***	*(70)*	*(146)*	*23*
of which: severance payments[4]	***157***	*162*	*114*	*(3)*
of which: retention plan and other payments	***198***	*292*	*242*	*(32)*
Contractors	**365**	234	190	56
Social security	**817**	791	792	3
Pension and other post-employment benefit plans[5]	**807**	711	887	14
Wealth Management Americas: Financial advisor compensation[2,6]	**3,552**	3,385	3,140	5
Other personnel expenses	**597**	605	631	(1)
Total personnel expenses[7]	**15,954**	15,280	15,182	4

1 Includes role-based allowances. 2 Refer to Note 29 for more information. 3 Replacement payments are payments made to compensate employees for deferred awards forfeited as a result of joining UBS. 4 Includes legally obligated and standard severance payments. 5 Refer to Note 28 for more information. 6 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment which are subject to vesting requirements. 7 Includes net restructuring expenses of CHF 458 million, CHF 327 million and CHF 156 million for the years ended 31 December 2015, 31 December 2014 and 31 December 2013, respectively. Refer to Note 32 for more information.

Note 7 General and administrative expenses

	For the year ended			% change from
CHF million	**31.12.15**	31.12.14	31.12.13	31.12.14
Occupancy	**928**	1,005	1,044	(8)
Rent and maintenance of IT and other equipment	**510**	479	458	6
Communication and market data services	**610**	608	609	0
Administration	**855**	608	638	41
Marketing and public relations	**484**	468	478	3
Travel and entertainment	**456**	458	451	0
Professional fees	**1,351**	1,306	1,032	3
Outsourcing of IT and other services	**1,742**	1,603	1,340	9
Provisions for litigation, regulatory and similar matters[1]	**1,087**	2,594	1,701	(58)
Other	**195**	248	628	(21)
Total general and administrative expenses[2]	**8,219**	9,377	8,380	(12)

1 Reflects the net increase in provisions for litigation, regulatory and similar matters recognized in the income statement. Refer to Note 22 for more information. Also includes recoveries from third parties of CHF 10 million, CHF 10 million and CHF 15 million for the years ended 31 December 2015, 31 December 2014 and 31 December 2013, respectively. 2 Includes net restructuring expenses of CHF 760 million, CHF 319 million and CHF 548 million for the years ended 31 December 2015, 31 December 2014 and 31 December 2013, respectively. Refer to Note 32 for more information.

Note 8 Income taxes

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Tax expense / (benefit)			
Swiss			
Current	**230**	46	93
Deferred	**329**	1,348	455
Non-Swiss			
Current	**476**	409	342
Deferred	**(1,943)**	(2,983)	(1,000)
Total income tax expense / (benefit)	**(908)**	**(1,180)**	**(110)**

Income tax expense / (benefit)

The Swiss current tax expense of CHF 230 million related to taxable profits against which no losses were available to offset, mainly earned by Swiss subsidiaries. The Swiss deferred tax expense of CHF 329 million mainly reflected a net decrease of deferred tax assets previously recognized in relation to tax losses carried forward, partially offset by an increase in recognized deferred tax assets related to temporary differences.

The non-Swiss current tax expense of CHF 476 million related to taxable profits earned by non-Swiss subsidiaries and branches, against which no losses were available to offset. The non-Swiss net deferred tax benefit of CHF 1,943 million was primarily due to an increase in US deferred tax assets, reflecting updated profit forecasts and an extension of the relevant taxable profit forecast period used in valuing deferred tax assets. Based on the performance of its businesses and the accuracy of historical forecasts, UBS AG extended the deferred tax asset forecast period for US taxable profits to seven years from six. In addition, UBS AG considers other factors in evaluating the recoverability of its deferred tax assets, including the remaining tax loss carry-forward period, and its confidence level in assessing the probability of taxable profit beyond the current forecast period. Estimating future profitability is inherently subjective and is particularly sensitive to future economic, market and other conditions which are difficult to predict.

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Operating profit / (loss) before tax	**5,407**	2,469	3,272
of which: Swiss	***3,665***	*1,181*	*3,323*
of which: Non-Swiss	***1,742***	*1,288*	*(51)*
Income taxes at Swiss tax rate of 21%	**1,135**	519	687
Increase / (decrease) resulting from:			
Non-Swiss tax rates differing from Swiss tax rate	**(69)**	68	(305)
Tax effects of losses not recognized	**107**	325	58
Previously unrecognized tax losses now utilized	**(107)**	(285)	(419)
Non-taxable and lower taxed income	**(273)**	(384)	(624)
Non-deductible expenses and additional taxable income	**519**	1,069	1,245
Adjustments related to prior years – current tax	**29**	5	(32)
Adjustments related to prior years – deferred tax	**(48)**	(9)	6
Change in deferred tax valuation allowances	**(2,419)**	(2,373)	(859)
Adjustments to deferred tax balances arising from changes in tax rates	**191**	(183)	107
Other items	**26**	69	28
Income tax expense / (benefit)	**(908)**	**(1,180)**	**(110)**

Note 8 Income taxes (continued)

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Swiss tax rate, are provided in the table on the previous page and explained below.

Non-Swiss tax rates differing from Swiss tax rate
To the extent that UBS AG profits or losses arise outside Switzerland, the applicable local tax rate may differ from the Swiss tax rate. This item reflects, for such profits or losses, an adjustment from the tax expense/benefit that would arise at the Swiss tax rate and the tax expense/benefit that would arise at the applicable local tax rate. If an entity generates a profit, a tax expense arises where the local tax rate is in excess of the Swiss tax rate and a tax benefit arises where the local tax rate is below the Swiss tax rate. Conversely, if an entity incurs a loss, a tax benefit arises where the local tax rate is in excess of the Swiss tax rate and a tax expense arises where the local tax rate is less than the Swiss tax rate.

Tax effects of losses not recognized
This item relates to tax losses of entities arising in the year, which are not recognized as deferred tax assets. Consequently, no tax benefit arises in relation to those losses. Therefore, the tax benefit calculated by applying the local tax rate to those losses as described above is reversed.

Previously unrecognized tax losses now utilized
This item relates to taxable profits of the year, which are offset by tax losses of previous years, for which no deferred tax assets were previously recorded. Consequently, no current tax or deferred tax expense arises in relation to those taxable profits. Therefore, the tax expense calculated by applying the local rate on those profits is reversed.

Non-taxable and lower taxed income
This item relates to profits for the year, which are either permanently not taxable or are taxable, but at a lower rate of tax than the local tax rate. It also includes any permanent deductions made for tax purposes, which are not reflected in the accounts, thereby effectively ensuring that profits covered by the deduction are not taxable.

Non-deductible expenses and additional taxable income
This item mainly relates to income for the year, which is imputed for tax purposes for an entity, but is not included in its operating profit. In addition, it includes expenses for the year which are permanently non-deductible.

Adjustments related to prior years – current tax
This item relates to adjustments to current tax expenses for prior years, for example, if the tax payable for a year agreed with the tax authorities is expected to differ from the amount previously reflected in the accounts.

Adjustments related to prior years – deferred tax
This item relates to adjustments to deferred tax positions recognized in prior years, for example, if a tax loss for a year is fully recognized and the amount of the tax loss agreed with the tax authorities is expected to differ from the amount previously recognized as deferred tax assets in the accounts.

Change in deferred tax valuation allowances

This item includes revaluations of deferred tax assets previously recognized resulting from reassessments of expected future taxable profits. It also includes changes in temporary differences in the year, for which deferred tax is not recognized. The amount in the year mainly relates to the upward revaluation of deferred tax assets.

Adjustments to deferred tax balances arising from changes in tax rates

This item relates to re-measurements of deferred tax assets and liabilities recognized due to changes in tax rates. These have the effect of changing the future tax saving that is expected from tax losses or deductible tax differences and therefore the amount of deferred tax assets recognized or, alternatively, changing the tax cost of additional taxable income from taxable temporary differences and therefore the deferred tax liability.

Other items

Other items include other differences between profit or losses at the local tax rate and the actual local tax expense or benefit, including increases in provisions for uncertain positions in relation to the current year, interest accruals for such provisions in relation to prior years and other items.

Tax recognized in equity

Certain tax expenses and benefits were recognized directly in equity. These included a tax benefit of CHF 131 million related to cash flow hedges (2014: expense of CHF 196 million), a tax benefit of CHF 8 million related to financial investments classified as available-for-sale (2014: expense of CHF 52 million), a tax expense of CHF 1 million related to foreign currency translation gains and losses (2014: expense of CHF 7 million) and a tax expense of CHF 19 million related to defined benefit plans (2014: benefit of CHF 246 million) recognized in other comprehensive income. In addition, they included a tax benefit of CHF 9 million recognized in share premium (2014: benefit of CHF 3 million). Furthermore, there were net foreign currency translation movements related to the effects of exchange rate changes on tax assets and liabilities denominated in currencies other than Swiss francs.

Deferred tax assets and liabilities

UBS AG has deferred tax assets related to tax loss carry-forwards and other items as shown in the table below. As of 31 December 2015, deferred tax assets of CHF 2,094 million (CHF 1,378 million as of 31 December 2014) were recognized by entities which incurred losses in either the current or preceding year.

The valuation allowance reflects deferred tax assets which were not recognized because it was not considered probable that future taxable profits will be available to utilize the related tax loss carry-forwards and deductible temporary differences.

CHF million	31.12.15			31.12.14		
Deferred tax assets[1]	**Gross**	**Valuation allowance**	**Recognized**	Gross	Valuation allowance	Recognized
Tax loss carry-forwards	**25,471**	**(18,378)**	**7,093**	29,727	(22,271)	7,456
Temporary differences	**7,023**	**(1,284)**	**5,739**	4,869	(1,264)	3,605
of which: related to compensation and benefits	***1,576***	***(267)***	***1,310***	*1,424*	*(317)*	*1,107*
of which: related to trading assets	***1,116***	***(77)***	***1,038***	*1,459*	*(61)*	*1,398*
of which: related to investments in subsidiaries and goodwill	***2,310***	***0***	***2,310***	*0*	*0*	*0*
of which: other	***2,021***	***(940)***	***1,081***	*1,986*	*(886)*	*1,100*
Total deferred tax assets	**32,494**	**(19,661)**	**12,833**	34,596	(23,535)	11,060
Deferred tax liabilities						
Goodwill and intangible assets			**28**			32
Financial investments			**1**			13
Investments in associates and other			**27**			35
Total deferred tax liabilities			**56**			80

1 Less deferred tax liabilities as applicable.

Note 8 Income taxes (continued)

As of 31 December 2015, tax loss carry-forwards totaling CHF 56,973 million (31 December 2014: CHF 68,869 million), which are not recognized as deferred tax assets, were available to be offset against future taxable profits. These tax losses expire as outlined in the table below.

Unrecognized tax loss carry-forwards

CHF million	**31.12.15**	31.12.14
Within 1 year	**3,727**	9,341
From 2 to 5 years	**33**	43
From 6 to 10 years	**753**	613
From 11 to 20 years	**34,833**	39,899
No expiry	**17,627**	18,973
Total	**56,973**	68,869

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

UBS AG recognizes deferred tax liabilities on undistributed earnings of subsidiaries except to the extent that those earnings are indefinitely invested. As of 31 December 2015, no such earnings were considered indefinitely invested.

Note 9 Earnings per share (EPS) and shares outstanding

During 2015, UBS AG shares were delisted from the SIX and the NYSE. As of 31 December 2015, 100% of UBS AG's issued shares were held by UBS Group AG and therefore were not publicly traded. Accordingly, earnings per share information is not provided for UBS AG.

Balance sheet notes: assets

Note 10 Due from banks and loans (held at amortized cost)

CHF million	**31.12.15**	31.12.14
By type of exposure		
Due from banks, gross	**11,869**	13,347
of which: due from central banks	***1,035***	*648*
Allowance for credit losses	**(3)**	(13)
Due from banks, net	**11,866**	13,334
Loans, gross		
Residential mortgages	**141,608**	142,380
Commercial mortgages	**21,509**	22,368
Lombard loans	**107,084**	108,230
Other loans[1]	**39,321**	39,152
Finance lease receivables[2]	**1,083**	1,101
Securities[3]	**2,807**	3,448
Subtotal	**313,413**	316,679
Allowance for credit losses	**(689)**	(695)
Loans, net	**312,723**	315,984
Total due from banks and loans, net[4]	**324,590**	329,317

1 Includes corporate loans. 2 Refer to Note 33 for more information. 3 Includes securities reclassified from held for trading. Refer to Note 1a item 10 and Note 27 for more information. 4 Refer to "Maximum exposure to credit risk" in the "Risk management and control" section of this report for information on collateral and credit enhancements.

Note 11 Cash collateral on securities borrowed and lent, reverse repurchase and repurchase agreements, and derivative instruments

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

➔ **Refer to Note 26 for more information on offsetting between financial assets and financial liabilities**

Balance sheet assets

	31.12.15			31.12.14		
CHF million	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral receivables on derivative instruments	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral receivables on derivative instruments
By counterparty						
Banks	8,658	12,903	6,037	10,517	13,746	10,265
Customers	16,925	54,991	17,727	13,546	54,668	20,713
Total	25,584	67,893	23,763	24,063	68,414	30,979

Balance sheet liabilities

	31.12.15			31.12.14		
CHF million	Cash collateral on securities lent	Repurchase agreements	Cash collateral payables on derivative instruments	Cash collateral on securities lent	Repurchase agreements	Cash collateral payables on derivative instruments
By counterparty						
Banks	7,078	5,637	17,041	7,041	5,174	20,895
Customers	951	4,016	21,241	2,138	6,644	21,477
Total	8,029	9,653	38,282	9,180	11,818	42,372

Note 12 Allowances and provisions for credit losses

CHF million

By movement	Specific allowances	Collective allowances	Total allowances	Provisions[1]	Total 31.12.15	Total 31.12.14
Balance at the beginning of the year	704	8	711	23	735	750
Write-offs / usage of provisions	(162)	(2)	(164)	0	(164)	(154)
Recoveries	48	0	48	0	48	29
Increase / (decrease) recognized in the income statement	114	0	114	2	117	78
Reclassifications	(9)	0	(9)	9	0	0
Foreign currency translation	(11)	0	(11)	0	(11)	21
Other	2	0	2	0	2	11
Balance at the end of the year	686	6	692	35	727	735

1 Represents provisions for loan commitments and guarantees. Refer to Note 22 for more information. Refer to the "Financial and operating performance" section of this report for the maximum irrevocable amount of loan commitments and guarantees.

By balance sheet line	Specific allowances	Collective allowances	Total allowances	Provisions	Total 31.12.15	Total 31.12.14
Due from banks	3	0	3		3	13
Loans	683	6	689		689	695
Cash collateral on securities borrowed	0	0	0		0	4
Provisions[1]				35	35	23
Balance at the end of the year	686	6	692	35	727	735

1 Represents provisions for loan commitments and guarantees.

Note 13 Trading portfolio

CHF million	**31.12.15**	31.12.14
Trading portfolio assets by issuer type[1]		
Debt instruments		
Government and government agencies	**18,768**	16,625
of which: Switzerland	***119***	*293*
of which: USA	***6,050***	*3,816*
of which: United Kingdom	***3,915***	*2,103*
of which: Australia	***1,649***	*2,307*
of which: Sweden	***1,274***	*191*
of which: Singapore	***1,259***	*822*
of which: Germany	***796***	*1,280*
Banks	**2,691**	4,342
Corporates and other	**19,443**	24,252
Total debt instruments	**40,902**	45,219
Equity instruments	**63,984**	69,763
Financial assets for unit-linked investment contracts	**15,519**	17,410
Financial assets held for trading	**120,405**	132,392
Precious metals and other physical commodities	**3,642**	5,764
Total trading portfolio assets	**124,047**	138,156
Trading portfolio liabilities by issuer type[1]		
Debt instruments		
Government and government agencies	**7,257**	8,716
of which: Switzerland	***50***	*232*
of which: USA	***2,754***	*2,987*
of which: France	***915***	*1,259*
of which: Italy	***838***	*569*
of which: Australia	***798***	*1,087*
of which: Japan	***725***	*810*
of which: Germany	***510***	*335*
Banks	**782**	743
Corporates and other	**2,014**	2,591
Total debt instruments	**10,053**	12,050
Equity instruments	**19,084**	15,908
Total trading portfolio liabilities	**29,137**	27,958

1 Refer to Note 24e for more information on product type and fair value hierarchy categorization.

Note 14 Derivative instruments and hedge accounting

Derivatives: overview

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

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

Over-the-counter (OTC) derivative contracts are usually traded under a standardized International Swaps and Derivatives Association (ISDA) master agreement between UBS AG and its counterparties. Terms are negotiated directly with counterparties and the contracts will have industry-standard settlement mechanisms prescribed by ISDA. The industry continues to promote the use of central counterparties (CCP) to clear OTC trades. The trend toward CCP clearing and settlement will generally facilitate the reduction of systemic credit exposures.

Other derivative contracts are standardized in terms of their amounts and settlement dates, and are bought and sold on regulated exchanges. These are commonly referred to as exchange-traded derivatives (ETD) contracts. Exchanges offer the benefits of pricing transparency, standardized daily settlement of changes in value, and consequently reduced credit risk.

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

➔ **Refer to Note 1a item 15 for more information**

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

Derivatives embedded in other financial instruments are not included in the table "Derivative instruments" within this Note. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract. In cases where UBS AG applies the fair value option to hybrid instruments, bifurcation of an embedded derivative component is not required and as such, this component is also not included in the table "Derivative instruments."

➔ **Refer to Notes 20 and 24 for more information**

Types of derivative instruments

UBS AG uses the following derivative financial instruments for both trading and hedging purposes. Through the use of the products listed below, UBS AG is engaged in extensive high-volume market-making and client facilitation trading referred to as the flow business.

The main types of derivative instruments used by UBS AG are:

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

Note 14 Derivative instruments and hedge accounting (continued)

The main derivative product types used by UBS AG are:

- Interest rate contracts: Interest rate products include interest rate swaps, forward rate agreements, swaptions and caps and floors.
- Credit derivative contracts: Credit default swaps (CDS) are the most common form of a credit 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. More information on credit derivatives is included in a separate section on the following pages. Total return swaps (TRS) are structured with one party making payments based on a set rate, either fixed or variable, plus any negative changes in fair value of an underlying asset, and the other party making payments based on the return of the asset, which includes both income it generates and any positive changes in its fair value.
- Foreign exchange contracts: Foreign exchange contracts include spot, forward and cross-currency swaps and options and warrants. Forward purchase and sale currency contracts are typically executed to meet client needs and for trading and hedging purposes.
- Equity/index contracts: UBS AG 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. The product types traded include vanilla listed derivatives, both options and futures, total return swaps, forwards and exotic OTC contracts.
- Commodities contracts: UBS AG has an established commodity derivatives trading business, which includes the commodity index and structured commodities business. The index and structured business are client facilitation businesses trading exchange-traded funds, OTC swaps and options on commodity indices and individual underlying commodities. The underlying indices cover third-party and UBS AG owned indices such as the UBS Bloomberg Constant Maturity Commodity Index and the Bloomberg Commodity Indices. All of the trading is cash-settled with no physical delivery of the underlying. UBS AG also has an established precious metals business 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 and certain non-vanilla OTC. The vanilla OTC are in forwards, swaps and options.

Measurement techniques applied to determine the fair value of each derivative product type are described in Note 24.

Risks of derivative instruments

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

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

The replacement values presented on UBS AG's balance sheet include netting in accordance with IFRS requirements (refer to Note 1a item 35), which is generally more restrictive than netting in accordance with Swiss federal banking law. Swiss federal banking law netting is generally based on close-out netting arrangements that are enforceable in case of insolvency.

➔ **Refer to Note 26 for more information on the values of positive and negative replacement values after consideration of netting potential allowed under enforceable netting arrangements**

Note 14 Derivative instruments and hedge accounting (continued)

Derivative instruments[1]

CHF billion	31.12.15 Total PRV[2]	31.12.15 Notional values related to PRVs[3]	31.12.15 Total NRV[4]	31.12.15 Notional values related to NRVs[3]	31.12.15 Other notional values[3,5]	31.12.14 Total PRV[2]	31.12.14 Notional values related to PRVs[3]	31.12.14 Total NRV[4]	31.12.14 Notional values related to NRVs[3]	31.12.14 Other notional values[3,5]
Interest rate contracts										
Over-the-counter (OTC) contracts										
Forward contracts[6]	**0.1**	**48.6**	**0.2**	**51.9**	**2,351.4**	0.1	49.0	0.2	55.9	2,622.8
Swaps	**57.0**	**840.1**	**48.2**	**782.0**	**5,904.7**	91.8	1,323.4	83.7	1,233.4	10,244.3
Options	**17.3**	**581.7**	**19.1**	**549.8**		31.7	799.8	33.9	790.3	
Exchange-traded contracts										
Futures					**346.0**					446.0
Options	**0.0**	**22.7**	**0.0**	**15.5**	**169.4**	0.0	15.7	0.0	4.9	134.7
Agency transactions[7]	**0.1**		**0.1**			0.1		0.1		
Total	**74.5**	**1,493.1**	**67.6**	**1,399.3**	**8,771.4**	123.7	2,187.9	117.9	2,084.5	13,447.7
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	**6.1**	**152.7**	**6.0**	**165.7**		11.1	238.1	11.3	245.8	
Total return swaps	**0.6**	**5.0**	**0.6**	**4.1**		0.4	3.8	0.4	5.1	
Options and warrants	**0.0**	**4.2**	**0.0**	**0.1**		0.0	6.5	0.0	1.6	
Total	**6.7**	**161.9**	**6.7**	**169.8**		11.5	248.4	11.7	252.4	
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	**17.8**	**727.6**	**16.6**	**673.9**		20.6	817.6	19.2	741.4	
Interest and currency swaps	**38.3**	**1,429.9**	**37.6**	**1,330.1**		62.2	1,626.3	62.3	1,554.0	
Options	**9.5**	**496.8**	**9.3**	**478.0**		15.6	667.3	16.0	601.4	
Exchange-traded contracts										
Futures					**8.1**					14.8
Options	**0.0**	**3.4**	**0.0**	**4.6**		0.0	4.9	0.1	3.7	
Agency transactions[7]	**0.0**		**0.0**			0.0		0.0		
Total	**65.7**	**2,657.7**	**63.5**	**2,486.6**	**8.1**	98.4	3,116.2	97.6	2,900.5	14.8
Equity / index contracts										
Over-the-counter (OTC) contracts										
Forward contracts	**0.0**	**0.0**	**0.0**	**0.0**		0.1	0.1	0.0	0.1	
Swaps	**2.9**	**64.1**	**4.3**	**87.0**		3.4	58.5	4.7	70.0	
Options	**4.8**	**59.1**	**6.7**	**92.6**		6.4	71.7	8.9	115.4	
Exchange-traded contracts										
Futures					**30.0**					27.9
Options	**4.3**	**107.2**	**5.2**	**126.0**	**13.4**	4.8	109.4	4.8	124.2	10.1
Agency transactions[7]	**5.0**		**4.9**			4.9		4.8		
Total	**16.9**	**230.3**	**21.2**	**305.6**	**43.3**	19.5	239.6	23.3	309.6	38.0

Table continues on the next page.

Note 14 Derivative instruments and hedge accounting (continued)

Derivative instruments[1] (continued)

Table continued from the previous page.

	31.12.15					31.12.14				
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]
Commodity contracts										
Over-the-counter (OTC) contracts										
Forward contracts	**0.3**	**2.8**	**0.3**	**2.3**		0.3	4.6	0.3	4.4	
Swaps	**0.7**	**9.9**	**0.5**	**9.4**		0.9	13.8	0.5	7.9	
Options	**0.9**	**11.8**	**0.6**	**7.5**		0.9	12.5	0.7	9.8	
Exchange-traded contracts										
Futures					**8.2**					7.3
Forward contracts	**0.0**	**4.4**	**0.2**	**3.7**		0.0	6.5	0.1	5.3	
Options	**0.0**	**1.0**	**0.1**	**1.9**	**0.1**	0.0	0.8	0.1	3.7	0.1
Agency transactions[7]	**1.5**		**1.5**			1.4		1.4		
Total	**3.4**	**30.0**	**3.2**	**24.6**	**8.3**	3.6	38.1	3.2	31.1	7.3
Unsettled purchases of non-derivative financial investments[8]	**0.1**	**9.6**	**0.2**	**16.7**		0.1	11.4	0.2	12.9	
Unsettled sales of non-derivative financial investments[8]	**0.2**	**20.1**	**0.1**	**6.4**		0.2	16.1	0.1	9.1	
Total derivative instruments, based on IFRS netting[9]	**167.4**	**4,602.7**	**162.4**	**4,409.0**	**8,831.1**	257.0	5,857.8	254.1	5,600.2	13,507.9

1 Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. As of 31 December 2015, these derivatives amounted to a PRV of CHF 0.1 billion (related notional values of CHF 0.6 billion) and an NRV of CHF 0.2 billion (related notional values of CHF 3.4 billion). As of 31 December 2014, these derivatives amounted to a PRV of CHF 0.3 billion (related notional values of CHF 6.5 billion) and an NRV of CHF 0.3 billion (related notional values of CHF 7.8 billion). 2 PRV: Positive replacement value. 3 In cases where replacement values are presented on a net basis on the balance sheet, the respective notional values of the netted replacement values are still presented on a gross basis. 4 NRV: Negative replacement value. 5 Other notional values relate to derivatives which are cleared through either a central clearing counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and was not material for the periods presented. 6 Negative replacement values as of 31 December 2015 include CHF 0.1 billion related to derivative loan commitments (31 December 2014: CHF 0.0 billion). No notional amounts related to these replacement values are included the table. The maximum irrevocable amount related to these commitments was CHF 15.8 billion as of 31 December 2015 (31 December 2014: CHF 4.5 billion). 7 Notional values of exchange-traded agency transactions and OTC cleared transactions entered into on behalf of clients are not disclosed due to their significantly different risk profile. 8 Changes in the fair value of purchased and sold non-derivative financial investments between trade date and settlement date are recognized as replacement values. 9 Refer to Note 26 for more information on netting arrangements.

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

The maturity profile of OTC interest rate contracts held as of 31 December 2015, based on notional values, was: approximately 53% (31 December 2014: 45%) mature within one year, 29% (31 December 2014: 34%) within one to five years and 18% (31 December 2014: 22%) after five years. Notional values of interest rate contracts cleared with a clearing house that qualify for IFRS balance sheet netting are presented under other notional values and are categorized into maturity buckets on the basis of contractual maturities of the cleared underlying derivative contracts.

Derivatives transacted for trading purposes

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

Credit derivatives

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

Note 14 Derivative instruments and hedge accounting (continued)

Market-making activity, which is undertaken within the Investment Bank, consists of buying and selling single-name CDS, index CDS, loan CDS and related referenced cash instruments to facilitate client trading activity. UBS AG also actively utilizes CDS to economically hedge specific counterparty credit risks in its accrual and traded loan portfolios (including off-balance sheet loan commitments) with the aim of reducing concentrations in individual names, sectors or specific portfolios.

In addition, UBS AG actively utilizes CDS to economically hedge specific counterparty credit risks in its OTC derivative portfolios including financial instruments which are designated at fair value through profit or loss.

The tables below provide further details on credit protection bought and sold, including replacement and notional value information by instrument type and counterparty type. The value of protection bought and sold is not, in isolation, a measure of UBS AG's credit risk. Counterparty relationships are viewed in terms of the total outstanding credit risk, which relates to other instruments in addition to CDS, and in connection with collateral arrangements in place. On a notional value basis, credit protection bought and sold as of 31 December 2015 matures in a range of approximately 22% (31 December 2014: 27%) within one year, approximately 68% (31 December 2014: 64%) within one to five years and approximately 10% (31 December 2014: 8%) after five years.

Credit derivatives by type of instrument

	Protection bought			Protection sold		
CHF billion	**Fair value: PRV**	**Fair value: NRV**	**Notional values**	**Fair value: PRV**	**Fair value: NRV**	**Notional values**
Single-name credit default swaps	**3.1**	**1.9**	**115.5**	**1.9**	**2.9**	**105.1**
Multi-name index linked credit default swaps	**0.3**	**0.6**	**48.0**	**0.6**	**0.5**	**45.6**
Multi-name other credit default swaps	**0.1**	**0.1**	**2.4**	**0.0**	**0.1**	**1.8**
Total rate of return swaps	**0.5**	**0.2**	**6.3**	**0.1**	**0.4**	**2.8**
Options and warrants	**0.0**	**0.0**	**4.2**	**0.0**	**0.0**	**0.1**
Total 31 December 2015	**4.0**	**2.8**	**176.4**	**2.6**	**3.9**	**155.3**
of which: credit derivatives related to economic hedges	*2.7*	*2.4*	*152.8*	*2.2*	*2.5*	*132.8*
of which: credit derivatives related to market-making	*1.4*	*0.4*	*23.6*	*0.4*	*1.3*	*22.5*

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Single-name credit default swaps	5.9	4.0	173.3	3.0	5.6	148.8
Multi-name index linked credit default swaps	0.4	0.9	72.8	1.7	0.5	80.7
Multi-name other credit default swaps	0.1	0.3	4.8	0.0	0.1	3.4
Total rate of return swaps	0.1	0.3	5.4	0.3	0.2	3.5
Options and warrants	0.0	0.0	6.5	0.0	0.0	1.6
Total 31 December 2014	6.5	5.4	262.8	5.0	6.3	238.0
of which: credit derivatives related to economic hedges	*3.2*	*5.0*	*245.5*	*4.6*	*3.0*	*220.5*
of which: credit derivatives related to market-making	*3.3*	*0.4*	*17.3*	*0.5*	*3.3*	*17.4*

Note 14 Derivative instruments and hedge accounting (continued)

Credit derivatives by counterparty

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Broker-dealers	0.8	0.3	27.3	0.2	0.6	19.5
Banks	1.9	1.3	78.0	1.2	1.6	68.3
Central clearing counterparties	0.4	0.8	55.3	0.9	0.9	58.9
Other	0.8	0.4	15.8	0.3	0.8	8.7
Total 31 December 2015	4.0	2.8	176.4	2.6	3.9	155.3

	Protection bought			Protection sold		
CHF billion	Fair value: PRV	Fair value: NRV	Notional values	Fair value: PRV	Fair value: NRV	Notional values
Broker-dealers	1.4	0.5	32.8	0.3	1.1	23.5
Banks	4.0	2.9	156.4	2.6	4.4	144.3
Central clearing counterparties	0.2	1.1	53.2	1.3	0.3	56.7
Other	0.9	0.9	20.4	0.8	0.5	13.5
Total 31 December 2014	6.5	5.4	262.8	5.0	6.3	238.0

UBS AG's CDS trades are documented using industry standard forms of documentation or equivalent terms documented in a bespoke agreement. The agreements that govern CDS generally do not contain recourse provisions that would enable UBS AG to recover from third parties any amounts paid out by UBS AG.

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

Contingent collateral features of derivative liabilities

Certain derivative payables contain contingent collateral or termination features triggered upon a downgrade of the published credit rating of UBS AG in the normal course of business. Based on UBS AG's credit ratings as of 31 December 2015, contractual outflows related to OTC derivative transactions of approximately CHF 0.2 billion, CHF 1.6 billion and CHF 1.9 billion would have been required in the event of a one-notch, two-notch and three-notch reduction in long-term credit ratings, respectively. In evaluating UBS AG's liquidity requirements, UBS AG considers additional collateral or termination payments that would be required in the event of a reduction in UBS AG's long-term credit ratings, and a corresponding reduction in short-term ratings.

Derivatives transacted for hedging purposes

Derivatives used for structural hedging

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

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

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

Note 14 Derivative instruments and hedge accounting (continued)

Fair value hedges: interest rate risk related to debt instruments

UBS AG's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate debt instruments, such as non-structured fixed-rate bonds, covered bonds and subordinated debt, due to movements in market interest rates. The fair values of outstanding interest rate derivatives designated as fair value hedges were assets of CHF 1,656 million and liabilities of CHF 11 million as of 31 December 2015 and assets of CHF 2,236 million and liabilities of CHF 37 million as of 31 December 2014.

Fair value hedges of interest rate risk

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Gains / (losses) on hedging instruments	**554**	1,113	(1,123)
Gains / (losses) on hedged items attributable to the hedged risk	**(552)**	(1,111)	1,116
Net gains / (losses) representing ineffective portions of fair value hedges	**2**	2	(7)

Fair value hedges: portfolio interest rate risk related to loans

UBS AG also applies fair value hedge accounting to mortgage loan portfolio interest rate risk. The change in fair value of the hedged items is recorded separately from the hedged item and is included within *Other assets* on the balance sheet. The fair values of outstanding interest rate derivatives designated for these hedges as of 31 December 2015 were assets of CHF 7 million and liabilities of CHF 327 million (31 December 2014: liabilities of CHF 256 million).

Fair value hedge of portfolio of interest rate risk

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Gains / (losses) on hedging instruments	**(176)**	(694)	636
Gains / (losses) on hedged items attributable to the hedged risk	**147**	676	(625)
Net gains / (losses) representing ineffective portions of fair value hedges	**(29)**	(18)	11

Cash flow hedges of forecasted transactions

UBS AG is exposed to variability in future interest cash flows on non-trading financial assets and liabilities that bear interest at variable rates or are expected to be refinanced or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected based on contractual terms and other relevant factors including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the non-trading interest rate risk of UBS AG, which is hedged with interest rate swaps, the maximum maturity of which is 13 years. The table on the following page shows forecasted principal balances on which expected interest cash flows arise as of 31 December 2015. Amounts shown represent, by time bucket, average assets and liabilities subject to forecasted cash flows designated as hedged items in cash flow hedge accounting relationships.

As of 31 December 2015, the fair values of outstanding derivatives designated as cash flow hedges of forecasted transactions were CHF 2,176 million assets and CHF 195 million liabilities (31 December 2014: CHF 4,521 million assets and CHF 1,262 million liabilities).

In 2015, a gain of CHF 150 million was recognized in *Net trading income* due to hedge ineffectiveness, compared with a gain of CHF 87 million in 2014 and a loss of CHF 80 million in 2013.

Note 14 Derivative instruments and hedge accounting (continued)

Principal balances subject to cash flow forecasts

CHF billion	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years
Assets	61	81	48	54	1
Liabilities	4	7	3	3	0
Net balance	**57**	**74**	**45**	**51**	**1**

Hedges of net investments in foreign operations

UBS AG applies hedge accounting for certain net investments in foreign operations. As of 31 December 2015, the positive replacement values and negative replacement values of FX derivatives (mainly FX swaps) designated as hedging instruments in net investment hedge accounting relationships were CHF 170 million and CHF 79 million, respectively (31 December 2014: positive replacement values of CHF 158 million and negative replacement values of CHF 305 million). As of 31 December 2015, the underlying hedged structural exposures in several currencies amounted to CHF 5.5 billion (31 December 2014: CHF 8.0 billion).

Hedges of structural FX exposures in currencies other than the US dollar may be comprised of two jointly designated derivatives as the foreign currency risk may be hedged against the US dollar first and then converted into Swiss francs, the presentation currency of UBS AG, as part of a separate FX derivative transaction. The aggregated notional amount of designated hedging derivatives as of 31 December 2015 was CHF 11.2 billion in total (31 December 2014: CHF 14.7 billion) including CHF 5.6 billion notional values related to US dollar versus Swiss franc swaps and CHF 5.6 billion notional values related to derivatives hedging foreign currencies (other than the US dollar) versus the US dollar. The effective portion of gains and losses of these FX swaps is transferred directly to OCI to offset foreign currency translation (FCT) gains and losses on the net investments in foreign branches and subsidiaries. As such, these FX swaps hedge the structural FX exposure resulting in the accumulation of FCT on the level of individual foreign branches and subsidiaries and hence on the total FCT OCI of UBS AG.

UBS AG designates certain non-derivative foreign currency financial assets and liabilities of foreign branches or subsidiaries as hedging instruments in net investment hedge accounting arrangements. The FX translation difference recorded in FCT OCI of the non-derivative hedging instrument of one foreign entity offsets the structural FX exposure of another foreign entity. Therefore, the aggregated FCT OCI of UBS AG is unchanged from this hedge designation. As of 31 December 2015, the nominal amount of non-derivative financial assets and liabilities designated as hedging instruments in such net investment hedges was CHF 3.1 billion and CHF 3.1 billion, respectively (31 December 2014: CHF 14.3 billion non-derivative financial assets and CHF 14.3 billion non-derivative financial liabilities).

Ineffectiveness of hedges of net investments in foreign operations was not material in 2015, 2014 and 2013.

Undiscounted cash flows

The table below provides undiscounted cash flows of all derivative instruments designated in hedge accounting relationships. Interest rate swap cash flows include cash inflows and cash outflows of all interest rate swaps designated in hedge accounting relationships, which are either assets or liabilities of UBS AG as of 31 December 2015. The table includes derivatives traded on an exchange or through a clearing house where the change in fair value is settled each day, either in fact or in substance, through cash payment of variation margin.

Derivatives designated in hedge accounting relationships (undiscounted cash flows)

CHF billion	On demand	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Interest rate swaps[1]							
Cash inflows	0	0	0	2	4	2	8
Cash outflows	0	0	0	1	3	1	5
FX swaps / forwards							
Cash inflows	0	7	3	0	0	0	10
Cash outflows	0	7	3	0	0	0	10
Net cash flows	**0**	**0**	**0**	**1**	**2**	**0**	**3**

1 The table includes gross cash inflows and cash outflows of all interest rate swaps designated in hedge accounting relationships, which are either assets or liabilities of UBS as of 31 December 2015.

Note 15 Financial investments available-for-sale

CHF million	**31.12.15**	31.12.14
Financial investments available-for-sale by issuer type[1]		
Debt instruments		
Government and government agencies	**47,245**	45,334
of which: Switzerland	***702***	*43*
of which: USA	***21,424***	*17,219*
of which: Germany	***8,583***	*10,145*
of which: France	***3,566***	*5,351*
of which: Netherlands	***2,934***	*2,528*
of which: United Kingdom	***2,782***	*2,348*
Banks	**12,268**	8,490
Corporates and other	**2,385**	2,670
Total debt instruments	**61,898**	56,494
Equity instruments	**645**	664
Total financial investments available-for-sale	**62,543**	57,159
Unrealized gains – before tax	**462**	430
Unrealized (losses) – before tax	**(171)**	(64)
Net unrealized gains / (losses) – before tax	**291**	365
Net unrealized gains / (losses) – after tax	**167**	238

1 Refer to Note 24e for more information on product type and fair value hierarchy categorization.

Note 16 Property, equipment and software

At historical cost less accumulated depreciation

CHF million	Own-used properties	Leasehold improvements	IT hardware and communication	Internally generated software	Purchased software	Other machines and equipment	Projects in progress	31.12.15	31.12.14
Historical cost									
Balance at the beginning of the year	7,756	3,060	2,377	1,525	536	847	1,341	**17,442**	16,136
Additions	68	47	262	26	85	26	1,331	**1,846**	1,690
Disposals / write-offs[1]	(181)	(97)	(750)	(54)	(210)	(30)	0	**(1,322)**	(518)
Reclassifications	220	194	21	888	9	27	(1,394)	**(35)[6]**	(359)
Foreign currency translation	0	(36)	(39)	(9)	(9)	(8)	(7)	**(108)**	493
Balance at the end of the year	7,863	3,169	1,872	2,375	411	862	1,270	**17,823**	17,442
Accumulated depreciation									
Balance at the beginning of the year	4,365	2,120	1,976	1,089	452	592	0	**10,593**	10,140
Depreciation	161	180	227	230	41	62	0	**901**	799
Impairment[2]	2	10	1	3	0	1	0	**18**	19
Disposals / write-offs[1]	(157)	(81)	(748)	(46)	(209)	(29)	0	**(1,270)**	(474)
Reclassifications	(11)	1	(2)	0	2	(14)	0	**(25)[6]**	(217)
Foreign currency translation	(3)	(25)	(35)	(1)	(8)	(6)	0	**(77)**	326
Balance at the end of the year	4,356	2,206	1,420	1,275	276	606	0	**10,140**	10,593
Net book value at the end of the year[3,4]	**3,506**	**963**	**452**	**1,100**	**135**	**256**	**1,270[5]**	**7,683**	**6,849[7]**

1 Includes write-offs of fully depreciated assets. 2 Impairment charges recorded in 2015 relate to assets for which the recoverable amount was determined based on value-in-use (recoverable amount of the impaired assets: CHF 0 million Leasehold improvements, CHF 2 million Internally generated software). 3 As of 31 December 2015, contractual commitments to purchase property in the future amounted to approximately CHF 0.6 billion. 4 Includes CHF 47 million related to leased assets, mainly IT hardware and communication. 5 Includes CHF 928 million related to Internally generated software, CHF 86 million related to Own-used properties and CHF 257 million related to Leasehold improvements. 6 Reflects reclassifications to Properties held-for-sale (CHF 11 million on a net basis) reported within Other assets. 7 Excludes investment properties of CHF 5 million.

Note 17 Goodwill and intangible assets

Introduction

UBS AG performs an impairment test on its goodwill assets on an annual basis, or when indicators of impairment exist. UBS AG considers the segments, as reported in Note 2, as separate cash-generating units (CGU). The impairment test is performed for each segment to which goodwill is allocated by comparing the recoverable amount, based on its value-in-use, to the carrying amount of the respective segment. An impairment charge is recognized if the carrying amount exceeds the recoverable amount. As of 31 December 2015, total goodwill recognized on the balance sheet was CHF 6.2 billion, of which CHF 1.3 billion, CHF 3.5 billion and CHF 1.4 billion was carried by Wealth Management, Wealth Management Americas and Asset Management, respectively. Based on the impairment testing methodology described below, UBS AG concluded that the goodwill balances as of 31 December 2015 allocated to these segments remain recoverable and thus were not impaired.

Methodology for goodwill impairment testing

The recoverable amounts are determined using a discounted cash flow model, which has been adapted to use inputs that consider features of the banking business and its regulatory environment. The recoverable amount of a segment is the sum of the discounted earnings attributable to shareholders from the first three forecasted years and the terminal value. The terminal value, which covers all periods beyond the third year, is calculated on the basis of the forecast of third-year profit, the discount rate and the long-term growth rate and is adjusted for the effect of the capital assumed to be needed to support the perpetual growth implied by the long-term growth rate.

The carrying amount for each segment is determined by reference to the Group's equity attribution framework. Within this framework, which is described in the "Capital management" section of this report, the Board of Directors (BoD) attributes equity to the businesses after considering their risk exposure, risk-weighted assets and leverage ratio denominator usage, goodwill and intangible assets. The total amount of equity attributed to the business divisions can differ from UBS AG's actual equity during a given period. The framework is primarily used for purposes of measuring the performance of the businesses and includes certain management assumptions. Attributed equity equals the capital that a segment requires to conduct its business and is considered an appropriate starting point from which to determine the carrying value of the segments. The attributed equity methodology is aligned with the business planning process, the inputs from which are used in calculating the recoverable amounts of the respective CGU.

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

Assumptions

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

The discount rates are determined by applying a capital-asset-pricing-model-based approach, as well as considering quantitative and qualitative inputs from both internal and external analysts and the view of management. The discount rates were unchanged between 2014 and 2015.

Key assumptions used to determine the recoverable amounts of each segment are tested for sensitivity by applying a reasonably possible change to those assumptions. Forecast earnings available to shareholders were changed by 10%, the discount rates were changed by 1.0 percentage point and the long-term growth rates were changed by 0.5 percentage point. Under all scenarios, the recoverable amounts for each segment exceeded the respective carrying amount, such that the reasonably possible changes in key assumptions would not result in impairment.

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

Note 17 Goodwill and intangible assets (continued)

Discount and growth rates

	Discount rates		Growth rates	
In %	**31.12.15**	31.12.14	**31.12.15**	31.12.14
Wealth Management	**9.0**	9.0	**1.7**	1.7
Wealth Management Americas	**9.0**	9.0	**2.4**	2.4
Investment Bank	**11.0**	11.0	**2.4**	2.4
Asset Management	**9.0**	9.0	**2.4**	2.4

	Goodwill	Intangible assets				
CHF million	Total	Infrastructure	Customer relationships, contractual rights and other	Total	**31.12.15**	31.12.14
Historical cost						
Balance at the beginning of the year	6,368	756	833	1,589	**7,957**	7,283
Additions			30	30	**30**	17
Disposals	(30)		(1)	(1)	**(32)**	(1)
Write-offs			(20)	(20)	**(20)**	0
Foreign currency translation	(97)	5	(22)	(16)	**(114)**	657
Balance at the end of the year	6,240	761	820	1,581	**7,821**	7,957
Accumulated amortization and impairment						
Balance at the beginning of the year	0	536	635	1,171	**1,171**	990
Amortization		37	57	94	**94**	80
Impairment[1]			13	13	**13**	2
Disposals			(1)	(1)	**(1)**	0
Write-offs			(20)	(20)	**(20)**	0
Foreign currency translation		5	(10)	(5)	**(5)**	99
Balance at the end of the year	0	578	675	1,253	**1,253**	1,171
Net book value at the end of the year	6,240	183	145	328	**6,568**	6,785

1 Impairment charges recorded in 2015 and 2014 relate to assets for which the recoverable amount was determined based on value-in-use (recoverable amount of the impaired assets: CHF 4 million for 2015 and CHF 3 million for 2014).

The table below presents the disclosure of goodwill and intangible assets by segment for the year ended 31 December 2015.

CHF million	Wealth Management	Wealth Management Americas	Investment Bank	Asset Management	Corporate Center – Services	Total
Goodwill						
Balance at the beginning of the year	1,359	3,490	44	1,476		6,368
Additions						0
Disposals	(7)			(23)		(30)
Impairment						0
Foreign currency translation	(40)	25	(14)	(68)		(97)
Balance at the end of the year	**1,312**	**3,514**	**29**	**1,385**		**6,240**
Intangible assets						
Balance at the beginning of the year	45	246	84	17	25	417
Additions / transfers		4	0		25	30
Disposals			0			0
Amortization	(3)	(51)	(13)	(5)	(21)	(94)
Impairment			(11)	(2)		(13)
Foreign currency translation	(4)	0	(6)	(1)		(12)
Balance at the end of the year	**38**	**199**	**53**	**8**	**30**	**328**

Note 17 Goodwill and intangible assets (continued)

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

CHF million	Intangible assets
Estimated, aggregated amortization expenses for:	
2016	93
2017	66
2018	56
2019	45
2020	37
Thereafter	23
Not amortized due to indefinite useful life	9
Total	328

Note 18 Other assets

CHF million	**31.12.15**	31.12.14
Prime brokerage receivables[1]	**11,341**	12,534
Recruitment loans to financial advisors	**3,184**	2,909
Other loans to financial advisors	**418**	372
Bail deposit[2]	**1,221**	1,323
Accrued interest income	**462**	453
Accrued income – other	**844**	1,009
Prepaid expenses	**1,032**	1,027
Net defined benefit pension and post-employment assets[3]	**50**	0
Settlement and clearing accounts	**402**	616
VAT and other tax receivables	**397**	272
Properties and other non-current assets held for sale	**134**	236
Assets of disposal group held for sale[4]	**279**	0
Other	**2,485**	2,317
Total other assets	**22,249**	23,069

1 Prime brokerage services include clearance, settlement, custody, financing and portfolio reporting services for corporate clients trading across multiple asset classes. Prime brokerage receivables are mainly comprised of margin lending receivables. 2 Refer to item 1 in Note 22b for more information. 3 Refer to Note 28 for more information. 4 Refer to Note 32 for more information.

Balance sheet notes: liabilities

Note 19 Due to banks and customers

CHF million	**31.12.15**	31.12.14
Due to banks	**11,836**	10,492
Due to customers: demand deposits	**174,262**	187,516
Due to customers: time deposits	**60,274**	52,269
Due to customers: fiduciary deposits	**6,139**	14,766
Due to customers: retail savings / deposits	**161,848**	156,427
Total due to customers	**402,522**	410,979
Total due to banks and customers	**414,358**	421,471

Note 20 Financial liabilities designated at fair value

CHF million	**31.12.15**	31.12.14
Non-structured fixed-rate bonds	**4,098**	4,488
of which: issued by UBS AG with original maturity greater than one year[1,2]	***3,542***	*3,616*
Structured debt instruments issued		
Equity-linked[3]	**30,965**	37,725
Credit-linked	**3,652**	4,645
Rates-linked[4]	**16,587**	19,380
Other	**1,231**	2,138
Total structured debt instruments issued	**52,436**	63,888
of which: issued by UBS AG with original maturity greater than one year[1,5]	***36,539***	*45,851*
Structured over-the-counter debt instruments		
Equity-linked[3]	**2,885**	2,508
Other	**2,608**	3,154
Total structured over-the-counter debt instruments	**5,493**	5,662
of which: issued by UBS AG with original maturity greater than one year[1,6]	***4,497***	*3,691*
Repurchase agreements	**849**	1,167
Loan commitments and guarantees[7]	**119**	93
Total	**62,995**	75,297
of which: life-to-date own credit (gain) / loss	***(287)***	*302*

1 Issued by UBS AG (standalone). Based on original contractual maturity without considering any early redemption features. 2 100% of the balance as of 31 December 2015 was unsecured. 3 Includes investment fund unit-linked instruments issued. 4 Includes non-structured rates-linked debt instruments issued. 5 More than 98% of the balance as of 31 December 2015 was unsecured. 6 More than 35% of the balance as of 31 December 2015 was unsecured. 7 Loan commitments recognized as "Financial liabilities designated at fair value" until drawn and recognized as loans. See Note 1a item 8 for additional information.

As of 31 December 2015, the contractual redemption amount at maturity of *Financial liabilities designated at fair value* through profit or loss was CHF 0.1 billion higher than the carrying value. As of 31 December 2014, the contractual redemption amount at maturity of such liabilities was CHF 0.7 billion lower than the carrying value.

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

➔ **Refer to Note 27b for maturity information on an undiscounted cash flow basis**

Note 20 Financial liabilities designated at fair value (continued)

Contractual maturity of carrying value

CHF million	2016	2017	2018	2019	2020	2021–2025	Thereafter	**Total 31.12.15**	Total 31.12.14
UBS AG[1]									
Non-subordinated debt									
Fixed-rate	2,873	1,912	776	279	302	1,623	2,938	**10,702**	12,891
Floating-rate	23,148	5,314	3,559	2,839	3,286	2,838	8,839	**49,824**	58,643
Subtotal	26,021	7,226	4,335	3,118	3,588	4,461	11,777	**60,526**	71,535
Other subsidiaries[2]									
Non-subordinated debt									
Fixed-rate	29	58	179	17	34	164	513	**993**	1,473
Floating-rate	260	484	188	122	127	178	116	**1,475**	2,289
Subtotal	288	542	367	139	161	342	629	**2,469**	3,762
Total	26,310	7,768	4,702	3,257	3,749	4,803	12,406	**62,995**	75,297

1 Comprises instruments issued by UBS AG (standalone). 2 Comprises instruments issued by subsidiaries of UBS AG.

Note 21 Debt issued held at amortized cost

CHF million	**31.12.15**	31.12.14
Certificates of deposit	**11,967**	16,591
Commercial paper	**3,824**	4,841
Other short-term debt	**5,424**	5,931
Short-term debt[1]	**21,215**	27,363
Non-structured fixed-rate bonds	**31,240**	24,582
of which: issued by UBS AG with original maturity greater than one year[2]	***31,078***	*24,433*
Covered bonds	**8,490**	13,614
Subordinated debt	**12,600**	16,123
of which: phase-out additional tier 1 capital	***0***	*1,197*
of which: low-trigger loss-absorbing tier 2 capital	***10,346***	*10,464*
of which: phase-out tier 2 capital	***2,254***	*4,462*
Debt issued through the central bond institutions of the Swiss regional or cantonal banks	**8,237**	8,029
Other long-term debt	**577**	1,495
of which: issued by UBS AG with original maturity greater than one year[2]	***278***	*861*
Long-term debt[3]	**61,144**	63,844
Total debt issued held at amortized cost[4]	**82,359**	91,207

1 Debt with an original maturity of less than one year. 2 Issued by UBS AG (standalone). Based on original contractual maturity without considering any early redemption features. 100% of the balance as of 31 December 2015 was unsecured. 3 Debt with original maturity greater than or equal to one year. 4 Net of bifurcated embedded derivatives with a net negative fair value of CHF 130 million as of 31 December 2015 (31 December 2014: net negative fair value of CHF 25 million).

UBS AG uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt instruments held at amortized cost. In certain cases, UBS AG applies hedge accounting for interest rate risk as discussed in Note 1a item 15 and Note 14. As a result of applying hedge accounting, the carrying value of debt issued increased by CHF 1,024 million and by CHF 1,703 million as of 31 December 2015 and 2014, respectively, reflecting changes in fair value due to interest rate movements.

Note 21 Debt issued held at amortized cost (continued)

Subordinated debt consists of unsecured debt obligations that are contractually subordinated in right of payment to all other present and future non-subordinated obligations of the respective issuing entity. All of the subordinated debt instruments outstanding as of 31 December 2015 pay a fixed rate of interest.

The table below shows the residual contractual maturity of the carrying value of debt issued, split between fixed-rate and floating-rate based on the contractual terms and does not consider any early redemption features. The effects from interest rate swaps, which are used to hedge various fixed-rate debt issuances by changing the repricing characteristics into those similar to floating-rate debt, are also not considered in the table below.

➔ **Refer to Note 27b for maturity information on an undiscounted cash flow basis**

Contractual maturity dates of carrying value

CHF million, except where indicated	2016	2017	2018	2019	2020	2021–2025	Thereafter	**Total 31.12.15**	Total 31.12.14
UBS AG[1]									
Non-subordinated debt									
Fixed-rate	13,064	6,334	8,004	4,036	4,340	4,375	0	**40,153**	59,327
Interest rates (range in %)	0–6.4	0–5.9	0–6.6	2.4–4.0	0–4.9	1.3–4.0			
Floating-rate	10,014	3,721	963	939	239	0	2,031	**17,907**	11,296
Subordinated debt									
Fixed-rate	918	414	0	0	0	8,772	2,497	**12,600**	16,123
Interest rates (range in %)	3.1–5.9	4.1–7.4				4.8–8.8	4.8–7.8		
Subtotal	23,996	10,468	8,967	4,974	4,579	13,147	4,528	**70,659**	86,746
Subsidiaries[2]									
Non-subordinated debt									
Fixed-rate	3,936	728	791	742	732	3,592	1,171	**11,692**	4,460
Interest rates (range in %)	0–8.3	0.3–8.1	0.4–3.7	0.5–2.9	0.1–2.8	0–3.4	0.4–2.8		
Floating-rate	0	0	7	0	0	0	0	**8**	1
Subtotal	3,936	728	798	742	732	3,593	1,171	**11,700**	4,462
Total	27,932	11,196	9,765	5,717	5,311	16,740	5,699	**82,359**	91,207

1 Comprises debt issued by UBS AG (standalone). 2 Comprises debt issued by subsidiaries of UBS AG.

Note 22 Provisions and contingent liabilities

a) Provisions

CHF million	Operational risks[1]	Litigation, regulatory and similar matters[2]	Restruc-turing	Loan com-mitments and guarantees	Real estate	Employee benefits[5]	Other	**Total 31.12.15**	Total 31.12.14
Balance at the beginning of the year	50	3,053	647	23	153	215	224	**4,366**	2,971
Increase in provisions recognized in the income statement	43	1,263	361	6	27	7	71	**1,778**	3,308
Release of provisions recognized in the income statement	(7)	(166)	(102)	(3)	(1)	(18)	(40)	**(337)**	(528)
Provisions used in conformity with designated purpose	(37)	(1,174)	(287)	0	(28)	(1)	(133)	**(1,660)**	(1,659)
Capitalized reinstatement costs	0	0	0	0	5	0	0	**5**	0
Reclassifications	0	0	0	9	0	0	0	**9**	8
Foreign currency translation / unwind of discount	(1)	7	5	0	2	(5)	(3)	**3**	266
Balance at the end of the year	47	2,983	624[3]	35	157[4]	198	120	**4,163**	4,366

1 Comprises provisions for losses resulting from security risks and transaction processing risks. 2 Comprises provisions for losses resulting from legal, liability and compliance risks. 3 Includes personnel related restructuring provisions of CHF 110 million as of 31 December 2015 (31 December 2014: CHF 116 million) and provisions for onerous lease contracts of CHF 514 million as of 31 December 2015 (31 December 2014: CHF 530 million). 4 Includes reinstatement costs for leasehold improvements of CHF 94 million as of 31 December 2015 (31 December 2014: CHF 98 million) and provisions for onerous lease contracts of CHF 62 million as of 31 December 2015 (31 December 2014: CHF 55 million). 5 Includes provisions for sabbatical and anniversary awards as well as provisions for severance which are not part of restructuring provisions.

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

Information on provisions and contingent liabilities in respect of Litigation, regulatory and similar matters, as a class, is included in Note 22b. There are no material contingent liabilities associated with the other classes of provisions.

Note 22 Provisions and contingent liabilities (continued)

b) Litigation, regulatory and similar matters

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

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. UBS makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that UBS has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against UBS, but are nevertheless expected to be, based on UBS's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

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

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

With respect to certain litigation, regulatory and similar matters for which we have established provisions, we are able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which we are able to estimate expected timing is immaterial relative to our current and expected levels of liquidity over the relevant time periods.

Note 22 Provisions and contingent liabilities (continued)

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 22a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although we therefore cannot provide a numerical estimate of the future losses that could arise from litigation, regulatory and similar matters, we believe that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the non-prosecution agreement (NPA) described in paragraph 5 of this Note, which we entered into with the US Department of Justice (DOJ), Criminal Division, Fraud Section in connection with our submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate (LIBOR), was terminated by the DOJ based on its determination that we had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG has pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, and has agreed to pay a USD 203 million fine and accept a three-year term of probation. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require us to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations and may permit financial market utilities to limit, suspend or terminate our participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining our capital requirements. Information concerning our capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of this report.

Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit[1]

CHF million	Wealth Management	Wealth Management Americas	Personal & Corporate Banking	Asset Management	Investment Bank	CC – Services	CC – Group ALM	CC – Non-core and Legacy Portfolio	**Total 31.12.15**	Total 31.12.14
Balance at the beginning of the year	188	209	92	53	1,258	312	0	941	**3,053**	1,622
Increase in provisions recognized in the income statement	114	372	0	0	17	15	0	744	**1,263**	2,941
Release of provisions recognized in the income statement	(10)	(19)	(3)	(3)	(15)	(1)	0	(115)	**(166)**	(395)
Provisions used in conformity with designated purpose	(36)	(110)	(5)	(33)	(675)	(13)	0	(302)	**(1,174)**	(1,286)
Reclassifications	0	0	0	0	0	0	0	0	**0**	(2)
Foreign currency translation / unwind of discount	(12)	7	(2)	(1)	0	(3)	0	18	**7**	172
Balance at the end of the year	245	459	83	16	585	310	0	1,284	**2,983**	3,053

1 Provisions, if any, for the matters described in this Note are recorded in Wealth Management (item 3), Wealth Management Americas (item 4), Corporate Center – Services (item 7) and Corporate Center – Non-core and Legacy Portfolio (items 2 and 8). Provisions, if any, for the matters described in this Note in items 1 and 6 are allocated between Wealth Management and Personal & Corporate Banking, and provisions, if any, for the matters described in this Note in item 5 are allocated between the Investment Bank, Corporate Center – Services and Corporate Center – Non-core and Legacy Portfolio.

Note 22 Provisions and contingent liabilities (continued)

1. Inquiries regarding cross-border wealth management businesses

Tax and regulatory authorities in a number of countries have made inquiries, served requests for information or examined employees located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. It is possible that implementation of automatic tax information exchange and other measures relating to cross-border provision of financial services could give rise to further inquiries in the future.

As a result of investigations in France, in 2013, UBS (France) S.A. and UBS AG were put under formal examination ("*mise en examen*") for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance ("*témoin assisté*") regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In 2014, UBS AG was placed under formal examination with respect to the potential charges of laundering of proceeds of tax fraud, and the investigating judges ordered UBS to provide bail ("*caution*") of EUR 1.1 billion. UBS AG appealed the determination of the bail amount, but both the appeal court ("*Cour d'Appel*") and the French Supreme Court ("*Cour de Cassation")* upheld the bail amount and rejected the appeal in full in late 2014. UBS AG has filed and has had accepted a petition to the European Court of Human Rights to challenge various aspects of the French court's decision. In September 2015, the former CEO of UBS Wealth Management was placed under formal examination in connection with these proceedings. In addition, the investigating judges have sought to issue arrest warrants against three Swiss-based former employees of UBS AG who did not appear when summoned by the investigating judge. In February 2016, the investigating judge notified UBS that he does not intend to conduct further investigation. This notification commences a period in which the prosecutor may file a request for a judge to issue formal charges.

In March 2015, UBS (France) S.A. was placed under formal examination for complicity regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons for the years 2004 until 2008 and declared witness with legal assistance for the years 2009 to 2012. A bail of EUR 40 million was imposed, and was reduced by the Court of Appeals in May 2015 to EUR 10 million. Separately, in 2013, the French banking supervisory authority's disciplinary commission reprimanded UBS (France) S.A. for having had insufficiencies in its control and compliance framework around its cross-border activities and know your customer obligations. It imposed a penalty of EUR 10 million, which was paid.

UBS AG has been notified by the Brussels public prosecutor's office that it is investigating various aspects of UBS's cross-border business.

In January 2015, UBS received inquiries from the US Attorney's Office for the Eastern District of New York and from the US Securities and Exchange Commission (SEC), which are investigating potential sales to US persons of bearer bonds and other unregistered securities in possible violation of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the registration requirements of the US securities laws. UBS is cooperating with the authorities in these investigations.

UBS has, and reportedly numerous other financial institutions have, received inquiries from authorities concerning accounts relating to the Fédération Internationale de Football Association (FIFA) and other constituent soccer associations and related persons and entities. UBS is cooperating with authorities in these inquiries.

Our balance sheet at 31 December 2015 reflected provisions with respect to matters described in this item 1 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

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

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

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

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

RMBS-related lawsuits concerning disclosures: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in lawsuits related to approximately USD 6.2 billion in original face amount of RMBS underwritten or issued by UBS. Of the USD 6.2 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 3.2 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third-party originators) into a securitization trust and made representations and warranties about those loans (UBS-sponsored RMBS). The remaining USD 3 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter (third-party RMBS).

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights.

UBS is a defendant in two lawsuits brought by the National Credit Union Administration (NCUA), as conservator for certain failed credit unions, asserting misstatements and omissions in the offering documents for RMBS purchased by the credit unions. Both lawsuits were filed in US District Courts, one in the District of Kansas and the other in the Southern District of New York (SDNY). The original principal balance at issue in the Kansas case is approximately USD 1.15 billion and the original principal balance at issue in the SDNY case is approximately USD 400 million. In February 2016, UBS made an offer of judgment to NCUA in the SDNY case, which NCUA has accepted, pursuant to which UBS will pay USD 33 million plus an amount of prejudgment interest that will be determined by the court and reasonable attorneys' fees. Once these amounts are determined and judgment is entered, the SDNY case will end. Prejudgment interest and attorneys' fees are expected to significantly increase the total amount to be paid in the SDNY case.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, we generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, we were in certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust aggregating approximately USD 4.1 billion in original principal balance. Of this amount, UBS considers claims relating to approximately USD 2 billion in original principal balance to be resolved, including claims barred by the statute of limitations. Substantially all of the remaining claims are in litigation, including the matters described in the next paragraph. UBS believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

In 2012, certain RMBS trusts filed an action (Trustee Suit) in the SDNY seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations (Transactions) with an original principal balance of approximately USD 2 billion, for which Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, had previously demanded repurchase. In January 2015, the court rejected plaintiffs' efforts to seek damages for all loans purportedly in breach of representations and warranties in any of the three Transactions and limited plaintiffs to pursuing claims based solely on alleged breaches for loans identified in the complaint or other breaches that plaintiffs can establish were independently discovered by UBS. In February 2015, the court denied plaintiffs' motion seeking reconsideration of its ruling. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. Trial is currently scheduled for April 2016.

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

Note 22 Provisions and contingent liabilities (continued)

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

USD million	**31.12.15**	31.12.14
Balance at the beginning of the year	**849**	817
Increase in provision recognized in the income statement	**662**	239
Release of provision recognized in the income statement	**(94)**	(120)
Provision used in conformity with designated purpose	**(199)**	(87)
Balance at the end of the year	**1,218**	849

Mortgage-related regulatory matters: In 2014, UBS received a subpoena from the US Attorney's Office for the Eastern District of New York issued pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), which seeks documents and information related to UBS's RMBS business from 2005 through 2007. In September 2015, the Eastern District of New York identified a number of transactions that are currently the focus of their inquiry, as to which we are providing additional information. UBS continues to respond to the FIRREA subpoena and to subpoenas from the New York State Attorney General (NYAG) relating to its RMBS business. In addition, UBS has also been responding to inquiries from both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through the present. We are cooperating with the authorities in these matters. Numerous other banks reportedly are responding to similar inquiries from these authorities.

As reflected in the table "Provision for claims related to sales of residential mortgage-backed securities and mortgages," our balance sheet at 31 December 2015 reflected a provision of USD 1,218 million with respect to matters described in this item 2. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

3. Madoff

In relation to the Bernard L. Madoff Investment Securities LLC (BMIS) investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without, however, being named as parties in those investigations. In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million, respectively. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 million, respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals were filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In July 2014, the Luxembourg Court of Appeal dismissed one test appeal in its entirety, which decision was appealed by the investor. In July 2015, the Luxembourg Supreme Court found in favor of UBS and dismissed the investor's appeal. In the US, the BMIS Trustee filed claims in 2010 against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. Following a motion by UBS, in 2011, the SDNY dismissed all of the BMIS Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit affirmed the District Court's decision and, in June 2014, the US Supreme Court denied the BMIS Trustee's petition seeking review of the Second Circuit ruling. In December 2014, several claims, including a purported class action, were filed in the US by BMIS customers against UBS entities, asserting claims similar to the ones made by the BMIS Trustee, seeking unspecified damages. One claim was voluntarily withdrawn by the plaintiff. In July 2015, following a motion by UBS, the SDNY dismissed the two remaining claims on the basis that the New York courts did not have jurisdiction to hear the claims against the UBS entities. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds. In January 2015, a court of appeal reversed a lower court decision in favor of UBS in one such case and ordered UBS to pay EUR 49 million, plus interest (approximately EUR 15.3 million). UBS filed an application for leave to appeal the decision. That application was rejected by the German Federal Supreme Court in December 2015, meaning that the Court of Appeal's decision is final.

Note 22 Provisions and contingent liabilities (continued)

4. Puerto Rico

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds (the funds) that are sole-managed and co-managed by UBS Trust Company of Puerto Rico and distributed by UBS Financial Services Incorporated of Puerto Rico (UBS PR) have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of USD 1.6 billion, of which claims with aggregate claimed damages of approximately USD 374 million have been resolved through settlements or arbitration. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and/or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions in losses in the funds. In 2015, defendants' motion to dismiss was denied. Defendants are seeking leave to appeal that ruling to the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management, and the co-manager of certain of the funds seeking damages for investor losses in the funds during the period from May 2008 through May 2014. Defendants have moved to dismiss that complaint. In March 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA in December 2013 based on plaintiffs' allegation that the loans are not valid.

In 2014, UBS reached a settlement with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico (OCFI) in connection with OCFI's examination of UBS's operations from January 2006 through September 2013. Pursuant to the settlement, UBS contributed USD 3.5 million to an investor education fund, offered USD 1.68 million in restitution to certain investors and, among other things, committed to undertake an additional review of certain client accounts to determine if additional restitution would be appropriate. That review resulted in an additional USD 2.1 million in restitution being offered to certain investors.

In September 2015, the SEC and the Financial Industry Regulatory Authority (FINRA) announced settlements with UBS PR of their separate investigations stemming from the 2013 market events. Without admitting or denying the findings in either matter, UBS PR agreed in the SEC settlement to pay USD 15 million (which includes USD 1.18 million in disgorgement, a civil penalty of USD 13.63 million and pre-judgment interest), and USD 18.5 million in the FINRA matter (which includes up to USD 11 million in restitution to 165 UBS PR customers and a civil penalty of USD 7.5 million). The SEC settlement involves a charge against UBS PR of failing to supervise the activities of a former financial advisor who had recommended the impermissible investment of non-purpose loan proceeds into the UBS PR closed-end funds, in violation of firm policy and the customer loan agreements. In the FINRA settlement, UBS PR is alleged to have failed to supervise certain customer accounts which were both more than 75% invested in UBS PR closed-end funds and leveraged against those positions. We also understand that the DOJ is conducting a criminal inquiry into the impermissible reinvestment of non-purpose loan proceeds. We are cooperating with the authorities in this inquiry.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS PR and other consultants and underwriters, trustees of the System, and the President and Board of the Government Development Bank of Puerto Rico. The plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. UBS is named in connection with its underwriting and consulting services. In 2013, the case was dismissed by the Puerto Rico Court of First Instance on the grounds that plaintiffs did not have standing to bring the claim, but that dismissal was subsequently overturned on appeal. Defendants have renewed their motion to dismiss the complaint on grounds not addressed when the court issued its prior ruling.

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012. Beginning in 2012, two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities, certain of the funds, and certain members of UBS PR senior management, seeking damages for investor losses in the funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. A motion for class certification was denied without prejudice to the right to refile the motion after limited discovery, and that motion has since been refiled.

In June 2015 Puerto Rico's Governor stated that the Commonwealth is unable to meet its obligations. In addition, certain agencies and public corporations of the Commonwealth have held discussions with their creditors to restructure their outstanding debt, and certain agencies and public corporations of the Commonwealth have defaulted on certain interest payments that were due in August 2015 and January 2016. The United States Supreme Court has agreed to hear Puerto Rico's appeal of a US District Court's invalidation of the Puerto Rico Public Corporations Debt Enforcement and Recovery Act (the Act), under which Puerto Rico's public corporations would be permitted to effect a mandatory restructuring of their respective debts with a specified creditor vote that would be binding on all applicable creditors, once approved by a court or, alternatively, under a court-supervised bankruptcy type restructuring. The foregoing events, any further defaults by the Commonwealth or its agencies and public corporations on (or any debt restructurings proposed by them with respect to) their outstanding debt, a Supreme Court decision upholding the Act (or sending it back to the District Court for further proceedings) and any further actions taken by Puerto Rico's public corporations under the Act, as well as any market reactions to any of the foregoing, may increase the number of claims against UBS concerning Puerto Rico securities as well as potential damages sought.

Our balance sheet at 31 December 2015 reflected provisions with respect to matters described in this item 4 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that we have recognized.

5. Foreign exchange, LIBOR, and benchmark rates, and other trading practices

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes our precious metals and related structured products businesses. Since then, various authorities have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission (WEKO), the DOJ, the SEC, the US Commodity Futures Trading Commission (CFTC), the Board of Governors of the Federal Reserve System (Federal Reserve Board), the UK Financial Conduct Authority (FCA) (to which certain responsibilities of the UK Financial Services Authority (FSA) have passed), the UK Serious Fraud Office (SFO), the Australian Securities and Investments Commission (ASIC), the Hong Kong Monetary Authority (HKMA), the Korea Fair Trade Commission (KFTC) and the Brazil Competition Authority (CADE). In addition, WEKO is, and a number of other authorities reportedly are, investigating potential manipulation of precious metals prices. UBS has taken and will take appropriate action with respect to certain personnel as a result of its ongoing review.

In 2014, UBS reached settlements with the FCA and the CFTC in connection with their foreign exchange investigations, and FINMA issued an order concluding its formal proceedings with respect to UBS relating to its foreign exchange and precious metals businesses. UBS has paid a total of approximately CHF 774 million to these authorities, including GBP 234 million in fines to the FCA, USD 290 million in fines to the CFTC, and CHF 134 million to FINMA representing confiscation of costs avoided and profits. In May 2015, the Federal Reserve Board and the Connecticut Department of Banking issued an Order to Cease and Desist and Order of Assessment of a Civil Monetary Penalty Issued upon Consent (Federal Reserve Order) to UBS AG. As part of the Federal Reserve Order, UBS AG paid a USD 342 million civil monetary penalty.

Note 22 Provisions and contingent liabilities (continued)

In May 2015, the DOJ's Criminal Division (Criminal Division) terminated the December 2012 Non-Prosecution Agreement (NPA) with UBS AG related to UBS's submissions of benchmark interest rates. As a result, UBS AG entered into a plea agreement with the Criminal Division pursuant to which UBS AG agreed to and did plead guilty to a one-count criminal information filed in the US District Court for the District of Connecticut charging UBS AG with one count of wire fraud in violation of 18 USC Sections 1343 and 2. Under the plea agreement, UBS AG agreed to a sentence that includes a USD 203 million fine and a three-year term of probation. The criminal information charges that between approximately 2001 and 2010, UBS AG engaged in a scheme to defraud counterparties to interest rate derivatives transactions by manipulating benchmark interest rates, including Yen LIBOR. Sentencing is currently scheduled for 9 May 2016. The Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA, including fraudulent and deceptive currency trading and sales practices in conducting certain foreign exchange market transactions with clients and collusion with other participants in certain foreign exchange markets.

We have ongoing obligations to cooperate with these authorities and to undertake certain remediation, including actions to improve processes and controls.

UBS has been granted conditional immunity by the Antitrust Division of the DOJ (Antitrust Division) from prosecution for EUR/USD collusion and entered into a non-prosecution agreement covering other currency pairs. As a result, UBS AG will not be subject to prosecutions, fines or other sanctions for antitrust law violations by the Antitrust Division, subject to UBS AG's continuing cooperation. However, the conditional immunity grant does not bar government agencies from asserting other claims and imposing sanctions against UBS AG, as evidenced by the settlements and ongoing investigations referred to above. UBS has also been granted conditional leniency by authorities in certain jurisdictions, including WEKO, in connection with potential competition law violations relating to precious metals, and as a result, will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in those jurisdictions, subject to UBS AG's continuing cooperation.

In October 2015, UBS AG settled charges with the SEC relating to structured notes issued by UBS AG that were linked to the UBS V10 Currency Index with Volatility Cap.

Investigations relating to foreign exchange and precious metals matters by numerous authorities, including the CFTC, remain ongoing notwithstanding these resolutions.

Foreign exchange-related civil litigation: Putative class actions have been filed since November 2013 in US federal courts and in other jurisdictions against UBS and other banks on behalf of putative classes of persons who engaged in foreign currency transactions with any of the defendant banks. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. In 2015, additional putative class actions were filed in federal court in New York against UBS and other banks on behalf of a putative class of persons who entered into or held any foreign exchange futures contracts and options on foreign exchange futures contracts since 1 January 2003. The complaints assert claims under the Commodity Exchange Act (CEA) and the US antitrust laws. In July 2015, a consolidated complaint was filed on behalf of both putative classes of persons covered by the US federal court class actions described above. UBS has entered into a settlement agreement that would resolve all of these US federal court class actions. The agreement, which has been preliminarily approved by the court and is subject to final court approval, requires, among other things, that UBS pay an aggregate of USD 141 million and provide cooperation to the settlement classes.

In June 2015, a putative class action was filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries, and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 (ERISA) for whom a defendant bank provided foreign currency exchange transactional services, exercised discretionary authority or discretionary control over management of such ERISA plan, or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA.

In 2015, UBS was added to putative class actions pending against other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the antitrust laws and the CEA, and other claims.

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the SFO, the Monetary Authority of Singapore (MAS), the HKMA, FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to LIBOR and other benchmark rates. These investigations focus on whether there were improper attempts by UBS, among others, either acting on our own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time, FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, USD 500 million in fines to the DOJ, and CHF 59 million in disgorgement to FINMA. UBS Securities Japan Co. Ltd. (UBSSJ) entered into a plea agreement with the DOJ under which it entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. UBS entered into an NPA with the DOJ, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency/immunity grants described below, required UBS to pay the USD 500 million fine to the DOJ after the sentencing of UBSSJ, and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. Under the NPA, we agreed, among other things, that for two years from 18 December 2012 UBS would not commit any US crime, and we would advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. The term of the NPA was extended by one year to 18 December 2015. In May 2015, the Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA. As a result, UBS entered into a plea agreement with the DOJ under which it entered a guilty plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and agreed to pay a fine of USD 203 million and accept a three-year term of probation. Sentencing is currently scheduled for 9 May 2016.

In 2014, UBS reached a settlement with the European Commission (EC) regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC. The MAS, HKMA and the Japan Financial Services Agency have also resolved investigations of UBS (and in some cases, other banks). We have ongoing obligations to cooperate with the authorities with whom we have reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions.

Investigations by the CFTC, ASIC and other governmental authorities remain ongoing notwithstanding these resolutions.

Note 22 Provisions and contingent liabilities (continued)

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

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in, or expected to be transferred to, the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives. Also pending are actions asserting losses related to various products whose interest rate was linked to USD LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest-bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including USD LIBOR, Euroyen TIBOR, Yen LIBOR, EURIBOR, CHF LIBOR, GBP LIBOR or USD ISDAFIX rates and seek unspecified compensatory and other damages under varying legal theories. In 2013, the court in the USD action dismissed the federal antitrust and racketeering claims of certain USD LIBOR plaintiffs and a portion of their claims brought under the CEA and state common law. Plaintiffs have appealed the dismissal, and the appeal remains pending. In 2014, the court in one of the Euroyen TIBOR lawsuits dismissed certain of the plaintiff's claims, including federal antitrust claims. In 2015, the same court dismissed plaintiff's federal racketeering claims and affirmed its previous dismissal of plaintiff's antitrust claims. UBS and other defendants in other lawsuits including those related to EURIBOR, CHF LIBOR and GBP LIBOR have filed motions to dismiss.

Since September 2014, putative class actions have been filed in federal court in New York and New Jersey against UBS and other financial institutions, among others, on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The complaints, which have since been consolidated into an amended complaint, allege that the defendants conspired to manipulate ISDAFIX rates from 1 January 2006 through January 2014, in violation of US antitrust laws and the CEA, among other theories, and seeks unspecified compensatory damages, including treble damages. UBS and other defendants have filed a motion to dismiss, which remains pending.

Government bonds: Putative class actions have been filed in US federal courts against UBS and other banks on behalf of persons who participated in markets for US Treasury securities since 2007. The complaints generally allege that the banks colluded with respect to and manipulated prices of US Treasury securities sold at auction. They assert claims under the antitrust laws and the CEA and for unjust enrichment. The cases have been consolidated in the SDNY. Following filing of these complaints, UBS and reportedly other banks have received requests for information from various authorities regarding US Treasury securities and other government bond trading practices.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, our balance sheet at 31 December 2015 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

6. Swiss retrocessions

The Federal Supreme Court of Switzerland ruled in 2012, in a test case against UBS, that distribution fees paid to a firm for distributing third party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the firm, absent a valid waiver.

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

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

Our balance sheet at 31 December 2015 reflected a provision with respect to matters described in this item 6 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence, as in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

7. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (Pactual) by UBS to BTG Investments, LP (BTG), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.4 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. The majority of these assessments relate to the deductibility of goodwill amortization in connection with UBS's 2006 acquisition of Pactual and payments made to Pactual employees through various profit-sharing plans. These assessments are being challenged in administrative and judicial proceedings. In May 2015, the administrative court issued a decision that was largely in favor of the tax authority with respect to the goodwill amortization assessment. This decision has been appealed.

8. Matters relating to the CDS market

In 2013, the EC issued a Statement of Objections against 13 credit default swap (CDS) dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association (ISDA). The Statement of Objections broadly alleges that the dealers infringed European Union antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. In December 2015, the EC issued a statement that it had decided to close its investigation against all 13 dealers, including UBS. The EC's investigation regarding Markit and ISDA is ongoing. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. In 2014, putative class action plaintiffs filed consolidated amended complaints in the SDNY against 12 dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act and common law. Plaintiffs allege that the defendants unlawfully conspired to restrain competition in and/or monopolize the market for CDS trading in the US in order to protect the dealers' profits from trading CDS in the over-the-counter market. In September 2015, UBS and the other defendants entered into settlement agreements to resolve the litigation, pursuant to which UBS has paid USD 75 million out of a total settlement amount paid by all defendants of approximately USD 1.865 billion. The agreements have received preliminary court approval but are subject to final court approval.

Note 23 Other liabilities

CHF million	**31.12.15**	31.12.14
Prime brokerage payables[1]	**45,306**	38,633
Amounts due under unit-linked investment contracts	**15,718**	17,643
Compensation-related liabilities	**5,122**	5,414
of which: accrued expenses	***2,827***	*2,583*
of which: other deferred compensation plans	***1,559***	*1,457*
of which: net defined benefit pension and post-employment liabilities[2]	***736***	*1,374*
Third-party interest in consolidated investment funds	**594**	707
Settlement and clearing accounts	**893**	1,054
Current and deferred tax liabilities[3]	**810**	642
VAT and other tax payables	**446**	420
Deferred income	**210**	259
Accrued interest expenses	**1,438**	1,327
Other accrued expenses	**2,492**	2,472
Liabilities of disposal group held for sale[4]	**235**	0
Other	**1,343**	1,820
Total other liabilities	**74,606**	70,392

1 Prime brokerage services include clearance, settlement, custody, financing and portfolio reporting services for corporate clients trading across multiple asset classes. Prime brokerage payables are mainly comprised of client securities financing and deposits. 2 Refer to Note 28 for more information. 3 Refer to Note 8 for more information. 4 Refer to Note 32 for more information.

Additional information

Note 24 Fair value measurement

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

a) Valuation principles

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

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

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

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

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

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

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

➔ **Refer to Note 24d for more information**

Note 24 Fair value measurement (continued)

b) Valuation governance

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

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

➔ **Refer to Note 24d for more information**

c) Valuation techniques

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

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

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

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

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

For more complex instruments and instruments not traded in an active market, fair values may be estimated using a combination of observed transaction prices, consensus pricing services and relevant quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services. UBS AG also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry.

Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation. Refer to Notes 24e and 24h for more information. The discount curves used by UBS AG incorporate the funding and credit characteristics of the instruments to which they are applied.

d) Valuation adjustments

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

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

Day-1 reserves

For new transactions where the valuation technique used to measure fair value requires significant inputs that are not based on observable market data, the financial instrument is initially recognized at the transaction price. The transaction price may differ from the fair value obtained using a valuation technique where any such difference is deferred and not initially recognized in the income statement. These day-1 profit or loss reserves are reflected, where appropriate, as valuation adjustments.

The table below summarizes the changes in deferred day-1 profit or loss reserves during the respective period. Amounts deferred are released and gains or losses are recorded in *Net trading income* when pricing of equivalent products or the underlying parameters become observable or when the transaction is closed out.

Deferred day-1 profit or loss

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Balance at the beginning of the year	**480**	486	474
Profit / (loss) deferred on new transactions	**268**	344	694
(Profit) / loss recognized in the income statement	**(321)**	(384)	(653)
Foreign currency translation	**(6)**	35	(29)
Balance at the end of the year	**421**	480	486

Note 24 Fair value measurement (continued)

Own credit adjustments on financial liabilities designated at fair value

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

In 2015, UBS AG made enhancements to the valuation methodology for the own credit component of fair value of financial liabilities designated at fair value. Prior to the fourth quarter of 2015, own credit was estimated using a funds transfer pricing curve (FTP), which was derived by discounting UBS Group AG (consolidated) new issuance senior debt curve spreads, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS Group AG (consolidated) debt and the levels at which UBS Group AG (consolidated) medium-term notes (MTN) were issued. A decline in long-dated UBS Group AG (consolidated) MTN issuance volumes, following UBS Group AG's (consolidated) business transformation, resulted in a reduction in the observable market data available to benchmark the FTP. From the fourth quarter of 2015 onwards, own credit is estimated using an own credit adjustment curve (OCA), which incorporates more observable market data, including market-observed secondary prices for UBS Group AG (consolidated) senior debt, UBS Group AG (consolidated) credit default swap (CDS) spreads and senior debt curves of peers. This change in accounting estimate was finalized in the fourth quarter of 2015, following a multi-period implementation project to develop an enhanced fair value approach supported by related infrastructure enhancements. The change was implemented on a prospective basis in the fourth quarter of 2015 and resulted in a gain of CHF 260 million on a total carrying amount of CHF 63 billion in financial liabilities designated at fair value.

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

The effects of own credit adjustments related to financial liabilities designated at fair value (predominantly issued structured products) are summarized in the table below.

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

Own credit adjustments on financial liabilities designated at fair value

	As of or for the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Gain / (loss) for the year ended	**553**	292	(283)
Life-to-date gain / (loss)	**287**	(302)	(577)

Credit valuation adjustments

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

Funding valuation adjustments

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

In the fourth quarter of 2015, as mentioned above, UBS AG replaced the FTP curve with the OCA curve for purposes of valuing its liabilities carried at fair value. As applied to the FVA associated with uncollateralized and partially collateralized derivative payables, the change resulted in a charge to the income statement of CHF 40 million.

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

Debit valuation adjustments

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

Other valuation adjustments

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

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

Valuation adjustments on financial instruments

	As of	
Life-to-date gain / (loss), CHF billion	**31.12.15**	31.12.14
Credit valuation adjustments[1]	**(0.3)**	(0.5)
Funding valuation adjustments	**(0.2)**	(0.1)
Debit valuation adjustments	**0.0**	0.0
Other valuation adjustments	**(0.8)**	(0.9)
of which: liquidity	***(0.5)***	*(0.5)*
of which: model uncertainty	***(0.3)***	*(0.4)*

1 Amounts do not include reserves against defaulted counterparties.

Note 24 Fair value measurement (continued)

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

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

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

	31.12.15				31.12.14			
CHF billion	**Level 1**	**Level 2**	**Level 3**	**Total**	Level 1	Level 2	Level 3	Total
Assets measured at fair value on a recurring basis								
Financial assets held for trading[2]	**96.4**	**21.9**	**2.1**	**120.4**	101.7	27.2	3.5	132.4
of which:								
Government bills/bonds	***12.9***	***3.3***	***0.0***	***16.2***	*8.8*	*4.7*	*0.0*	*13.6*
Corporate bonds and municipal bonds, including bonds issued by financial institutions	***0.2***	***8.1***	***0.7***	***9.0***	*0.6*	*11.0*	*1.4*	*12.9*
Loans	***0.0***	***1.8***	***0.8***	***2.6***	*0.0*	*2.2*	*1.1*	*3.2*
Investment fund units	***6.1***	***5.7***	***0.2***	***11.9***	*6.7*	*6.4*	*0.3*	*13.4*
Asset-backed securities	***0.0***	***1.0***	***0.2***	***1.2***	*0.0*	*1.5*	*0.6*	*2.1*
Equity instruments	***62.4***	***1.5***	***0.1***	***64.0***	*68.8*	*0.8*	*0.1*	*69.8*
Financial assets for unit-linked investment contracts	***14.8***	***0.7***	***0.1***	***15.5***	*16.8*	*0.6*	*0.1*	*17.4*
Positive replacement values	**0.5**	**164.0**	**2.9**	**167.4**	1.0	251.6	4.4	257.0
of which:								
Interest rate contracts	***0.0***	***74.4***	***0.1***	***74.5***	*0.0*	*123.4*	*0.2*	*123.7*
Credit derivative contracts	***0.0***	***5.4***	***1.3***	***6.7***	*0.0*	*9.8*	*1.7*	*11.5*
Foreign exchange contracts	***0.3***	***64.9***	***0.5***	***65.7***	*0.7*	*97.0*	*0.6*	*98.4*
Equity/index contracts	***0.0***	***15.9***	***1.0***	***16.9***	*0.0*	*17.7*	*1.9*	*19.5*
Commodity contracts	***0.0***	***3.4***	***0.0***	***3.4***	*0.0*	*3.6*	*0.0*	*3.6*
Financial assets designated at fair value	**0.2**	**2.3**	**3.3**	**5.8**	0.1	0.9	3.5	4.5
of which:								
Loans (including structured loans)	***0.0***	***2.3***	***1.7***	***4.0***	*0.0*	*0.8*	*1.0*	*1.7*
Structured reverse repurchase and securities borrowing agreements	***0.0***	***0.0***	***1.5***	***1.6***	*0.0*	*0.1*	*2.4*	*2.5*
Other	***0.2***	***0.0***	***0.1***	***0.3***	*0.1*	*0.0*	*0.1*	*0.3*
Financial investments available-for-sale	**34.2**	**27.7**	**0.7**	**62.5**	32.7	23.9	0.6	57.2
of which:								
Government bills/bonds	***31.1***	***2.0***	***0.0***	***33.1***	*30.3*	*2.8*	*0.0*	*33.1*
Corporate bonds and municipal bonds, including bonds issued by financial institutions	***3.0***	***22.2***	***0.0***	***25.2***	*2.2*	*16.9*	*0.0*	*19.1*
Investment fund units	***0.0***	***0.1***	***0.1***	***0.2***	*0.0*	*0.1*	*0.2*	*0.3*
Asset-backed securities	***0.0***	***3.4***	***0.0***	***3.4***	*0.0*	*4.0*	*0.0*	*4.0*
Equity instruments	***0.1***	***0.0***	***0.5***	***0.6***	*0.2*	*0.1*	*0.4*	*0.7*
Non-financial assets								
Precious metals and other physical commodities	**3.7**	**0.0**	**0.0**	**3.7**	5.8	0.0	0.0	5.8
Assets measured at fair value on a non-recurring basis								
Other assets[3]	**0.3**	**0.1**	**0.1**	**0.4**	0.0	0.1	0.2	0.2
Total assets measured at fair value	**135.2**	**216.0**	**9.0**	**360.3**	141.4	303.5	12.2	457.1

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

	31.12.15				31.12.14			
CHF billion	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value on a recurring basis								
Trading portfolio liabilities	25.5	3.5	0.2	29.1	23.9	3.9	0.1	28.0
of which:								
Government bills / bonds	6.0	0.8	0.0	6.8	7.0	1.2	0.0	8.2
Corporate bonds and municipal bonds, including bonds issued by financial institutions	0.0	2.4	0.1	2.5	0.1	2.4	0.1	2.6
Investment fund units	0.7	0.1	0.0	0.7	1.1	0.1	0.0	1.2
Asset-backed securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity instruments	18.8	0.2	0.0	19.1	15.7	0.1	0.0	15.9
Negative replacement values	0.6	158.5	3.3	162.4	1.1	248.1	5.0	254.1
of which:								
Interest rate contracts	0.0	67.2	0.3	67.6	0.0	117.3	0.6	117.9
Credit derivative contracts	0.0	5.4	1.3	6.7	0.0	10.0	1.7	11.7
Foreign exchange contracts	0.3	63.0	0.2	63.5	0.7	96.6	0.3	97.6
Equity / index contracts	0.0	19.7	1.4	21.2	0.0	20.9	2.4	23.3
Commodity contracts	0.0	3.2	0.0	3.2	0.0	3.2	0.0	3.2
Financial liabilities designated at fair value	0.0	52.3	10.7	63.0	0.0	63.4	11.9	75.3
of which:								
Non-structured fixed-rate bonds	0.0	1.5	2.6	4.1	0.0	2.3	2.2	4.5
Structured debt instruments issued	0.0	45.7	6.7	52.4	0.0	56.6	7.3	63.9
Structured over-the-counter debt instruments	0.0	4.7	0.8	5.5	0.0	4.1	1.5	5.7
Structured repurchase agreements	0.0	0.3	0.6	0.8	0.0	0.3	0.9	1.2
Loan commitments and guarantees	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1
Other liabilities – amounts due under unit-linked investment contracts	0.0	15.7	0.0	15.7	0.0	17.6	0.0	17.6
Liabilities measured at fair value on a non-recurring basis								
Other liabilities[3]	0.0	0.2	0.0	0.2	0.0	0.0	0.0	0.0
Total liabilities measured at fair value	**26.1**	**230.3**	**14.1**	**270.5**	**25.0**	**333.0**	**17.0**	**375.0**

1 Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. As of 31 December 2015, net bifurcated embedded derivative liabilities held at fair value, totaling CHF 0.1 billion (of which CHF 0.1 billion were net Level 2 assets and CHF 0.2 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 December 2014, net bifurcated embedded derivative liabilities held at fair value, totaling CHF 0.0 billion (of which CHF 0.3 billion were net Level 2 assets and CHF 0.3 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. 2 Financial assets held for trading do not include precious metals and other physical commodities. 3 Other assets and other liabilities primarily consist of assets held for sale as well as assets and liabilities of a disposal group held for sale, which are measured at the lower of their net carrying amount or fair value less costs to sell. Refer to Note 32 for more information on the disposal group held for sale.

Note 24 Fair value measurement (continued)

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

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

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

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

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

Included within loans are various contingent lending transactions for which valuations are dependent on actuarial mortality levels and actuarial life insurance policy lapse rates. Mortality and lapse rate assumptions are based on external actuarial estimations for large homogeneous pools, and contingencies are derived from a range relative to the actuarially expected amount. In addition, the pricing technique uses volatility of mortality as an input.

Investment fund units

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

Asset-backed securities: residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), other asset-backed securities (ABS) and collateralized debt obligations (CDO)

RMBS, CMBS, ABS and CDO are instruments generally issued through the process of securitization of underlying interest-bearing assets. The underlying collateral for RMBS is residential mortgages, for CMBS, commercial mortgages, for ABS, other assets such as credit card, car or student loans and leases, and for CDO, other securitized positions of RMBS, CMBS or ABS. The market for these securities is not active, and therefore a variety of valuation techniques are used to measure fair value. For more liquid securities, trade data or quoted prices may be obtained periodically for the instrument held, and the valuation process will use this trade and price data, updated for movements in market levels between the time of trading and the time of valuation. Less liquid instruments are measured using discounted expected cash flows incorporating price data for instruments or indices with similar risk profiles. Expected cash flow estimation involves the modeling of the expected collateral cash flows using input assumptions derived from proprietary models, fundamental analysis and/or market research based on management's quantitative and qualitative assessment of current and future economic conditions. The expected collateral cash flows estimated are then converted into the securities' projected performance under such conditions based on the credit enhancement and subordination terms of the securitization. Expected cash flow schedules are discounted using a rate or discount margin that reflects the discount levels required by the market for instruments with similar risk and liquidity profiles. Inputs to discounted expected cash flow techniques include asset prepayment rates, discount margin or discount yields, asset default rates and asset loss on default severity, which may in turn be estimated using more fundamental loan and economic drivers such as, but not limited to, loan-to-value data, house price appreciation, foreclosure costs, rental income levels, void periods and employment rates. RMBS, CMBS and ABS are generally classified as Level 2. However, if significant inputs are unobservable, or if market or fundamental data are not available for instruments or collateral with a sufficiently similar risk profile to the positions held, they are classified as Level 3.

Equity instruments

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

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

Financial assets underlying unit-linked investment contracts

Unit-linked investment contracts allow investors to invest in a pool of assets through issued investment units. The unit holders are exposed to all risks and rewards associated with the reference asset pool. Assets held under unit-linked investment contracts are presented as Trading portfolio assets. The majority of assets are listed on exchanges and are classified as Level 1 if actively traded, or Level 2 if trading is not active. However, instruments for which prices are not readily available are classified as Level 3.

Structured (reverse) repurchase agreements

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

Note 24 Fair value measurement (continued)

Replacement values

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

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

Interest rate contracts

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

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

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

Balance guaranteed swaps (BGS) are interest rate or currency swaps that have a notional schedule based on a securitization vehicle, requiring the valuation to incorporate an adjustment for the unknown future variability of the notional schedule. Inputs to value BGS are those used to value the standard market risk on the swap and those used to estimate the notional schedule of the underlying securitization pool (i.e., prepayment, default and interest rates). BGS are classified as Level 3, as the correlation between unscheduled notional changes and the underlying market risk of the BGS does not have an active market and cannot be observed.

Credit derivative contracts

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

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

Credit derivative contracts on securitized products have an underlying reference asset that is a securitized product (RMBS, CMBS, ABS or CDO) and include credit default swaps and certain TRS. These credit default swaps (typically referred to as pay-as-you-go (PAYG) CDS) and TRS are valued using a similar valuation technique to the underlying security (by reference to equivalent securities trading in the market, or through cash flow estimation and discounted cash flow techniques as described in the Asset-backed securities section above), with an adjustment made to reflect the funding differences between cash and synthetic form. Inputs to the PAYG CDS and TRS are those used to value the underlying security (prepayment rates, default rates, loss severity, discount margin/rate and other inputs) and those used to capture the funding basis differential between cash and synthetic form. The classification of PAYG CDS and these TRS follow the characteristics of the underlying security and are therefore distributed across Level 2 and Level 3.

Note 24 Fair value measurement (continued)

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

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

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

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

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

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

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

Financial liabilities designated at fair value

Structured and OTC debt instruments issued

Structured debt instruments issued are comprised of medium-term notes (MTNs), which are held at fair value under the fair value option. These MTNs are tailored specifically to the holder's risk or investment appetite with structured coupons or payoffs. The risk management and the valuation approaches for these MTNs are closely aligned to the equivalent derivatives business and the underlying risk, and the valuation techniques used for this component are the same as the relevant valuation techniques described above. For example, equity-linked notes should be referenced to equity/index contracts and credit-linked notes should be referenced to credit derivative contacts.

Other liabilities – amounts due under unit-linked investment contracts

Unit-linked investment contracts allow investors to invest in a pool of assets through issued investment units. The unit holders are exposed to all risks and rewards associated with the reference asset pool. The financial liability represents the amounts due to unit holders and is equal to the fair value of the reference asset pool. The fair values of investment contract liabilities are determined by reference to the fair value of the corresponding assets. The liabilities themselves are not actively traded, but are mainly referenced to instruments that are and are therefore classified as Level 2.

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

The amounts provided below reflect transfers between Level 1 and Level 2 for instruments that were held for the entire reporting period.

Assets totaling approximately CHF 0.6 billion, which were mainly comprised of financial investments classified as available-for-sale, primarily corporate and municipal bonds, and financial assets held for trading, were transferred from Level 2 to Level 1 during 2015, generally due to increased levels of trading activity observed within the market. Transfers of financial liabilities from Level 2 to Level 1 during 2015 were not significant.

Assets totaling approximately CHF 0.8 billion, which were mainly comprised of financial assets held for trading, primarily equity instruments and government bills/bonds, and financial investments classified as available-for-sale, mainly corporate and municipal bonds, were transferred from Level 1 to Level 2 during 2015, generally due to diminished levels of trading activity observed within the market. Transfers of financial liabilities from Level 1 to Level 2 during 2015 were not significant.

Note 24 Fair value measurement (continued)

g) Movements of Level 3 instruments

Significant changes in Level 3 instruments

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

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

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

- loans (including structured loans);
- structured reverse repurchase and securities borrowing agreements;
- credit derivative contracts;
- equity/index contracts;
- non-structured fixed-rate bonds and
- structured debt instruments issued (equity and credit-linked).

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

Financial assets held for trading

Financial assets held for trading decreased to CHF 2.1 billion from CHF 3.5 billion during the year. Issuances of CHF 5.4 billion and purchases of CHF 0.7 billion, mainly comprised of loans and corporate bonds, respectively, were more than offset by sales of CHF 7.6 billion, also primarily comprised of loans and corporate bonds. Transfers into Level 3 during the year amounted to CHF 0.9 billion and were mainly comprised of equity instruments and investment fund units due to decreased observability of the respective equity volatility inputs. Transfers out of Level 3 amounted to CHF 0.5 billion and were primarily comprised of loans, reflecting increased observability of the respective credit spread inputs.

Financial assets designated at fair value

Financial assets designated at fair value decreased to CHF 3.3 billion from CHF 3.5 billion during the year, mainly reflecting settlements of CHF 1.3 billion, partly offset by issuances of CHF 0.8 billion. Transfers into and out of Level 3 amounted to CHF 0.8 billion and CHF 0.4 billion, respectively.

Financial investments classified as available-for-sale

Financial investments classified as available-for-sale increased to CHF 0.7 billion from CHF 0.6 billion during the year, primarily due to purchases totaling CHF 0.1 billion.

Positive replacement values

Positive replacement values decreased to CHF 2.9 billion from CHF 4.4 billion during the year, primarily due to settlements of CHF 2.9 billion, primarily related to credit derivative contracts and equity/index contracts, partly offset by issuances totaling CHF 1.7 billion, also primarily related to credit derivative contracts and equity/index contracts. Transfers into Level 3, totaling CHF 0.7 billion, were mainly comprised of interest rate contracts and equity/index contracts and primarily resulted from changes in the correlation between the portfolios held and the representative market portfolio used to independently verify market data. Transfers out of Level 3, totaling CHF 0.5 billion, were mainly comprised of equity/index contracts and also primarily related to changes in the correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Negative replacement values

Negative replacement values decreased to CHF 3.3 billion from CHF 5.0 billion during the year. Settlements and issuances amounted to CHF 2.2 billion and CHF 1.0 billion, respectively, and were primarily comprised of equity/index contracts. Transfers into and out of Level 3 both amounted to CHF 0.5 billion, and primarily related to changes in the availability of the respective observable equity volatility and credit spread inputs.

Financial liabilities designated at fair value

Financial liabilities designated at fair value decreased to CHF 10.7 billion from CHF 11.9 billion during the year. Issuances of CHF 6.1 billion, primarily comprised of structured debt instruments issued and structured over-the-counter debt instruments, were more than offset by settlements of CHF 6.7 billion, also primarily comprised of structured debt instruments issued and structured over-the-counter debt instruments. Transfers into Level 3, totaling CHF 1.3 billion, were primarily comprised of equity and credit-linked structured debt instruments issued, and mainly related to a reduction in the observable equity volatility inputs and from changes in the respective credit spreads used to determine the fair value of the embedded options in these structures. Transfers out of Level 3, totaling CHF 2.2 billion, were also mainly comprised of equity- and credit-linked structured debt instruments issued, and mainly related to changes in the observable equity volatility inputs and from changes in the respective credit spreads used to determine the fair value of the embedded options in these structures.

Note 24 Fair value measurement (continued)

Movements of Level 3 instruments

CHF billion	**Balance as of 31 December 2013**	Total gains / losses included in comprehensive income: Net interest income, net trading income and other income	*of which: related to Level 3 instruments held at the end of the reporting period*	Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation
Financial assets held for trading	**4.3**	**(1.6)**	***(0.9)***		**1.4**	**(6.5)**	**5.2**	**0.0**	**1.0**	**(0.5)**	**0.1**
of which:											
Corporate bonds and municipal bonds, including bonds issued by financial institutions	*1.7*	*(0.1)*	*(0.1)*		*0.9*	*(1.2)*	*0.0*	*0.0*	*0.2*	*(0.2)*	*0.1*
Loans	*1.0*	*(1.4)*	*(0.8)*		*0.2*	*(4.1)*	*5.2*	*0.0*	*0.2*	*(0.1)*	*0.1*
Asset-backed securities	*1.0*	*0.0*	*0.0*		*0.1*	*(0.7)*	*0.0*	*0.0*	*0.5*	*(0.3)*	*0.0*
Other	*0.6*	*(0.1)*	*0.0*		*0.2*	*(0.5)*	*0.0*	*0.0*	*0.1*	*0.0*	*0.0*
Financial assets designated at fair value	**4.4**	**(0.8)**	***(0.3)***		**0.0**	**0.0**	**1.3**	**(1.2)**	**0.0**	**(0.3)**	**0.2**
of which:											
Loans (including structured loans)	*1.1*	*(0.3)*	*(0.2)*		*0.0*	*0.0*	*0.6*	*(0.2)*	*0.0*	*(0.3)*	*0.0*
Structured reverse repurchase and securities borrowing agreements	*3.1*	*(0.5)*	*0.0*		*0.0*	*0.0*	*0.7*	*(1.0)*	*0.0*	*0.0*	*0.1*
Other	*0.2*	*0.0*	*0.0*		*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Financial investments available-for-sale	**0.8**	**0.0**	***0.0***	**0.0**	**0.1**	**(0.2)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Positive replacement values	**5.5**	**1.1**	***0.0***		**0.0**	**0.0**	**2.6**	**(5.1)**	**1.1**	**(0.5)**	**(0.2)**
of which:											
Credit derivative contracts	*3.0*	*0.3*	*(0.8)*		*0.0*	*0.0*	*1.1*	*(3.2)*	*0.5*	*(0.2)*	*0.1*
Foreign exchange contracts	*0.9*	*0.1*	*0.1*		*0.0*	*0.0*	*0.1*	*(0.2)*	*0.0*	*(0.1)*	*(0.3)*
Equity / index contracts	*1.2*	*0.6*	*0.5*		*0.0*	*0.0*	*1.3*	*(1.3)*	*0.3*	*(0.2)*	*0.0*
Other	*0.3*	*0.0*	*0.1*		*0.0*	*0.0*	*0.2*	*(0.4)*	*0.3*	*(0.1)*	*0.0*
Negative replacement values	**4.4**	**0.7**	***(0.6)***		**0.0**	**0.0**	**2.5**	**(3.7)**	**1.4**	**(0.5)**	**0.2**
of which:											
Credit derivative contracts	*2.0*	*0.1*	*(1.2)*		*0.0*	*0.0*	*1.0*	*(2.4)*	*1.0*	*(0.2)*	*0.3*
Foreign exchange contracts	*0.5*	*0.0*	*0.0*		*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*(0.1)*	*0.0*
Equity / index contracts	*1.5*	*0.4*	*0.4*		*0.0*	*0.0*	*1.5*	*(1.2)*	*0.3*	*(0.1)*	*0.0*
Other	*0.5*	*0.2*	*0.3*		*0.0*	*0.0*	*0.0*	*(0.1)*	*0.1*	*0.0*	*(0.1)*
Financial liabilities designated at fair value	**12.1**	**0.5**	***1.3***		**0.0**	**0.0**	**7.4**	**(7.4)**	**2.0**	**(3.2)**	**0.5**
of which:											
Non-structured fixed-rate bonds	*1.2*	*0.4*	*0.3*		*0.0*	*0.0*	*1.9*	*(1.4)*	*0.4*	*(0.4)*	*0.1*
Structured debt instruments issued	*7.9*	*0.9*	*0.4*		*0.0*	*0.0*	*3.7*	*(4.2)*	*1.2*	*(2.6)*	*0.4*
Structured over-the-counter debt instruments	*1.8*	*(0.4)*	*(0.1)*		*0.0*	*0.0*	*1.4*	*(1.5)*	*0.4*	*(0.2)*	*0.0*
Structured repurchase agreements	*1.2*	*(0.3)*	*0.7*		*0.0*	*0.0*	*0.5*	*(0.4)*	*0.0*	*0.0*	*0.0*

1 Total Level 3 assets as of 31 December 2015 were CHF 9.0 billion (31 December 2014: CHF 12.2 billion). Total Level 3 liabilities as of 31 December 2015 were CHF 14.1 billion (31 December 2014: CHF 17.0 billion).

	Balance as of 31 December 2014	Total gains/losses included in comprehensive income: Net interest income, net trading income and other income	*of which related to Level 3 instruments held at the end of the reporting period*	Other comprehensive income	Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation	Balance as of 31 December 2015[1]
	3.5	**(0.2)**	***(0.4)***		**0.7**	**(7.6)**	**5.4**	**0.0**	**0.9**	**(0.5)**	**(0.1)**	**2.1**
	1.4	*0.0*	*0.0*		*0.5*	*(1.0)*	*0.0*	*0.0*	*0.1*	*(0.1)*	*(0.1)*	*0.7*
	1.1	*(0.1)*	*(0.3)*		*0.1*	*(5.5)*	*5.4*	*0.0*	*0.2*	*(0.3)*	*0.0*	*0.8*
	0.6	*0.0*	*0.0*		*0.1*	*(0.6)*	*0.0*	*0.0*	*0.2*	*(0.1)*	*0.0*	*0.2*
	0.5	*(0.1)*	*(0.1)*		*0.1*	*(0.5)*	*0.0*	*0.0*	*0.4*	*0.0*	*0.0*	*0.4*
	3.5	**0.0**	***0.0***		**0.0**	**0.0**	**0.8**	**(1.3)**	**0.8**	**(0.4)**	**(0.1)**	**3.3**
	1.0	*(0.1)*	*(0.1)*		*0.0*	*0.0*	*0.7*	*(0.2)*	*0.8*	*(0.4)*	*0.0*	*1.7*
	2.4	*0.1*	*0.1*		*0.0*	*0.0*	*0.1*	*(1.0)*	*0.0*	*0.0*	*(0.1)*	*1.5*
	0.1	*0.0*	*0.0*		*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
	0.6	**0.0**	***0.0***	**0.0**	**0.1**	**(0.1)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.7**
	4.4	**(0.4)**	***(0.1)***		**0.0**	**(0.1)**	**1.7**	**(2.9)**	**0.7**	**(0.5)**	**(0.1)**	**2.9**
	1.7	*(0.1)*	*0.2*		*0.0*	*0.0*	*0.9*	*(1.1)*	*0.1*	*(0.1)*	*(0.1)*	*1.3*
	0.6	*(0.1)*	*0.0*		*0.0*	*0.0*	*0.1*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.5*
	1.9	*0.0*	*(0.3)*		*0.0*	*(0.1)*	*0.7*	*(1.4)*	*0.2*	*(0.3)*	*0.0*	*1.0*
	0.3	*(0.1)*	*(0.1)*		*0.0*	*0.0*	*0.0*	*(0.3)*	*0.4*	*(0.1)*	*0.0*	*0.1*
	5.0	**(0.4)**	***0.0***		**0.0**	**0.0**	**1.0**	**(2.2)**	**0.5**	**(0.5)**	**(0.1)**	**3.3**
	1.7	*0.3*	*0.6*		*0.0*	*0.0*	*0.0*	*(0.9)*	*0.3*	*(0.1)*	*0.0*	*1.3*
	0.3	*0.0*	*(0.1)*		*0.0*	*0.0*	*0.0*	*(0.1)*	*0.0*	*0.0*	*0.0*	*0.2*
	2.4	*(0.4)*	*(0.5)*		*0.0*	*0.0*	*0.9*	*(1.2)*	*0.1*	*(0.4)*	*(0.1)*	*1.4*
	0.6	*(0.2)*	*(0.1)*		*0.0*	*0.0*	*0.1*	*0.0*	*0.1*	*0.0*	*(0.1)*	*0.3*
	11.9	**0.6**	***0.0***		**0.0**	**0.0**	**6.1**	**(6.7)**	**1.3**	**(2.2)**	**(0.3)**	**10.7**
	2.2	*(0.1)*	*0.0*		*0.0*	*0.0*	*1.1*	*(0.2)*	*0.1*	*(0.4)*	*0.0*	*2.6*
	7.3	*0.5*	*0.1*		*0.0*	*0.0*	*3.8*	*(4.2)*	*1.3*	*(1.9)*	*(0.2)*	*6.7*
	1.5	*0.2*	*(0.1)*		*0.0*	*0.0*	*1.2*	*(2.0)*	*0.0*	*0.0*	*(0.1)*	*0.8*
	0.9	*0.0*	*0.0*		*0.0*	*0.0*	*0.0*	*(0.3)*	*0.0*	*0.0*	*0.0*	*0.6*

Note 24 Fair value measurement (continued)

h) Valuation of assets and liabilities classified as Level 3

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

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

Significant unobservable inputs in Level 3 positions

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

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

	Fair value						Range of inputs				
	Assets		Liabilities				31.12.15		31.12.14		
CHF billion	31.12.15	31.12.14	31.12.15	31.12.14	Valuation technique(s)	Significant unobservable input(s)[1]	low	high	low	high	unit[1]
Financial assets held for trading / Trading portfolio liabilities, Financial assets / liabilities designated at fair value and Financial investments available-for-sale											
Corporate bonds and municipal bonds, including bonds issued by financial institutions	***0.7***	*1.4*	***0.1***	*0.1*	Relative value to market comparable	Bond price equivalent	**0**	**134**	8	144	points
Traded loans, loans designated at fair value, loan commitments and guarantees	***2.6***	*2.2*	***0.0***	*0.0*	Relative value to market comparable	Loan price equivalent	**65**	**100**	80	101	points
					Discounted expected cash flows	Credit spread	**30**	**252**	37	138	basis points
					Market comparable and securitization model	Discount margin / spread	**1**	**14**	0	13	%
					Mortality dependent cash flow	Volatility of mortality[2]			270	280	%
Investment fund units[3]	***0.3***	*0.5*	***0.0***	*0.0*	Relative value to market comparable	Net asset value					
Asset-backed securities	***0.2***	*0.6*	***0.0***	*0.0*	Discounted cash flow projection	Constant prepayment rate	**0**	**18**	0	18	%
						Discount margin / spread	**0**	**12**	0	22	%
					Relative value to market comparable	Bond price equivalent	**1**	**92**	0	102	points
Equity instruments[3]	***0.6***	*0.5*	***0.0***	*0.0*	Relative value to market comparable	Price					
Structured (reverse) repurchase agreements	***1.5***	*2.4*	***0.6***	*0.9*	Discounted expected cash flows	Funding spread	**18**	**183**	10	163	basis points
Financial assets for unit-linked investment contracts[3]	***0.1***	*0.1*			Relative value to market comparable	Price					
Structured debt instruments and non-structured fixed-rate bonds[4]			***10.1***	*11.0*							

Note 24 Fair value measurement (continued)

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

	Fair value						Range of inputs				
	Assets		Liabilities			Significant	31.12.15		31.12.14		
CHF billion	31.12.15	31.12.14	31.12.15	31.12.14	Valuation technique(s)	unobservable input(s)[1]	low	high	low	high	unit[1]
Replacement values											
Interest rate contracts	*0.1*	*0.2*	*0.3*	*0.6*	Option model	Volatility of interest rates	16	130	13	94	%
						Rate-to-rate correlation	84	94	84	94	%
						Intra-curve correlation	36	94	50	94	%
					Discounted expected cash flows	Constant prepayment rate	0	3	0	3	%
Credit derivative contracts	*1.3*	*1.7*	*1.3*	*1.7*	Discounted expected cash flow based on modeled defaults and recoveries	Credit spreads	1	1,163	0	963	basis points
						Upfront price points	8	25	15	83	%
						Recovery rates	0	95	0	95	%
						Credit index correlation	10	85	10	85	%
						Discount margin / spread	1	72	0	32	%
						Credit pair correlation	57	94	57	94	%
					Discounted cash flow projection on underlying bond	Constant prepayment rate	0	15	1	16	%
						Constant default rate	0	9	0	9	%
						Loss severity	0	100	0	100	%
						Discount margin / spread	1	15	1	33	%
						Bond price equivalent	0	104	12	100	points
Foreign exchange contracts	*0.5*	*0.6*	*0.2*	*0.3*	Option model	Rate-to-FX correlation	(57)	60	(57)	60	%
						FX-to-FX correlation	(70)	80	(70)	80	%
					Discounted expected cash flows	Constant prepayment rate[2]			0	13	%
Equity / index contracts	*1.0*	*1.9*	*1.4*	*2.4*	Option model	Equity dividend yields	0	57	0	15	%
						Volatility of equity stocks, equity and other indices	0	143	1	130	%
						Equity-to-FX correlation	(44)	82	(55)	84	%
						Equity-to-equity correlation	3	99	18	99	%
Non-financial assets[3,5]	*0.1*	*0.2*			Relative value to market comparable	Price					
					Discounted cash flow projection	Projection of cost and income related to the particular property					
						Discount rate					
						Assessment of the particular property's condition					

1 The ranges of significant unobservable inputs are represented in points, percentages and basis points. Points are a percentage of par. For example, 100 points would be 100% of par. 2 The range of inputs is not disclosed as of 31 December 2015 because this unobservable input parameter was not significant to the respective valuation technique as of that date. 3 The range of inputs is not disclosed due to the dispersion of possible values given the diverse nature of the investments. 4 Valuation techniques, significant unobservable inputs and the respective input ranges for structured debt instruments and non-structured fixed-rate bonds are the same as the equivalent derivative or structured financing instruments presented elsewhere in this table. 5 Non-financial assets include other assets which primarily consist of assets held for sale.

Note 24 Fair value measurement (continued)

Bond price equivalent: Where market prices are not available for a bond, fair value is measured by comparison with observable pricing data from similar instruments. Factors considered when selecting comparable instruments include credit quality, maturity and industry of the issuer. Fair value may be measured either by a direct price comparison or by conversion of an instrument price into a yield (either as an outright yield or as a spread to LIBOR). Bond prices are expressed as points of the nominal, where 100 represents a fair value equal to the nominal value (i.e., par).

For corporate and municipal bonds, the range of 0–134 points represents the range of prices from reference issuances used in determining fair value. Bonds priced at 0 are distressed to the point that no recovery is expected, while prices significantly in excess of 100 or par relate to inflation-linked or structured issuances that pay a coupon in excess of the market benchmark as of the measurement date. The weighted average price is approximately 94 points, with a majority of positions concentrated around this price.

For asset-backed securities, the bond price range of 1–92 points represents the range of prices for reference securities used in determining fair value. An instrument priced at 0 is not expected to pay any principal or interest, while an instrument priced close to 100 points is expected to be repaid in full as well as pay a yield close to the market yield. The weighted average price for Level 3 assets within this portion of the Level 3 portfolio is 72 points.

For credit derivatives, the bond price range of 0–104 points represents the range of prices used for reference instruments that are typically converted to an equivalent yield or credit spread as part of the valuation process. The range is comparable to that for corporate and asset-backed issuances described above.

Loan price equivalent: Where market prices are not available for a traded loan, fair value is measured by comparison with observable pricing data for similar instruments. Factors considered when selecting comparable instruments include industry segment, collateral quality, maturity and issuer-specific covenants. Fair value may be measured either by a direct price comparison or by conversion of an instrument price into a yield. The range of 65–100 points represents the range of prices derived from reference issuances of a similar credit quality used in measuring fair value for loans classified as Level 3. Loans priced at 0 are distressed to the point that no recovery is expected, while a current price of 100 represents a loan that is expected to be repaid in full. The weighted average is approximately 93 points.

Credit spread: Valuation models for many credit derivatives require an input for the credit spread, which is a reflection of the credit quality of the associated referenced underlying. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either US Treasury or LIBOR, and is generally expressed in terms of basis points. An increase/(decrease) in credit spread will increase/(decrease) the value of credit protection offered by CDS and other credit derivative products. The income statement impact from such changes depends on the nature and direction of the positions held. Credit spreads may be negative where the asset is more creditworthy than the benchmark against which the spread is calculated. A wider credit spread represents decreasing creditworthiness. The ranges of 30–252 basis points in loans and 1–1163 basis points in credit derivatives represents a diverse set of underlyings, with the lower end of the range representing credits of the highest quality (e.g., approximating the risk of LIBOR) and the upper end of the range representing greater levels of credit risk.

Constant prepayment rate: A prepayment rate represents the amount of unscheduled principal repayment for a pool of loans. The prepayment estimate is based on a number of factors, such as historical prepayment rates for repaid and existing loans with similar characteristics and the future economic outlook, considering factors including, but not limited to, future interest rates. In general, a significant increase/(decrease) in this unobservable input in isolation would result in a significantly higher/(lower) fair value for bonds trading at a discount. For bonds trading at a premium the reverse would apply, with a decrease in fair value when the constant prepayment rate increases. However, in certain cases the effect of a change in prepayment speed on instrument price is more complicated and depends on both the precise terms of the securitization and the position of the instrument within the securitization capital structure.

For asset-backed securities, the range of 0–18% represents inputs across various classes of asset-backed securities. Securities with an input of 0% typically reflect no current prepayment behavior with respect to the underlying collateral, and with no expectation of this changing in the immediate future, while the high range of 18% relates to securities that are currently experiencing high prepayments. Different classes of asset-backed securities typically show different ranges of prepayment characteristics depending on a combination of factors, including the borrowers' ability to refinance, prevailing refinancing rates, and the quality or characteristics of the underlying loan collateral pools. The weighted average constant prepayment rate for the portfolio is 5.0%.

For credit derivatives, the range of 0–15% represents the input assumption for credit derivatives on asset-backed securities. The range is driven in a similar manner to that for asset-backed securities.

For interest rate contracts, the range of 0–3% represents the prepayment assumptions on securitizations underlying the BGS portfolio.

Constant default rate (CDR): The CDR represents the percentage of outstanding principal balances in the pool that are projected to default and liquidate and is the annualized rate of default for a group of mortgages or loans. The CDR estimate is based on a number of factors, such as collateral delinquency rates in the pool and the future economic outlook. In general, a significant increase/(decrease) in this unobservable input in isolation would result in significantly lower/(higher) cash flows for the deal (and thus lower/(higher) valuations). However, different instruments within the capital structure can react differently to changes in the CDR rate. Generally, subordinated bonds will decrease in value as CDR increases, but for well protected senior bonds an increase in CDR may cause an increase in price. In addition, the presence of a guarantor wrap on the collateral pool of a security may result in notes at the junior end of the capital structure experiencing a price increase with an increase in the default rate.

The range of 0–9% for credit derivatives represents the expected default percentage across the individual instruments' underlying collateral pools.

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

Loss severity is ultimately driven by the value recoverable from collateral held after foreclosure occurs relative to the loan principal and possibly unpaid interest accrued at that point. For credit derivatives, the loss severity range of 0–100% applies to derivatives on asset-backed securities. The recovery rate range of 0–95% represents a wide range of expected recovery levels on credit derivative contracts within the Level 3 portfolio.

Discount margin (DM) spread: The DM spread represents the discount rates used to present value cash flows of an asset to reflect the market return required for uncertainty in the estimated cash flows. DM spreads are a rate or rates applied on top of a floating index (e.g., LIBOR) to discount expected cash flows. Generally, a decrease/(increase) in the unobservable input in isolation would result in a significantly higher/(lower) fair value.

The different ranges represent the different discount rates across loans (1–14%), asset-backed securities (0–12%) and credit derivatives (1–72%). The high end of the range relates to securities that are priced very low within the market relative to the expected cash flow schedule. This indicates that the market is pricing an increased risk of credit loss into the security that is greater than what is being captured by the expected cash flow generation process. The low ends of the ranges are typical of funding rates on better quality instruments. For asset-backed securities the weighted average DM is 2.7% and for loans the average effective DM is 2.4%.

Equity dividend yields: The derivation of a forward price for an individual stock or index is important for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price is based on a combination of expected future dividend levels and payment timings, and, to a lesser extent, the relevant funding rates applicable to the stock in question. Dividend yields are generally expressed as an annualized percentage of the share price with the lowest limit of 0% representing a stock that is not expected to pay any dividend. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price. The range of 0–57% reflects the expected range of dividend rates for the portfolio.

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

Note 24 Fair value measurement (continued)

- Volatility of interest rates – the range of 16–130% reflects the range of unobservable volatilities across different currencies and related underlying interest rate levels. Volatilities of low interest rates tend to be much higher than volatilities of high interest rates. In addition, different currencies may have significantly different implied volatilities.
- Volatility of equity stocks, equity and other indices – the range of 1–143% reflects the range of underlying stock volatilities.

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

- Rate-to-rate correlation – the correlation between interest rates of two separate currencies. The range of 84–94% results from the different pairs of currency involved.
- Intra-curve correlation – the correlation between different tenor points of the same yield curve. Correlations are typically fairly high, as reflected by the range of 36–94%.
- Credit index correlation of 10–85% reflects the implied correlation derived from different indices across different parts of the benchmark index capital structure. The input is particularly important for bespoke and Level 3 index tranches.
- Credit pair correlation is particularly important for first to default credit structures. The range of 57–94% reflects the difference between credits with low correlation and similar highly correlated credits.
- Rate-to-FX correlation – captures the correlation between interest rates and FX rates. The range for the portfolio is (57)–60%, which represents the relationship between interest rates and foreign exchange levels. The signage on such correlations depends on the quotation basis of the underlying FX rate (e.g., EUR/USD and USD/EUR correlations to the same interest rate will have opposite signs).
- FX-to-FX correlation is particularly important for complex options that incorporate different FX rates in the projected payoff. The range of (70)–80% reflects the underlying characteristics across the main FX pairs to which UBS AG has exposure.
- Equity-to-FX correlation is important for equity options based on a currency different than the currency of the underlying stock. The range of (44)–82% represents the range of the relationship between underlying stock and foreign exchange volatilities.
- Equity-to-equity correlation is particularly important for complex options that incorporate, in some manner, different equities in the projected payoff. The closer the correlation is to 100%, the more related one equity is to another. For example, equities with a very high correlation could be from different parts of the same corporate structure. The range of 3–99% reflects this.

Funding spread: Structured financing transactions are valued using synthetic funding curves that best represent the assets that are pledged as collateral for the transactions. They are not representative of where UBS AG can fund itself on an unsecured basis, but provide an estimate of where UBS AG can source and deploy secured funding with counterparties for a given type of collateral. The funding spreads are expressed in terms of basis points over or under LIBOR, and if funding spreads widen this increases the impact of discounting. The range of 18–183 basis points for both structured repurchase agreements and structured reverse repurchase agreements represents the range of asset funding curves, where wider spreads are due to a reduction in liquidity of underlying collateral for funding purposes.

A small proportion of structured debt instruments and non-structured fixed-rate bonds within financial liabilities designated at fair value had an exposure to funding spreads that was longer in duration than the actively traded market. Such positions are within the range of 18–183 basis points reported above.

Upfront price points: These are a component in the price quotation of credit derivative contracts, whereby the overall fair value price level is split between the credit spread (as described above) and a component that is quoted and settled upfront on transacting a new contract. This latter component is referred to as upfront price points and represents the difference between the credit spread paid as protection premium on a current contract versus a small number of standard contracts defined by the market. Distressed credit names frequently trade and quote CDS protection only in upfront points rather than as a running credit spread. An increase/(decrease) in upfront points will increase/(decrease) the value of credit protection offered by CDS and other credit derivative products. The effect of increases or decreases in upfront price points depends on the nature and direction of the positions held. Upfront price points may be negative where a contract is quoting for a narrower premium than the market standard, but are generally positive, reflecting an increase in credit premium required by the market as creditworthiness deteriorates. The range of 8–25% within the table represents the variety of current market credit spread levels relative to the benchmarks used as a quotation basis. Upfront points of 25% represent a distressed credit.

Note 24 Fair value measurement (continued)

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

The table below summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof. As of 31 December 2015, the total favorable and unfavorable effects of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions for financial instruments classified as Level 3 were CHF 0.8 billion and CHF 0.6 billion, respectively (31 December 2014: CHF 1.0 billion and CHF 0.8 billion, respectively).

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

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

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

Sensitivity of fair value measurements to changes in unobservable input assumptions

	31.12.15		31.12.14	
CHF million	Favorable changes[1]	Unfavorable changes[1]	Favorable changes[1]	Unfavorable changes[1]
Government bills / bonds	0	(1)	10	(1)
Corporate bonds and municipal bonds, including bonds issued by financial institutions	24	(25)	33	(41)
Traded loans, loans designated at fair value, loan commitments and guarantees	88	(28)	103	(63)
Asset-backed securities	7	(6)	16	(12)
Equity instruments	166	(74)	105	(42)
Interest rate derivative contracts, net	107	(67)	106	(58)
Credit derivative contracts, net	174	(196)	248	(277)
Foreign exchange derivative contracts, net	33	(28)	35	(32)
Equity / index derivative contracts, net	61	(57)	82	(83)
Structured debt instruments issued and non-structured fixed-rate bonds	136	(146)	202	(199)
Other	14	(13)	23	(17)
Total	**809**	**(640)**	965	(824)

1 Of the total favorable changes, CHF 164 million as of 31 December 2015 (31 December 2014: CHF 116 million) related to financial investments available-for-sale. Of the total unfavorable changes, CHF 71 million as of 31 December 2015 (31 December 2014: CHF 56 million) related to financial investments available-for-sale.

Note 24 Fair value measurement (continued)

j) Financial instruments not measured at fair value

The table below provides the estimated fair values of financial instruments not measured at fair value.

Financial instruments not measured at fair value

	31.12.15					31.12.14				
	Carrying value	Fair value				Carrying value	Fair value			
CHF billion	Total	Total	Level 1	Level 2	Level 3	Total	Total	Level 1	Level 2	Level 3
Assets										
Cash and balances with central banks	91.3	91.3	91.3	0.0	0.0	104.1	104.1	104.1	0.0	0.0
Due from banks	11.9	11.9	11.4	0.5	0.0	13.3	13.3	12.6	0.7	0.0
Cash collateral on securities borrowed	25.6	25.6	0.0	25.6	0.0	24.1	24.1	0.0	24.1	0.0
Reverse repurchase agreements	67.9	67.9	0.0	65.8	2.1	68.4	68.4	0.0	66.5	2.0
Cash collateral receivables on derivative instruments	23.8	23.8	0.0	23.8	0.0	31.0	31.0	0.0	31.0	0.0
Loans	312.7	314.9	0.0	170.9	143.9	316.0	318.6	0.0	186.6	131.9
Other assets	20.1	20.1	0.0	20.1	0.0	21.3	21.2	0.0	21.2	0.0
Liabilities										
Due to banks	11.8	11.8	10.4	1.4	0.0	10.5	10.5	9.6	0.9	0.0
Cash collateral on securities lent	8.0	8.0	0.0	8.0	0.0	9.2	9.2	0.0	9.2	0.0
Repurchase agreements	9.7	9.7	0.0	9.6	0.0	11.8	11.8	0.0	11.6	0.2
Cash collateral payables on derivative instruments	38.3	38.3	0.0	38.3	0.0	42.4	42.4	0.0	42.4	0.0
Due to customers	402.5	402.8	0.0	402.8	0.0	411.0	411.0	0.0	411.0	0.0
Debt issued	82.2	84.4	0.0	78.4	6.0	91.2	94.3	0.0	88.5	5.8
Other liabilities	52.1	52.1	0.0	52.1	0.0	46.0	46.0	0.0	46.0	0.0
Guarantees / Loan commitments										
Guarantees [1]	0.0	(0.1)	0.0	0.0	(0.1)	0.0	(0.1)	0.0	0.0	(0.1)
Loan commitments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

1 The carrying value of guarantees represented a liability of CHF 0.0 billion as of 31 December 2015 (31 December 2014: CHF 0.0 billion). The estimated fair value of guarantees represented an asset of CHF 0.1 billion as of 31 December 2015 (31 December 2014: CHF 0.1 billion).

Note 24 Fair value measurement (continued)

The fair values included in the table on the previous page were calculated for disclosure purposes only. The fair value valuation techniques and assumptions described below relate only to the fair value of UBS AG's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another. The following principles were applied when determining fair value estimates for financial instruments not measured at fair value:

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, if available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit risk or UBS AG's own credit.
- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value. The following financial instruments not measured at fair value had remaining maturities of three months or less as of 31 December 2015: 100% of cash and balances with central banks, 96% of amounts due from banks, 100% of cash collateral on securities borrowed, 87% of reverse repurchase agreements, 100% of cash collateral receivables on derivatives, 52% of loans, 88% of amounts due to banks, 87% of cash collateral on securities lent, 96% of repurchase agreements, 100% of cash collateral payable on derivatives, 96% of amount due to customers and 18% of debt issued.
- The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments have not been included in the valuation due to the short-term nature of these instruments.
- The estimated fair values of off-balance sheet financial instruments are based on market prices for similar facilities and guarantees. Where this information is not available, fair value is estimated using discounted cash flow analysis.

Note 25 Restricted and transferred financial assets

This Note provides information on restricted financial assets (Note 25a), transfers of financial assets (Note 25b and 25c) and financial assets which are received as collateral with the right to resell or repledge these assets (Note 25d).

a) Restricted financial assets

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

Financial assets are mainly pledged as collateral in securities lending transactions, in repurchase transactions, against loans from Swiss mortgage institutions and in connection with the issuance of covered bonds. UBS AG generally enters into repurchase and securities lending arrangements under standard market agreements, with a market-based haircut applied to the collateral, which results in the associated liabilities having a carrying value below the carrying value of the assets. Pledged mortgage loans serve as collateral for existing liabilities against Swiss central mortgage institutions and for existing covered bond issuances of CHF 16,727 million as of 31 December 2015 (31 December 2014: CHF 21,644 million).

Other restricted financial assets include assets protected under client asset segregation rules, assets held by UBS AG's insurance entities to back related liabilities to the policy holders, assets held in certain jurisdictions to comply with explicit minimum local asset maintenance requirements and assets held in consolidated bankruptcy remote entities such as certain investment funds and other structured entities. The carrying value of the liabilities associated with these other restricted financial assets is generally equal to the carrying value of the assets, with the exception of assets held to comply with local asset maintenance requirements for which the associated liabilities are greater.

UBS AG and its subsidiaries are generally not subject to significant restrictions that would prevent the transfer of dividends and capital between UBS AG and its subsidiaries. However, certain regulated subsidiaries are required to maintain capital and/or liquidity to comply with local regulations and may be subject to prudential limitations by regulators that limit the amount of funds that they can distribute or otherwise transfer. Non-regulated subsidiaries are generally not subject to such requirements and transfer restrictions. However, restrictions can also be the result of different legal, regulatory, contractual, entity or country-specific arrangements and/or requirements.

Restricted financial assets

CHF million	**31.12.15**	31.12.14
Financial assets pledged as collateral		
Trading portfolio assets	**57,024**	61,304
of which: assets pledged as collateral which may be sold or repledged by counterparties	***51,943***	*56,018*
Loans	**24,980**	27,973
of which: mortgage loans[1]	***24,980***	*27,973*
Financial investments available-for-sale	**632**	2,868
of which: assets pledged as collateral which may be sold or repledged by counterparties	***6***	*2,662*
Total financial assets pledged as collateral[2]	**82,636**	92,144
Other restricted financial assets		
Due from banks	**3,285**	3,511
Reverse repurchase agreements	**1,099**	1,896
Trading portfolio assets	**24,388**	25,567
Cash collateral receivables on derivative instruments	**7,104**	6,135
Financial investments available-for-sale	**502**	1,209
Other	**480**	679
Total other restricted financial assets	**36,858**	38,997
Total financial assets pledged and other restricted financial assets	**119,494**	131,142

1 These pledged mortgage loans serve as collateral for existing liabilities against Swiss central mortgage institutions and for existing covered bond issuances. Of these pledged mortgage loans, approximately CHF 4.4 billion for 31 December 2015 (31 December 2014: approximately CHF 4.5 billion) could be withdrawn or used for future liabilities or covered bond issuances without breaching existing collateral requirements. 2 Does not include assets placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes (31 December 2015: CHF 4.9 billion, 31 December 2014: CHF 6.1 billion).

Note 25 Restricted and transferred financial assets (continued)

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

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

Transferred financial assets subject to continued recognition in full

CHF million	31.12.15		31.12.14	
	Carrying value of transferred assets	Carrying value of associated liabilities recognized on-balance sheet	Carrying value of transferred assets	Carrying value of associated liabilities recognized on-balance sheet
Trading portfolio assets transferred which may be sold or repledged by counterparties	51,943	13,146	56,018	18,289
relating to securities lending and repurchase agreements in exchange for cash received	*13,406*	*13,146*	*19,366*	*18,147*
relating to securities lending agreements in exchange for securities received	*37,097*	*0*	*35,557*	*0*
relating to other financial asset transfers	*1,440*	*0*	*1,095*	*142*
Financial investments available-for-sale transferred which may be sold or repledged by counterparties	6	6	2,662	2,584
Total financial assets transferred	**51,950**	**13,152**	**58,680**	**20,873**

Transactions in which financial assets are transferred, but continue to be recognized in their entirety on UBS AG's balance sheet include securities lending and repurchase agreements as well as other financial asset transfers. Repurchase and securities lending arrangements are, for the most part, conducted under standard market agreements, and are undertaken with counterparties subject to UBS AG's normal credit risk control processes.

➔ **Refer to Note 1a items 13 and 14 for more information on repurchase agreements and securities lending agreements**

As of 31 December 2015, approximately a quarter of the transferred financial assets were trading portfolio assets transferred in exchange for cash, in which case the associated recognized liability represents the amount to be repaid to counterparties. For securities lending and repurchase agreements, a haircut between 0% and 15% is generally applied to the collateral, which results in associated liabilities having a carrying value below the carrying value of the transferred assets. The counterparties to the associated liabilities presented in the table above have full recourse to UBS AG.

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

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

Transferred assets other than trading portfolio assets and financial investments available-for-sale which may be sold or repledged by counterparties were not material as of 31 December 2015 and as of 31 December 2014.

Transferred financial assets that are not subject to derecognition in full, but which remain on the balance sheet to the extent of UBS AG's continuing involvement, were not material as of 31 December 2015 and as of 31 December 2014.

Note 25 Restricted and transferred financial assets (continued)

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

Continuing involvement in a transferred and fully derecognized financial asset may result from contractual provisions in the transfer agreement or in a separate agreement with the counterparty or a third party entered into in connection with the transfer. The table below provides information on UBS AG's continuing involvement in transferred and fully derecognized financial assets.

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

CHF million	31.12.15					
					Gain / (loss) from continuing involvement in transferred and derecognized financial assets	
	Balance sheet line item	Carrying amount of continuing involvement	Fair value of continuing involvement	Gain / (loss) recognized at the date of transfer of the financial assets[2]	For the year ended 31.12.15	Life-to-date 31.12.15
Type of continuing involvement						
Purchased and retained interest in securitization structures	Trading portfolio assets/ Replacement values[1]	15	15	8	16	(1,566)
Total		15	15	8	16	(1,566)

CHF million	31.12.14					
					Gain / (loss) from continuing involvement in transferred and derecognized financial assets	
	Balance sheet line item	Carrying amount of continuing involvement	Fair value of continuing involvement	Gain / (loss) recognized at the date of transfer of the financial assets	For the year ended 31.12.14	Life-to-date 31.12.14
Type of continuing involvement						
Purchased and retained interest in securitization structures	Trading portfolio assets/ Replacement values[1]	(22)	(22)	22	13	(1,582)
Total		(22)	(22)	22	13	(1,582)

1 As of 31 December 2015, total purchased and retained interest in securitization structures consisted of trading portfolio assets of CHF 37 million and negative replacement values of CHF 22 million. As of 31 December 2014, total purchased and retained interest in securitization structures consisted of trading portfolio assets of CHF 29 million and negative replacement values of CHF 51 million. 2 Represents gains / (losses) recognized on the date of transfer during the respective reporting period.

Purchased and retained interests in securitization vehicles

In cases where UBS AG has transferred assets into securitization vehicles and retained or purchased interests therein, UBS AG has a continuing involvement in those transferred assets. The majority of the retained continuing involvement securitization positions held in the trading portfolio are collateralized debt obligations, US commercial mortgage-backed securities and residential mortgage-backed securities. As a result of losses incurred in previous years, the majority of these continuing involvement positions had a carrying amount of zero as of 31 December 2015. As of 31 December 2015, the maximum exposure to loss related to purchased and retained interests in securitization structures was CHF 55 million compared with CHF 48 million as of 31 December 2014, both mainly related to trading portfolio assets. Undiscounted cash outflows of CHF 41 million may be payable to the transferee in future periods as a consequence of holding the purchased and retained interests. The earliest period in which payment may be required is less than one month. Life-to-date losses presented in the table above only relate to retained interests held as of 31 December 2015.

Note 25 Restricted and transferred financial assets (continued)

d) Off-balance-sheet assets received

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

Off-balance-sheet assets received

CHF million	**31.12.15**	31.12.14
Fair value of assets received which can be sold or repledged	**401,511**	388,855
received as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions[1]	***393,839***	*383,354*
received in unsecured borrowings	***7,672***	*5,502*
thereof sold or repledged[2]	**286,757**	271,963
in connection with financing activities	***241,992***	*227,515*
to satisfy commitments under short sale transactions	***29,137***	*27,958*
in connection with derivative and other transactions[1]	***15,628***	*16,491*

1 Includes securities received as initial margin from its clients that UBS AG is required to remit to CCPs, brokers and deposit banks through its exchange-traded derivative (ETD) clearing and execution services. 2 Does not include off-balance sheet securities (31 December 2015: CHF 47.3 billion, 31 December 2014: CHF 37.6 billion) placed with central banks related to undrawn credit lines and for payment, clearing and settlement purposes for which there are no associated liabilities or contingent liabilities.

Note 26 Offsetting financial assets and financial liabilities

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

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

UBS AG engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Therefore, the net amounts presented in the tables on the next pages do not purport to represent UBS AG's actual credit exposure.

Note 26 Offsetting financial assets and financial liabilities (continued)

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

	31.12.15								
	Assets subject to netting arrangements								
	Netting recognized on the balance sheet			Netting potential not recognized on the balance sheet[3]			Assets not subject to netting arrangements[4]	Total assets	
CHF billion	Gross assets before netting	Netting with gross liabilities[2]	Net assets recognized on the balance sheet	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets recognized on the balance sheet	Total assets after consideration of netting potential	Total assets recognized on the balance sheet
Cash collateral on securities borrowed	23.9	0.0	23.9	(3.1)	(20.9)	0.0	1.6	1.6	25.6
Reverse repurchase agreements	117.9	(62.1)	55.8	(4.4)	(51.4)	0.0	12.1	12.1	67.9
Positive replacement values	161.9	(2.5)	159.3	(123.0)	(25.5)	10.8	8.1	18.9	167.4
Cash collateral receivables on derivative instruments[1]	85.9	(66.3)	19.6	(10.9)	(1.5)	7.2	4.1	11.3	23.8
Financial assets designated at fair value	2.4	0.0	2.4	0.0	(1.8)	0.6	3.4	4.0	5.8
Total assets	**392.1**	**(131.0)**	**261.1**	**(141.3)**	**(101.1)**	**18.7**	**29.3**	**48.0**	**290.5**

	31.12.14								
	Assets subject to netting arrangements								
	Netting recognized on the balance sheet			Netting potential not recognized on the balance sheet[3]			Assets not subject to netting arrangements[4]	Total assets	
CHF billion	Gross assets before netting	Netting with gross liabilities[2]	Net assets recognized on the balance sheet	Financial liabilities	Collateral received	Assets after consideration of netting potential	Assets recognized on the balance sheet	Total assets after consideration of netting potential	Total assets recognized on the balance sheet
Cash collateral on securities borrowed	22.7	0.0	22.7	(1.9)	(20.8)	0.0	1.4	1.4	24.1
Reverse repurchase agreements	99.2	(42.8)	56.4	(3.4)	(52.8)	0.1	12.1	12.2	68.4
Positive replacement values	249.9	(3.1)	246.8	(198.7)	(30.8)	17.3	10.1	27.4	257.0
Cash collateral receivables on derivative instruments[1]	245.7	(218.4)	27.4	(18.8)	(1.6)	7.0	3.6	10.6	31.0
Financial assets designated at fair value	3.1	0.0	3.1	0.0	(3.0)	0.1	1.4	1.5	4.5
Total assets	**620.5**	**(264.2)**	**356.3**	**(222.9)**	**(108.9)**	**24.5**	**28.6**	**53.1**	**384.9**

1 The net amount of Cash collateral receivables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32, and ETD which are economically settled on a daily basis. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral pledged, reflected on the Negative replacement values line in the table presented on the following page. 2 The logic of the table results in amounts presented in the "Netting with gross liabilities" column corresponding directly to the amounts presented in the "Netting with gross assets" column in the liabilities table presented on the following page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral presented have been capped by the relevant netting agreement so as not to exceed the net amount of financial assets presented on the balance sheet; i.e., over-collateralization, where it exists, is not reflected in the table. 4 Includes assets not subject to enforceable netting arrangements and other out-of-scope items.

Note 26 Offsetting financial assets and financial liabilities (continued)

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

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

	31.12.15								
	Liabilities subject to netting arrangements						Liabilities not subject to netting arrangements[4]	Total liabilities	
	Netting recognized on the balance sheet			Netting potential not recognized on the balance sheet[3]					
CHF billion	Gross liabilities before netting	Netting with gross assets[2]	Net liabilities recognized on the balance sheet	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities recognized on the balance sheet	Total liabilities after consideration of netting potential	Total liabilities recognized on the balance sheet
Cash collateral on securities lent	7.9	0.0	7.9	(3.1)	(4.8)	0.0	0.1	0.1	8.0
Repurchase agreements	69.0	(62.1)	6.9	(4.4)	(2.5)	0.0	2.8	2.8	9.7
Negative replacement values	154.2	(2.5)	151.7	(123.0)	(17.4)	11.3	10.7	22.1	162.4
Cash collateral payables on derivative instruments[1]	99.9	(66.3)	33.6	(19.0)	(2.5)	12.1	4.7	16.8	38.3
Financial liabilities designated at fair value	3.9	0.0	3.9	0.0	(0.7)	3.1	59.1	62.3	63.0
Total liabilities	334.9	(131.0)	203.9	(149.4)	(28.0)	26.5	77.4	104.0	281.4

	31.12.14								
	Liabilities subject to netting arrangements						Liabilities not subject to netting arrangements[4]	Total liabilities	
	Netting recognized on the balance sheet			Netting potential not recognized on the balance sheet[3]					
CHF billion	Gross liabilities before netting	Netting with gross assets[2]	Net liabilities recognized on the balance sheet	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	Liabilities recognized on the balance sheet	Total liabilities after consideration of netting potential	Total liabilities recognized on the balance sheet
Cash collateral on securities lent	8.4	0.0	8.4	(1.9)	(6.5)	0.0	0.7	0.8	9.2
Repurchase agreements	51.5	(42.8)	8.7	(3.4)	(5.2)	0.0	3.2	3.2	11.8
Negative replacement values	243.3	(3.1)	240.2	(198.7)	(21.8)	19.7	13.9	33.5	254.1
Cash collateral payables on derivative instruments[1]	256.1	(218.4)	37.7	(25.1)	(2.3)	10.3	4.6	14.9	42.4
Financial liabilities designated at fair value	3.8	0.0	3.8	0.0	(1.4)	2.4	71.5	73.9	75.3
Total liabilities	563.1	(264.2)	298.8	(229.2)	(37.3)	32.4	93.9	126.3	392.8

1 The net amount of Cash collateral payables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32, and ETD which are economically settled on a daily basis. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral received, reflected on the Positive replacement values line in the table presented on the previous page. 2 The logic of the table results in amounts presented in the "Netting with gross assets" column corresponding directly to the amounts presented in the "Netting with gross liabilities" column in the assets table presented on the previous page. 3 For the purpose of this disclosure, the amounts of financial instruments and cash collateral presented have been capped by the relevant netting agreement so as not to exceed the net amount of financial liabilities presented on the balance sheet; i.e., over-collateralization, where it exists, is not reflected in the table. 4 Includes liabilities not subject to enforceable netting arrangements and other out-of-scope items.

Note 27 Financial assets and liabilities – additional information

a) Measurement categories of financial assets and liabilities

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

➔ **Refer to Note 24 for more information on how the fair value of financial instruments is determined**

Measurement categories of financial assets and financial liabilities

CHF million	31.12.15	31.12.14
Financial assets[1]		
Held for trading		
Trading portfolio assets	120,405	132,392
of which: assets pledged as collateral which may be sold or repledged by counterparties	*51,943*	*56,018*
Debt issued[2]	106	283
Positive replacement values	167,435	256,978
Total	287,946	389,653
Fair value through profit or loss		
Financial assets designated at fair value	5,808	4,493
Financial assets at amortized cost		
Cash and balances with central banks	91,306	104,073
Due from banks	11,866	13,334
Cash collateral on securities borrowed	25,584	24,063
Reverse repurchase agreements	67,893	68,414
Cash collateral receivables on derivative instruments	23,763	30,979
Loans[3]	312,723	315,984
Other assets	20,139	21,332
Total	553,275	578,179
Available-for-sale		
Financial investments available-for-sale	62,543	57,159
Total financial assets	909,572	1,029,483
Financial liabilities		
Held for trading		
Trading portfolio liabilities	29,137	27,958
Debt issued[2]	236	308
Negative replacement values	162,430	254,101
Total	191,803	282,367
Fair value through profit or loss, other		
Financial liabilities designated at fair value	62,995	75,297
Amounts due under unit-linked investment contracts	15,718	17,643
Total	78,713	92,940
Financial liabilities at amortized cost		
Due to banks	11,836	10,492
Cash collateral on securities lent	8,029	9,180
Repurchase agreements	9,653	11,818
Cash collateral payables on derivative instruments	38,282	42,372
Due to customers	402,522	410,979
Debt issued	82,230	91,183
Other liabilities	52,065	46,013
Total	604,617	622,036
Total financial liabilities	875,133	997,343

1 As of 31 December 2015, CHF 123 billion of Loans, CHF 0 billion of Due from banks, CHF 1 billion of Reverse repurchase agreements, CHF 30 billion of Financial investments available-for-sale and CHF 3 billion of Financial assets designated at fair value are expected to be recovered or settled after 12 months. As of 31 December 2014, CHF 119 billion of Loans, CHF 0 billion of Due from banks, CHF 1 billion of Reverse repurchase agreements, CHF 35 billion of Financial investments available-for-sale and CHF 4 billion of Financial assets designated at fair value are expected to be recovered or settled after 12 months. 2 Represents the embedded derivative component of structured debt issued for which the fair value option has not been applied and which is presented within Debt issued on the balance sheet. 3 Includes finance lease receivables of CHF 1.1 billion as of 31 December 2015 (31 December 2014: CHF 1.1 billion). Refer to Notes 10 and 33 for more information.

Note 27 Financial assets and liabilities – additional information (continued)

b) Maturity analysis of financial liabilities

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

Maturity analysis of financial liabilities[1]

CHF billion	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Financial liabilities recognized on balance sheet[2]						
Due to banks	8.1	2.4	1.1	0.3	0.0	11.8
Cash collateral on securities lent	5.7	1.3	1.0			8.0
Repurchase agreements	7.9	1.4	0.2	0.1	0.2	9.7
Trading portfolio liabilities[3,4]	29.1					29.1
Negative replacement values[3]	162.4					162.4
Cash collateral payables on derivative instruments	38.3					38.3
Financial liabilities designated at fair value[5]	15.2	15.9	13.1	11.9	12.0	68.1
Due to customers	373.3	13.4	4.8	4.1	9.7	405.3
Debt issued	5.7	9.9	16.3	36.6	22.7	91.2
Other liabilities	66.7					66.7
Total 31.12.15	**712.5**	**44.3**	**36.4**	**53.0**	**44.6**	**890.7**
Total 31.12.14	812.3	48.4	39.4	60.9	49.8	1,010.9
Guarantees, commitments and forward starting transactions[6]						
Loan commitments	55.7	0.2	0.2	0.0		56.1
Guarantees	15.9	0.0	0.0	0.1	0.0	16.0
Forward starting transactions						
Reverse repurchase agreements	6.6					6.6
Securities borrowing agreements	0.0					0.0
Total 31.12.15	**78.1**	**0.2**	**0.2**	**0.1**	**0.0**	**78.7**
Total 31.12.14	78.3	0.1	0.2	0.2	0.0	78.8

1 Non-financial liabilities such as deferred income, deferred tax liabilities, provisions and liabilities on employee compensation plans are not included in this analysis. 2 Except for trading portfolio liabilities and negative replacement values (see footnote 3), the amounts presented generally represent undiscounted cash flows of future interest and principal payments. 3 Carrying value is fair value. Management believes that this best represents the cash flows that would have to be paid if these positions had to be settled or closed out. Refer to Note 14 for undiscounted cash flows of derivatives designated in hedge accounting relationships. 4 Contractual maturities of trading portfolio liabilities are: CHF 27.2 billion due within one month (2014: CHF 26.7 billion), CHF 1.2 billion due between one month and one year (2014: CHF 1.3 billion), and CHF 0.8 billion due between 1 and 5 years (2014: CHF 0 billion). 5 Future interest payments on variable rate liabilities are determined by reference to the applicable interest rate prevailing as of the reporting date. Future principal payments which are variable are determined by reference to the conditions existing at the reporting date. 6 Comprises the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

Note 27 Financial assets and liabilities – additional information (continued)

c) Reclassification of financial assets

In 2008 and 2009, certain financial assets were reclassified from *Trading portfolio assets* to *Loans*. On their reclassification date, these assets had fair values of CHF 26 billion and CHF 0.6 billion, respectively.

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

As of 31 December 2015, the carrying value of the remaining reclassified financial assets, which were entirely comprised of municipal auction rate securities, was CHF 0.2 billion (31 December 2014: CHF 0.7 billion), which was equal to the fair value of these assets.

The overall impact on operating profit before tax from reclassifed financial assets for the year ended 31 December 2015 was a profit of CHF 23 million (2014: CHF 84 million). If the financial assets had not been reclassified, the impact on operating profit before tax for the year ended 31 December 2015 would have been a profit of less than CHF 10 million.

d) Maximum exposure to credit risk of financial assets designated at fair value

Financial assets designated at fair value totaled CHF 5,808 million as of 31 December 2015 (31 December 2014: CHF 4,493 million). Maximum exposure to credit risk from financial assets designated at fair value was CHF 5.6 billion as of 31 December 2015 (31 December 2014: CHF 4.3 billion). The exposure related to structured loans and reverse repurchase and securities borrowing agreements was mitigated by securities collateral of CHF 3.5 billion as of 31 December 2015 (31 December 2014: CHF 3.3 billion).

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

Investment fund units designated at fair value do not have a direct exposure to credit risk.

➔ Refer to Note 24 for more information on financial assets designated at fair value, and to "Maximum exposure to credit risk" in the "Risk management and control" section of this report for more information on collateral related to financial assets designated at fair value

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

CHF million	**31.12.15**	31.12.14
Loans – notional amount	**687**	667
Credit derivatives related to loans – notional amount[1]	**630**	644
Credit derivatives related to loans – fair value[1]	**4**	1

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

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

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

	For the year ended		Cumulative from inception until the year ended	
CHF million	**31.12.15**	31.12.14	**31.12.15**	31.12.14
Changes in fair value of loans designated at fair value, attributable to changes in credit risk[1]	**(3)**	(3)	**(4)**	(2)
Changes in fair value of credit derivatives and similar instruments which mitigate the maximum exposure to credit risk of loans designated at fair value[1]	**3**	3	**4**	1

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

Note 28 Pension and other post-employment benefit plans

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

Income statement – expenses related to pension and other post-employment benefit plans

CHF million	31.12.15	31.12.14	31.12.13
Net periodic pension cost for defined benefit plans	569	467	651
of which: related to major pension plans[1]	*546*	*508*	*638*
of which: Swiss plan	*515*	*458*	*555*
of which: UK plan	*18*	*17*	*24*
of which: other plans	*12*	*33*	*58*
of which: related to post-retirement medical and life insurance plans[2]	*4*	*(36)*	*(11)*
of which: UK plan	*1*	*2*	*2*
of which: US plans	*2*	*(37)*	*(12)*
of which: related to remaining plans and other costs[3]	*19*	*(5)*	*24*
Pension cost for defined contribution plans[4]	239	244	236
of which: UK	*86*	*91*	*91*
of which: US	*100*	*91*	*91*
of which: other countries	*53*	*62*	*54*
Total pension and other post-employment benefit plan expenses[5]	**808**	711	887

1 Refer to Note 28a for more information. 2 Refer to Note 28b for more information. 3 Other costs include differences between actual and estimated performance award accruals and net accrued pension costs related to restructuring. 4 Refer to Note 28c for more information. 5 Refer to Note 6.

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

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

CHF million	31.12.15	31.12.14	31.12.13
Major pension plans[1]	339	(1,456)	1,168
of which: Swiss plan	*58*	*(1,032)*	*1,119*
of which: UK plan	*317*	*(168)*	*(65)*
of which: other plans	*(35)*	*(256)*	*115*
Post-retirement medical and life insurance plans[2]	(3)	(5)	3
of which: UK plan	*6*	*(3)*	*2*
of which: US plans	*(9)*	*(2)*	*1*
Remaining plans	(14)	7	7
Gains / (losses) recognized in other comprehensive income, before tax	322	(1,454)	1,178
Tax (expense) / benefit relating to defined benefit plans recognized in other comprehensive income	(19)	247	(239)
Gains / (losses) recognized in other comprehensive income, net of tax[3]	**303**	(1,208)	939

1 Refer to Note 28a for more information. 2 Refer to Note 28b for more information. 3 Refer to the "Statement of comprehensive income".

Consolidated financial statements

Note 28 Pension and other post-employment benefit plans (continued)

The tables below provide information on UBS AG's assets and liabilities with respect to pension and post-employment benefit plans. These are recognized on the balance sheet within *Other assets* and *Other liabilities*.

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

CHF million	**31.12.15**	31.12.14
Major pension plans[1]	**50**	0
of which: Swiss plan	***0***	*0*
of which: UK plan	***50***	*0*
of which: other plans	***0***	*0*
Post-retirement medical and life insurance plans	**0**	0
of which: UK plan	***0***	*0*
of which: US plans	***0***	*0*
Remaining plans	**0**	0
Total net defined benefit pension and post-employment asset[2]	**50**	0

1 Refer to Note 28a for more information. 2 Refer to Note 18.

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

CHF million	**31.12.15**	31.12.14
Major pension plans[1]	**622**	1,256
of which: Swiss plan	***0***	*25*
of which: UK plan	***0***	*568*
of which: other plans[2]	***622***	*664*
Post-retirement medical and life insurance plans[3]	**84**	85
of which: UK plan	***25***	*32*
of which: US plans	***59***	*53*
Remaining plans	**30**	32
Total net defined benefit pension and post-employment liability[4]	**736**	1,374

1 Refer to Note 28a for more information. 2 Liability consists of: CHF 315 million related to US plans and CHF 307 million related to German plans (31 December 2014: CHF 297 million related to US plans and CHF 367 million related to German plans). 3 Refer to Note 28b for more information. 4 Refer to Note 23.

a) Defined benefit pension plans

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

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

The defined benefit obligation for all of UBS AG's defined benefit pension plans is directly impacted by changes in yields of high-quality corporate bonds in the respective country in which the plan is held, as the applicable discount rate used to determine the defined benefit obligation is based on these yields. For the funded plans, the pension assets are invested in a diversified portfolio of financial assets including real estate, bonds, investment funds and cash across geographic regions to ensure a balance of risk and return to the extent allowed under local pension laws. The market value of these financial assets is not fully correlated to changes in high-quality corporate bond yields. This results in volatility in the net asset/liability position for each plan. Specific asset-liability matching strategies for each pension plan are independently determined by the responsible governance body in each country. The net asset/liability volatility for each plan is dependent on the specific financial assets chosen by each plan's fiduciaries. For certain pension plans, a liability-driven investment approach is applied to a portion of the plan assets to reduce potential volatility.

Swiss pension plan

The Swiss pension plan covers employees of UBS AG and employees of companies having close economic or financial ties with UBS AG and exceeds the minimum benefit requirements under Swiss pension law.

Contributions to the pension plan are paid by the employer and the employees. The Swiss pension plan allows employees a choice with regard to the level of contributions paid by them. Employee contributions are calculated as a percentage of the contributory salary and are deducted monthly. The percentages deducted from salary depend on age and choice of contribution category and vary between 1% and 13.5% of contributory base salary and between 0% and 9% of contributory variable compensation. Depending on the age of the employee, UBS AG pays a contribution that ranges between 6.5% and 27.5% of contributory base salary and between 3.6% and 9% of contributory variable compensation. UBS AG also pays risk contributions which are used to finance benefits paid out in the event of death and disability, as well as to finance bridging pensions.

The plan benefits include retirement benefits and disability, death and survivor pensions. The pension plan offers to members at the normal retirement age of 64 a choice between a lifetime pension with or without full restitution and a partial or full lump sum payment. Members can draw early retirement benefits starting from the age of 58. Since 2015, employees have the possibility to make additional purchases of benefits to fund early retirement benefits (Plan 58+).

The payable pension amount is a result of the conversion rate applied on the accumulated balance of the individual plan participant's pension account at the retirement date. The accumulated balance of each individual plan participant's pension account is based on credited vested benefits transferred from previous employers, purchases of benefits and the employee and employer contributions that have been made to the pension account of each individual plan participant, as well as the interest accrued on the accumulated balance. The interest rate accrued is defined annually by the Pension Foundation Board.

Although the Swiss pension plan is based on a defined contribution promise under Swiss pension law, it is accounted for as a defined benefit plan under IAS 19, primarily because of the obligation to accrue interest on the pension accounts and the payment of lifetime pensions. The actuarial assumptions used for the Swiss pension plan are based on the Swiss economic environment.

➔ **Refer to Note 1a item 24 for a description of the accounting policy for defined benefit pension plans**

Note 28 Pension and other post-employment benefit plans (continued)

The Swiss pension plan is governed by the Pension Foundation Board as required by Swiss pension law and the responsibilities of this board are defined by Swiss pension law and by the plan rules. According to Swiss pension law, a temporary limited underfunding is permitted. However, should an underfunded situation occur, the Pension Foundation Board is required to take the necessary measures to ensure that full funding can be expected to be restored within a maximum period of ten years. Under Swiss pension law, if a Swiss pension plan became significantly underfunded on a Swiss pension law basis, then additional employer and employee contributions could be required. In these situations, the risk is shared between employer and employees, and the employer is not legally obliged to cover more than 50% of the additional contributions required. The Swiss pension plan has a technical funding ratio under Swiss pension law of 123.3% as of 31 December 2015 (31 December 2014: 123.7%).

The investment strategy of the Swiss plan is implemented based on a multi-level investment and risk management process and is in line with Swiss pension law, including the rules and regulations relating to diversification of plan assets. These rules, among others, specify restrictions to the composition of plan assets, e.g., there is a limit of 50% for investments in equities. The investment strategy of the Swiss plan is aligned to the defined risk budget set out by the Pension Foundation Board. The risk budget is determined based on regularly performed asset and liability management analyses. In order to implement the risk budget, the Swiss plan may use direct investments, investment funds and derivatives. To mitigate foreign currency risk, a specific currency hedging strategy was implemented. The Pension Foundation Board strives for a medium- and long-term balance between assets and liabilities. Under IAS 19, volatility arises in the Swiss pension plan net asset/liability because the fair value of the plan assets is not directly correlated to movements in the value of the plan's defined benefit obligation in the short-term.

As of 31 December 2015, the Swiss pension plan was in a surplus situation on an International Financial Reporting Standards (IFRS) measurement basis, as the fair value of plan assets exceeded the defined benefit obligation by CHF 1,283 million (31 December 2014: deficit of CHF 25 million). However, a surplus can only be recognized on the balance sheet to the extent that it does not exceed the estimated future economic benefit, which equals the difference between the present value of the estimated future net service cost and the present value of the estimated future employer contributions. The maximum future economic benefit is highly variable based on changes in the discount rate. As of 31 December 2015, the estimated future economic benefit was zero and hence, no net defined benefit asset was recognized on the balance sheet. The difference of CHF 1,283 million between the pension plan surplus and the estimated future economic benefit, the so-called asset ceiling effect, was recognized in other comprehensive income.

The employer contributions expected to be made to the Swiss pension plan in 2016 are estimated to be CHF 474 million.

Non-Swiss pension plans

The non-Swiss locations of UBS AG offer various defined benefit pension plans in accordance with local regulations and practices. The non-Swiss locations with major defined benefit plans are the UK, the US and Germany. Defined benefit pension plans in other locations are not material to the financial results of UBS AG and hence not separately disclosed.

The non-Swiss plans provide benefits in the event of retirement, death or disability. The level of benefits provided depends on the specific rate of benefit accrual and the level of employee compensation. UBS AG's general principle is to ensure that the plans are appropriately funded under local pension regulations in each country and this is the primary driver for determining when additional contributions are required. Similar to the Swiss pension plan, volatility arises in the net asset/liability position of the non-Swiss plans because the fair value of the respective plans' assets are not directly correlated to movements in the value of the plans' defined benefit obligations.

The funding policy for these plans is consistent with local government regulations and tax requirements, and actuarial assumptions used are based on the local economic environment.

➔ **Refer to Note 1a item 24 for a description of the accounting policy for defined benefit pension plans**

UK

The UK plan is a career-average revalued earnings scheme, and benefits increase automatically based on UK price inflation. Normal retirement age for participants in the UK plan is 60. On 1 July 2013, UBS AG closed the UK defined benefit pension plan for future service. After that date, UBS AG no longer recognized current service costs for this plan. Plan participants who were active employees under the defined benefit plan were eligible to become participants of the defined contribution plan for any service after the plan was closed for future service.

The responsibility for governance of the UK plan lies jointly with the Pension Trustee Board, which is required under local pension laws, and UBS AG. The employer contributions to the pension fund included regular contributions and specific deficit-funding contributions until the date of the closure for future service and thereafter only reflected agreed-upon deficit-funding contributions. The deficit-funding contributions are determined based on the most recent actuarial valuation, which is conducted based on assumptions agreed by the Pension Trustee Board and UBS AG. In the event of an underfunding, UBS AG must agree to a deficit recovery plan with the Pension Trustee Board within statutory deadlines. In 2015, UBS AG made a deficit-funding contribution of CHF 316 million (2014: CHF 75 million).

The plan assets are invested in a diversified portfolio of financial assets. A liability-driven investment approach is applied as a portion of the plan assets are invested in inflation-indexed bonds which provide a partial hedge against price inflation. If price inflation increases, the defined benefit obligation will likely increase more significantly than any change in the fair value of plan assets, which would result in an increase in the net defined benefit liability. Plan rules and local pension legislation cap the level of inflationary increase that can be applied to plan benefits.

As the plan is obligated to provide guaranteed lifetime pension benefits to plan participants upon retirement, increases in life expectancy will result in an increase in the plan's liabilities. This is particularly significant in the UK plan, where inflationary increases result in higher sensitivity to changes in life expectancy.

As of 31 December 2015, the UK plan was in a surplus situation on an IFRS measurement basis, as the fair value of plan assets exceeded the defined benefit obligation by CHF 50 million. This surplus was recognized on the UBS AG balance sheet, as UBS AG has a right to a refund with regards to the UK plan.

No employer contributions are expected to be made to the UK defined benefit plan in 2016.

US

There are two distinct major defined benefit pension plans in the US. Normal retirement age for participants in the US plans is 65. The plans are closed to new entrants, who instead can participate in defined contribution plans.

One of the major defined benefit pension plans is a contribution-based plan in which each participant accrues a percentage of salary in a pension account. The pension account is credited annually with interest based on a rate that is linked to the average yield on one-year US government bonds. For the other major defined benefit pension plan, retirement benefits accrue based on the career-average earnings of each individual plan participant. Upon retirement, the plans allow participants a choice between a lump sum payment and a lifetime pension.

Both of these defined benefit pension plans have fiduciaries as required under local state pension laws. The fiduciaries, along with UBS AG, are jointly responsible for governance of the plans. Actuarial valuations are regularly completed for the plans, and UBS AG has historically elected to make contributions to the plans in order to maintain a funded ratio of at least 80%, as calculated under local pension regulations. The annual employer contributions are equal to the present value of benefits accrued each year plus a rolling amortization of any prior underfunding. If the employer contributes more than the minimum or the plan has assets exceeding the liabilities, the excess can be used to offset minimum funding requirements.

The plan assets for both plans are invested in a diversified portfolio of financial assets. Each pension plan's fiduciaries are responsible for the investment decisions with respect to the plan assets. A liability-driven investment approach is applied for one of the US plans to support the volatility management in the net asset/liability position. Derivative instruments may also be employed to manage volatility, including, but not limited to, interest rate futures, equity futures and swaps, including credit default swaps and interest rate swaps.

In 2015, the US pension plan rules were amended such that former UBS AG employees with vested benefits in the US defined benefit pension plans have the option to receive a lump sum payment (or early annuity payments) instead of a lifetime pension commencing at retirement age. This resulted in a reduction in the defined benefit obligation of CHF 24 million and a corresponding gain recognized in the income statement in 2015, of which CHF 21 million was recorded in Wealth Management Americas.

In 2013, UBS AG offered a one-time option to former UBS AG employees with vested benefits in the US defined benefit pension plans to receive a lump sum payment (or early annuity payments) instead of a lifetime pension. This resulted in a reduction in the defined benefit obligation of CHF 196 million, a reduction of fair value of plan assets of CHF 216 million and a charge to the income statement of CHF 20 million in 2013.

The employer contributions expected to be made to the US defined benefit plans in 2016 are estimated to be CHF 43 million.

Note 28 Pension and other post-employment benefit plans (continued)

Germany

There are two different defined benefit pension plans in Germany and both are contribution-based plans. No plan assets are set aside to fund these plans and benefits are directly paid by UBS AG. Normal retirement age for the participants in the German plans is 65. Within the larger of the two pension plans, each participant accrues a percentage of salary in a pension account. On an annual basis the accumulated account balance of the plan participant is credited with guaranteed interest at a rate of 5%. The other plan is a deferred compensation plan in which amounts are accrued annually based on employee elections. For this deferred compensation plan, the accumulated account balance is credited on an annual basis with a guaranteed interest rate of 4% for amounts accrued after 2009. Both German plans are regulated under German pension law, under which the responsibility to pay pension benefits when they are due rests entirely with UBS AG. For the German plans, a portion of the pension payments is directly increased in line with price inflation.

The employer contributions expected to be made to the German plans in 2016 are estimated to be CHF 8 million.

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

In 2015, disclosures within this Note have been expanded to separately present UK plan information, which was previously included within "Non-Swiss" plans. Consequently, the US and German plans are now shown together within "Other". Comparative information was adjusted accordingly.

Note 28 Pension and other post-employment benefit plans (continued)

Defined benefit pension plans

CHF million	Swiss		UK		Other		Total	
For the year ended	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14
Defined benefit obligation at the beginning of the year	23,956	20,738	3,949	3,355	1,693	1,315	29,598	25,408
Current service cost	589	496	0	0	10	10	599	506
Interest expense	270	465	137	158	57	59	463	682
Plan participant contributions	205	202	0	0	0	0	205	202
Remeasurements of defined benefit obligation	(1,231)	3,120	(441)	349	(8)	270	(1,681)	3,739
of which: actuarial (gains)/losses arising from changes in demographic assumptions	*(1,038)*	*66*	*(122)*	*(15)*	*34*	*85*	*(1,125)*	*136*
of which: actuarial (gains)/losses arising from changes in financial assumptions	*(237)*	*2,705*	*(201)*	*489*	*(71)*	*180*	*(509)*	*3,374*
of which: experience (gains)/losses[1]	*44*	*349*	*(119)*	*(126)*	*28*	*6*	*(47)*	*228*
Past service cost related to plan amendments	0	0	0	0	(24)	0	(24)	0
Curtailments	(81)	(54)	0	0	0	0	(81)	(54)
Benefit payments	(1,071)	(1,045)	(128)	(91)	(83)	(81)	(1,283)	(1,218)
Termination benefits	1	34	0	0	0	0	1	34
Foreign currency translation	0	0	(166)	178	(26)	119	(192)	297
Defined benefit obligation at the end of the year	22,636	23,956	3,350	3,949	1,619	1,693	27,605	29,598
of which: amounts owing to active members	*10,359*	*11,480*	*255*	*312*	*267*	*312*	*10,881*	*12,104*
of which: amounts owing to deferred members	*0*	*0*	*1,864*	*2,211*	*523*	*545*	*2,388*	*2,756*
of which: amounts owing to retirees	*12,278*	*12,477*	*1,230*	*1,425*	*829*	*836*	*14,336*	*14,738*
Fair value of plan assets at the beginning of the year	23,931	22,498	3,381	2,922	1,029	845	28,341	26,266
Return on plan assets excluding amounts included in interest income	109	1,262	(124)	181	(44)	14	(59)	1,457
Interest income	273	513	118	141	39	43	430	697
Employer contributions – excluding termination benefits	482	478	316	75	57	107	855	659
Employer contributions – termination benefits	1	34	0	0	0	0	1	34
Plan participant contributions	205	202	0	0	0	0	205	202
Benefit payments	(1,071)	(1,045)	(128)	(91)	(83)	(81)	(1,283)	(1,218)
Administration expenses, taxes and premiums paid	(10)	(10)	0	0	(8)	(6)	(18)	(16)
Payments related to plan amendments	0	0	0	0	0	0	0	0
Foreign currency translation	0	0	(163)	154	7	107	(156)	261
Fair value of plan assets at the end of the year	23,919	23,931	3,400	3,381	997	1,029	28,316	28,341
Asset ceiling effect	1,283	0	0	0	0	0	1,283	0
Net defined benefit asset/(liability)	0	(25)	50	(568)	(622)	(664)	(572)	(1,256)

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

Net asset/(liability) recognized on the balance sheet at the beginning of the year	(25)	952	(568)	(433)	(664)	(470)	(1,256)	50
Net periodic pension cost	(515)	(458)	(18)	(17)	(12)	(33)	(546)	(508)
Amounts recognized in other comprehensive income	58	(1,032)	317	(168)	(35)	(256)	339	(1,456)
Employer contributions – excluding termination benefits	482	478	316	75	57	107	855	659
Employer contributions – termination benefits	1	34	0	0	0	0	1	34
Foreign currency translation	0	0	3	(24)	33	(12)	36	(36)
Net asset/(liability) recognized on the balance sheet at the end of the year	0	(25)	50	(568)	(622)	(664)	(572)	(1,256)

Funded and unfunded plans

Defined benefit obligation from funded plans	22,636	23,956	3,350	3,949	1,288	1,301	27,274	29,205
Defined benefit obligation from unfunded plans	0	0	0	0	331	392	331	392
Plan assets	23,919	23,931	3,400	3,381	997	1,029	28,316	28,341
Surplus/(deficit)	1,283	(25)	50	(568)	(622)	(664)	711	(1,256)
Asset ceiling effect	1,283	0	0	0	0	0	1,283	0
Net defined benefit asset/(liability)	0	(25)	50	(568)	(622)	(664)	(572)	(1,256)

1 Experience (gains)/losses are a component of actuarial remeasurements of the defined benefit obligation which reflect the effects of differences between the previous actuarial assumptions and what has actually occurred.

Consolidated financial statements

Note 28 Pension and other post-employment benefit plans (continued)

Analysis of amounts recognized in net profit

CHF million	Swiss		UK		Other		Total	
For the year ended	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14
Current service cost	589	496	0	0	10	10	599	506
Interest expense related to defined benefit obligation	270	465	137	158	57	59	463	682
Interest income related to plan assets	(273)	(513)	(118)	(141)	(39)	(43)	(430)	(697)
Interest expense on asset ceiling effect	0	19	0	0	0	0	0	19
Administration expenses, taxes and premiums paid	10	10	0	0	8	6	18	16
Plan amendments	0	0	0	0	(24)	0	(24)	0
Curtailments	(81)	(54)	0	0	0	0	(81)	(54)
Termination benefits	1	34	0	0	0	0	1	34
Net periodic pension cost	**515**	**458**	**18**	**17**	**12**	**33**	**546**	**508**

Analysis of amounts recognized in other comprehensive income

CHF million	Swiss		UK		Other		Total	
For the year ended	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14
Remeasurement of defined benefit obligation	1,231	(3,120)	441	(349)	8	(270)	1,681	(3,739)
Return on plan assets excluding amounts included in interest income	109	1,262	(124)	181	(44)	14	(59)	1,457
Asset ceiling effect excluding interest expense on asset ceiling effect	(1,283)	808	0	0	0	0	(1,283)	808
Interest expense on asset ceiling effect	0	19	0	0	0	0	0	19
Total gains / (losses) recognized in other comprehensive income, before tax	**58**	**(1,032)**	**317**	**(168)**	**(35)**	**(256)**	**339**	**(1,456)**

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

	Swiss		UK		Other[1]	
	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14
Duration of the defined benefit obligation (in years)	15.1	16.7	19.7	20.2	11.3	12.5
Maturity analysis of benefits expected to be paid						
CHF million						
Benefits expected to be paid within 12 months	1,146	1,033	80	81	92	85
Benefits expected to be paid between 1 to 3 years	2,218	2,023	177	173	185	171
Benefits expected to be paid between 3 to 6 years	3,403	3,035	338	322	291	274
Benefits expected to be paid between 6 to 11 years	5,526	5,394	785	768	509	485
Benefits expected to be paid between 11 to 16 years	5,173	5,571	981	997	510	513
Benefits expected to be paid in more than 16 years	18,892	26,613	7,348	7,926	1,172	1,363

1 The duration of the defined benefit obligation represents a weighted average across other plans.

UBS AG regularly reviews the actuarial assumptions used in calculating its defined benefit obligations to determine their continuing relevance.

In 2015, UBS AG carried out a methodology review of the actuarial assumptions used in calculating its defined benefit obligation for its Swiss pension plan. As a result, UBS AG enhanced its methodology for estimating the discount rate by improving the construction of the yield curve where the market for long tenor maturities of Swiss high-quality corporate bonds was not sufficiently deep. Furthermore, UBS AG refined its approach to estimating the rate of salary increases, the rate of interest credit on retirement savings, the employee turnover rate, the rate of employee disabilities and the rate of marriage. These improvements in estimates resulted in a total net decrease in the defined benefit obligation (DBO) of the Swiss pension plan of CHF 2,055 million, of which CHF 1,038 million related to demographic assumptions and CHF 1,017 million related to financial assumptions. These reductions in the DBO from improvements in estimates were partly offset by market-driven discount rate changes, resulting in an overall downward remeasurement of the Swiss plan DBO of CHF 1,231 million, which was recognized in other comprehensive income.

Furthermore, UBS AG enhanced methodologies and refined approaches used to estimate various actuarial assumptions for its UK and other pension plans. These improvements in estimates resulted in a total net decrease in the DBO of the UK pension plan of CHF 192 million, of which CHF 122 million related to demographic assumptions and CHF 71 million related to financial assumptions. In addition, mainly market-driven discount rate changes reduced the DBO further, resulting in an overall downward remeasurement of the UK plan DBO of CHF 441 million, which was recognized in other comprehensive income.

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

	Swiss		UK		Other[1]	
	31.12.15	31.12.14	**31.12.15**	31.12.14	**31.12.15**	31.12.14
Principal actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	**1.09**	1.15	**3.90**	3.69	**4.01**	3.60
Rate of salary increase	**1.75**	2.40	**0.00**	0.00	**2.89**	3.01
Rate of pension increase	**0.00**	0.00	**3.02**	3.08	**1.50**	1.75
Rate of interest credit on retirement savings	**1.09**	1.40	**0.00**	0.00	**1.48**	1.13

1 Represents weighted average assumptions across other plans.

Mortality tables and life expectancies for major plans

		Life expectancy at age 65 for a male member currently			
		aged 65		aged 45	
Country	**Mortality table**	**31.12.15**	31.12.14	**31.12.15**	31.12.14
Switzerland	BVG 2010 G	**21.5**	21.4	**23.2**	23.2
UK	S2PA CMI_2015, with projections[1]	**23.9**	24.4	**25.6**	27.2
US	RP2014 WCHA, with MP2015 projection scale[2]	**23.0**	21.7	**24.5**	23.4
Germany	Dr. K. Heubeck 2005 G	**20.0**	19.9	**22.6**	22.5

		Life expectancy at age 65 for a female member currently			
		aged 65		aged 45	
Country	**Mortality table**	**31.12.15**	31.12.14	**31.12.15**	31.12.14
Switzerland	BVG 2010 G	**24.0**	23.9	**25.7**	25.6
UK	S2PA CMI_2015, with projections[1]	**25.8**	25.7	**28.0**	28.0
US	RP2014 WCHA, with MP2015 projection scale[2]	**24.6**	23.9	**26.2**	25.6
Germany	Dr. K. Heubeck 2005 G	**24.1**	23.9	**26.6**	26.5

1 In 2014 the mortality table S1NA_L CMI 2014 G, with projections was used. 2 In 2014 the mortality table RP2014 G, with MP2014 projection scale was used.

Note 28 Pension and other post-employment benefit plans (continued)

Volatility arises in the defined benefit obligation for each of the pension plans due to the following actuarial assumptions applied in the measurement of the defined benefit obligation:

- Discount rate: the discount rate is based on the yield of high-quality corporate bonds of the market in the respective pension plan country. Consequently, a decrease in the yield of high-quality corporate bonds will increase the defined benefit obligation of the pension plans. Conversely, an increase in the yield of high-quality corporate bonds will decrease the defined benefit obligation of the pension plans.
- Rate of salary increase: an increase in the salary of plan participants will generally increase the defined benefit obligation, specifically for the Swiss and German plans. For the UK plan, as the plan is closed for future service, UBS AG employees no longer accrue future service benefits and thus salary increases have no impact on the defined benefit obligation. For the US plans, only a small percentage of the total population continues to accrue benefits for future service, therefore the impact of a salary increase on the defined benefit obligation is minimal.
- Rate of pension increase: for the Swiss plan, there is no automatic indexing of pensions. Any increase would be decided by the Pension Foundation Board. Similarly, for the US plans, there is no automatic indexing of pensions. For the UK plan, pensions are automatically indexed to price inflation as per plan rules and local pension legislation. Similarly, the German defined benefit pension plans are automatically indexed and a portion of the pensions are directly increased by price inflation. An increase in price inflation in the UK and Germany will increase the respective plan's defined benefit obligation.
- Rate of interest credit on retirement savings: the Swiss plan and one of the plans in the US have retirement saving balances that are increased annually by an interest credit rate. For these plans, an increase in the interest credit rate would increase the respective plan's defined benefit obligation.
- Life expectancy: for most of UBS AG's defined benefit pension plans, the respective plan is obligated to provide guaranteed lifetime pension benefits. The defined benefit obligation for all plans is calculated using an underlying best estimate of the life expectancy of plan participants. An increase in the life expectancy of plan participants will increase the plan's defined benefit obligation.

The table below presents a sensitivity analysis for each significant actuarial assumption showing how the defined benefit obligation would be affected by changes in the relevant actuarial assumption that were reasonably possible at the balance sheet date. Unforeseen circumstances may arise, which could result in variations that are outside the range of alternatives deemed reasonably possible. This sensitivity analysis applies to the defined benefit obligation only and not to the net asset/liability in its entirety. Caution should be used in extrapolating the sensitivities below to the overall impact on the defined benefit obligation, as the sensitivities may not be linear.

Sensitivity analysis of significant actuarial assumptions[1]

	Swiss plan: increase/(decrease) in defined benefit obligation		UK plan: increase/(decrease) in defined benefit obligation		Other plans: increase/(decrease) in defined benefit obligation	
CHF million	**31.12.15**	31.12.14	**31.12.15**	31.12.14	**31.12.15**	31.12.14
Discount rate						
Increase by 50 basis points	**(1,416)**	(1,688)	**(308)**	(372)	**(84)**	(98)
Decrease by 50 basis points	**1,609**	1,936	**354**	428	**92**	108
Rate of salary increase						
Increase by 50 basis points	**82**	210	**–**[2]	–[2]	**1**	2
Decrease by 50 basis points	**(86)**	(198)	**–**[2]	–[2]	**(1)**	(2)
Rate of pension increase						
Increase by 50 basis points	**1,163**	1,315	**343**	414	**6**	8
Decrease by 50 basis points	**–**[3]	–[3]	**(300)**	(363)	**(5)**	(7)
Rate of interest credit on retirement savings						
Increase by 50 basis points	**263**	334	**–**[4]	–[4]	**8**	9
Decrease by 50 basis points	**(249)**	(315)	**–**[4]	–[4]	**(8)**	(8)
Life expectancy						
Increase in longevity by one additional year	**719**	755	**97**	135	**42**	45

1 The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded. 2 As the plan is closed for future service, a change in assumption is not applicable. 3 As the assumed rate of pension increase was 0% as of 31 December 2015 and as of 31 December 2014, a downward change in assumption is not applicable. 4 As the plan does not provide interest credits on retirement savings, a change in assumption is not applicable.

Note 28 Pension and other post-employment benefit plans (continued)

The table below provides information on the composition and fair value of plan assets of the Swiss pension plan, the UK pension plan and the other pension plans.

Composition and fair value of plan assets

Swiss plan

	31.12.15				31.12.14			
	Fair value			Plan asset allocation %	Fair value			Plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other	Total	
Cash and cash equivalents	517	0	517	2	829	0	829	3
Real estate / property								
Domestic	0	2,647	2,647	11	0	2,582	2,582	11
Investment funds								
Equity								
Domestic	699	0	699	3	798	0	798	3
Foreign	6,948	1,085	8,033	34	6,245	994	7,239	30
Bonds[1]								
Domestic, AAA to BBB–	2,112	0	2,112	9	2,591	0	2,591	11
Foreign, AAA to BBB–	6,109	0	6,109	26	6,418	0	6,418	27
Foreign, below BBB–	1,056	0	1,056	4	104	0	104	0
Real estate								
Foreign	0	63	63	0	0	104	104	0
Other	1,064	1,605	2,669	11	2,513	736	3,249	14
Other investments	0	15	15	0	0	17	17	0
Total	18,505	5,414	23,919	100	19,499	4,432	23,931	100

	31.12.15	31.12.14
Total fair value of plan assets	23,919	23,931
of which:		
Bank accounts at UBS AG and UBS AG debt instruments	*522*	*385*
UBS Group AG shares	*38*	*38*
Securities lent to UBS AG[2]	*962*	*921*
Property occupied by UBS AG	*82*	*87*
Derivative financial instruments, counterparty UBS AG[2]	*(170)*	*(357)*
Structured products, counterparty UBS AG	*0*	*42*

1 The bond credit ratings are primarily based on Standard and Poor's credit ratings. Ratings AAA to BBB– and below BBB– represent investment grade and non-investment grade ratings, respectively. In cases where credit ratings from other rating agencies were used, these were converted to the equivalent rating in the Standard & Poor's rating classification. 2 Securities lent to UBS AG and derivative financial instruments are presented gross of any collateral. Net of collateral, derivative financial instruments amounted to CHF (90) million as of 31 December 2015 (31 December 2014: CHF (123) million). Securities lent to UBS AG were fully covered by collateral as of 31 December 2015 and 31 December 2014.

Note 28 Pension and other post-employment benefit plans (continued)

Composition and fair value of plan assets (continued)

UK plan

	31.12.15				31.12.14			
	Fair value			Plan asset allocation %	Fair value			Plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other	Total	
Cash and cash equivalents	426	0	426	13	192	0	192	6
Investment funds								
Equity								
Domestic	98	0	98	3	122	0	122	4
Foreign	1,080	0	1,080	32	1,042	0	1,042	31
Bonds[1]								
Domestic, AAA to BBB–	1,305	0	1,305	38	1,344	0	1,344	40
Domestic, below BBB–	53	0	53	2	179	0	179	5
Foreign, AAA to BBB–	189	0	189	6	91	0	91	3
Foreign, below BBB–	31	0	31	1	153	0	153	5
Real estate								
Domestic	46	68	115	3	43	99	142	4
Other	(32)	123	91	3	(33)	139	106	3
Other investments	6	7	13	0	0	10	10	0
Total fair value of plan assets	3,202	198	3,400	100	3,133	248	3,381	100

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

Note 28 Pension and other post-employment benefit plans (continued)

Composition and fair value of plan assets (continued)

Other plans

	31.12.15				31.12.14			
	Fair value			Weighted average plan asset allocation %	Fair value			Weighted average plan asset allocation %
CHF million	Quoted in an active market	Other	Total		Quoted in an active market	Other	Total	
Cash and cash equivalents	52	0	52	5	32	0	32	3
Bonds[1]								
Domestic, AAA to BBB–	56	0	56	6	104	0	104	10
Domestic, below BBB–	60	0	60	6	10	0	10	1
Foreign, AAA to BBB–	17	0	17	2	24	0	24	2
Foreign, below BBB–	6	0	6	1	3	0	3	0
Private equity	0	0	0	0	0	0	0	0
Investment funds								
Equity								
Domestic	240	0	240	24	250	0	250	24
Foreign	240	0	240	24	258	0	258	25
Bonds[1]								
Domestic, AAA to BBB–	134	0	134	13	142	0	142	14
Domestic, below BBB–	13	0	13	1	13	0	13	1
Foreign, AAA to BBB–	31	0	31	3	32	0	32	3
Foreign, below BBB–	3	0	3	0	4	0	4	0
Real estate								
Domestic	0	12	12	1	0	13	13	1
Other	56	42	98	10	66	39	105	10
Insurance contracts	0	17	17	2	0	17	17	2
Asset-backed securities	14	0	14	1	17	0	17	2
Other investments	5	0	5	0	5	0	5	0
Total fair value of plan assets	926	70	997	100	961	68	1,029	100

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

Note 28 Pension and other post-employment benefit plans (continued)

b) Post-retirement medical and life insurance plans

In the US and in the UK, UBS AG offers post-retirement medical benefits that contribute to the health care coverage of certain employees and their beneficiaries after retirement.

The UK post-retirement medical plan is closed to new entrants. In the US, in addition to post-retirement medical benefits, UBS AG also provides post-retirement life insurance benefits to certain employees. The post-retirement medical benefits in the UK and the US cover all types of medical expenses including, but not limited to, the cost of doctor visits, hospitalization, surgery and pharmaceuticals. These plans are not pre-funded plans and costs are recognized as incurred. In the US, the retirees also contribute to the cost of the post-retirement medical benefits.

In 2014, UBS AG announced changes to the US post-retirement medical plans in relation to a reduction or elimination of the subsidy provided for medical benefits. This change reduced the post-retirement benefit obligation by CHF 33 million, resulting in a corresponding gain recognized in the income statement in 2014.

Further in 2014, UBS AG announced changes to the US post-retirement life insurance plans in relation to an elimination of the US post-retirement life insurance policy. This change reduced the post-retirement benefit obligation by CHF 8 million, resulting in a corresponding gain recognized in the income statement in 2014.

The employer contributions expected to be made to the post-retirement medical and life insurance plans in 2016 are estimated to be CHF 6 million.

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

In 2015, disclosures within this Note have been expanded to separately present UK post-retirement medical plan information, which was previously presented together with the US post-retirement medical plans. Comparative information was adjusted accordingly.

Note 28 Pension and other post-employment benefit plans (continued)

Post-retirement medical and life insurance plans

CHF million	UK		US		Total	
For the year ended	31.12.15	31.12.14	31.12.15	31.12.14	31.12.15	31.12.14
Post-retirement benefit obligation at the beginning of the year	32	28	53	87	85	114
Current service cost	0	0	0	0	0	0
Interest expense	1	1	2	3	3	5
Plan participant contributions	0	0	2	2	2	2
Remeasurements of post-retirement benefit obligation	(6)	3	9	2	3	5
of which: actuarial (gains) / losses arising from changes in demographic assumptions	*2*	*0*	*2*	*4*	*4*	*4*
of which: actuarial (gains) / losses arising from changes in financial assumptions	*(1)*	*4*	*(2)*	*5*	*(3)*	*8*
of which: experience (gains) / losses[1]	*(7)*	*0*	*9*	*(7)*	*2*	*(7)*
Past service cost related to plan amendments	0	0	0	(41)	0	(41)
Benefit payments[2]	(1)	(2)	(8)	(9)	(10)	(10)
Foreign currency translation	(2)	1	1	8	(1)	10
Post-retirement benefit obligation at the end of the year	25	32	59	53	84	85
of which: amounts owing to active members	*5*	*12*	*0*	*0*	*5*	*12*
of which: amounts owing to deferred members	*0*	*0*	*0*	*0*	*0*	*0*
of which: amounts owing to retirees	*20*	*21*	*59*	*53*	*79*	*74*
Fair value of plan assets at the end of the year	0	0	0	0	0	0
Net post-retirement benefit asset / (liability)	(25)	(32)	(59)	(53)	(84)	(85)

Analysis of amounts recognized in net profit

Current service cost	0	0	0	0	0	0
Interest expense related to post-retirement benefit obligation	1	1	2	3	3	5
Past service cost related to plan amendments	0	0	0	(41)	0	(41)
Net periodic cost	1	2	2	(37)	4	(36)

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

Remeasurement of post-retirement benefit obligation	6	(3)	(9)	(2)	(3)	(5)
Total gains / (losses) recognized in other comprehensive income, before tax	6	(3)	(9)	(2)	(3)	(5)

1 Experience (gains) / losses are a component of actuarial remeasurements of the post-retirement benefit obligation which reflect the effects of differences between the previous actuarial assumptions and what has actually occurred. 2 Benefit payments are funded by employer contributions and plan participant contributions.

Consolidated financial statements

Note 28 Pension and other post-employment benefit plans (continued)

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

UBS AG regularly reviews the actuarial assumptions used in calculating its post-retirement benefit obligations to determine their continuing relevance. In 2015, UBS AG enhanced methodologies and refined approaches used to estimate various actuarial assumptions. These improvements in estimates resulted in a net increase in the post-retirement benefit obligation.

The discount rate and the assumed average health care cost trend rates are presented in the table below. The basis for life expectancy assumptions is the same as provided for defined benefit pension plans in Note 28a.

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

Assumptions used to determine post-retirement benefit obligations at the end of the year	UK		US	
For the year ended	**31.12.15**	31.12.14	**31.12.15**	31.12.14
Discount rate	**3.90**	3.69	**4.23**	3.93
Average health care cost trend rate – initial	**5.10**	5.50	**6.75**	7.00
Average health care cost trend rate – ultimate	**5.10**	5.50	**5.00**	5.00

1 The assumptions for life expectancies are provided within Note 28a.

Volatility arises in the post-retirement benefit obligation for each of the post-retirement medical and life insurance plans due to the following actuarial assumptions applied in the measurement of the post-retirement benefit obligation:

- Discount rate: similar as for defined benefit pension plans, a decrease in the yield of high-quality corporate bonds will increase the post-retirement benefit obligation for these plans. Conversely, an increase in the yield of high-quality corporate bonds will decrease the post-retirement benefit obligation for these plans.
- Average health care cost trend rate: an increase in health care costs would generally increase the post-retirement benefit obligation.
- Life expectancy: as some plan participants have lifetime benefits under these plans, an increase in life expectancy would increase the post-retirement benefit obligation.

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

Sensitivity analysis of significant actuarial assumptions[1]

	Increase / (decrease) in post-retirement benefit obligation			
	UK		US	
CHF million	**31.12.15**	31.12.14	**31.12.15**	31.12.14
Discount rate				
Increase by 50 basis points	**(1)**	(2)	**(3)**	(2)
Decrease by 50 basis points	**2**	2	**3**	2
Average health care cost trend rate				
Increase by 100 basis points	**3**	4	**1**	(1)
Decrease by 100 basis points	**(3)**	(4)	**(1)**	1
Life expectancy				
Increase in longevity by one additional year	**2**	2	**5**	5

1 The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant, so that interdependencies between the assumptions are excluded.

c) Defined contribution plans

UBS AG sponsors a number of defined contribution plans in locations outside of Switzerland. The locations with significant defined contribution plans are the UK and the US. Certain plans permit employees to make contributions and earn matching or other contributions from UBS AG. The employer contributions to these plans are recognized as an expense which, for the years ended 31 December 2015, 2014 and 2013, amounted to CHF 239 million, CHF 244 million and CHF 236 million, respectively.

Note 28 Pension and other post-employment benefit plans (continued)

d) Related party disclosure

UBS AG is the principal provider of banking services for the pension fund of UBS AG in Switzerland. In this function, UBS AG is engaged to execute most of the pension fund's banking activities. These activities can include, but are not limited to, trading and securities lending and borrowing. The non-Swiss UBS AG pension funds do not have a similar banking relationship with UBS AG.

In 2008, UBS AG sold certain bank-occupied properties to the Swiss pension fund. Simultaneously, UBS AG and the Swiss pension fund entered into lease-back arrangements for some of the properties with 25-year lease terms and two renewal options for 10 years each. During 2009, UBS AG renegotiated one of the lease contracts, which reduced UBS AG's remaining lease commitment. In 2013, after the first five years, the early break options for most of the leases were not exercised, which resulted in an increase in the minimum commitment for an additional five years. As of 31 December 2015, the minimum commitment toward the Swiss pension fund under the related leases is approximately CHF 11 million (31 December 2014: CHF 14 million).

The following amounts have been received or paid by UBS AG from and to the pension funds in respect of these banking activities and arrangements.

Related party disclosure

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Received by UBS AG			
Fees	**33**	33	33
Paid by UBS AG			
Rent	**5**	6	8
Interest	**(1)**	0	1
Dividends and capital repayments	**14**	4	2

The transaction volumes in UBS shares and UBS AG debt instruments are as follows.

Transaction volumes – UBS shares and UBS AG debt instruments

	For the year ended	
	31.12.15	31.12.14
Financial instruments bought by pension funds		
UBS shares[1] (in thousands of shares)	**1,544**	2,092
UBS AG debt instruments (par values in CHF million)	**3**	4
Financial instruments sold by pension funds or matured		
UBS shares[1] (in thousands of shares)	**2,255**	1,735
UBS AG debt instruments (par values in CHF million)	**4**	4

1 Represents purchases / sales of UBS AG shares up to 28 November 2014 and purchases / sales of UBS Group AG shares thereafter. Refer to Note 32 for more information.

UBS AG defined contribution pension funds held 15,782,722 UBS Group AG shares with a fair value of CHF 306 million as of 31 December 2015 (31 December 2014: 16,253,804 UBS Group AG shares with a fair value of CHF 276 million).

More information on the fair value of the plan assets of the defined benefit pension plans are disclosed in Note 28a.

Note 29 Equity participation and other compensation plans

a) Plans offered

The UBS Group operates several equity participation and other compensation plans to align the interests of executives, managers and staff with the interests of shareholders. Some plans (e.g., Equity Plus and Equity Ownership Plan) are granted to eligible employees in approximately 50 countries and are designed to meet the legal, tax and regulatory requirements of each country in which they are offered. Certain plans are used in specific countries, business areas (e.g., awards granted within Wealth Management Americas), or are only offered to members of the Group Executive Board (GEB). The UBS Group operates compensation plans on a mandatory, discretionary and voluntary basis. The explanations below provide a general description of the terms of the most significant plans offered by the Group which relate to the performance year 2015 (awards granted in 2016) and those from prior years that were partly expensed in 2015.

➔ **Refer to Note 1a item 25 for a description of the accounting policy related to equity participation and other compensation plans**

Transfer of deferred compensation plans

As part of the Group reorganization in 2014, UBS Group AG assumed obligations of UBS AG as grantor in connection with certain outstanding awards under employee share, option, notional fund and deferred cash compensation plans. As a result of the transfer, UBS Group AG assumed all responsibilities and rights associated with the grantor role for the plans from UBS AG, including the right of recharge to its subsidiaries employing the personnel. Obligations relating to deferred compensation plans which are required to be, and have been, granted by employing and/or sponsoring subsidiaries have not been assumed by UBS Group AG and will continue on this basis. Furthermore, obligations related to other compensation awards, such as defined benefit pension plans and other local awards, have not been assumed by UBS Group AG and are retained by the relevant employing and/or sponsoring subsidiaries. For the purpose of this Note, references to shares, performance shares, notional shares and options refer to UBS Group AG instruments for the period after the transfer and to UBS AG instruments for the period before the transfer.

The tables within this Note outline the effects from equity participation and other compensation plans on the UBS AG income statement, as well as the movements in UBS share and notional share awards retained by UBS AG.

Mandatory share-based compensation plans

Equity Ownership Plan (EOP): Select employees receive a portion of their annual performance-related compensation above a certain threshold in the form of an EOP award in UBS shares, notional shares or UBS performance shares (notional shares that are subject to performance conditions). From February 2014 onwards, only notional shares and UBS performance shares have been granted. Since 2011, performance shares have been granted to EOP participants who are Key Risk-Takers, Group Managing Directors (GMD) or employees whose incentive awards exceed a certain threshold, and since 2013 to GEB members. For performance shares granted in respect of the performance years 2012 and thereafter, the performance conditions are based on the Group return on tangible equity and the divisional return on attributed equity (for Corporate Center participants, the return on attributed equity of the Group excluding Corporate Center). Awards issued outside the normal performance year cycle, such as replacement awards or sign-on awards, may be offered in deferred cash under the EOP plan rules.

Awards in UBS shares allow for voting and dividend rights during the vesting period, whereas notional and performance shares represent a promise to receive UBS shares at vesting and do not carry voting rights during the vesting period. Notional and performance shares granted before February 2014 have no rights to dividends, whereas for awards granted since February 2014 employees are entitled to receive a dividend equivalent that may be paid in notional shares and/or cash, and which will vest on the same terms and conditions as the award. Awards granted in the form of UBS shares, notional shares and performance shares are settled by delivering UBS shares at vesting, except in countries where this is not permitted for legal or tax reasons. EOP awards granted until 2012 generally vested in three equal increments over a three-year vesting period and awards granted since March 2013 generally vest in equal increments in years two and three following grant. The awards are generally forfeitable upon, among other circumstances, voluntary termination of employment with UBS AG. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee, on a tiered basis.

Senior Executive Equity Ownership Plan (SEEOP): Up to 2012 (performance year 2011), GEB members and selected senior executives received a portion of their mandatory deferral in UBS shares or notional shares, which vest in one-fifth increments over a five-year vesting period and are forfeitable if certain conditions are not met. Awards granted in 2011 and 2012 are subject to the same performance conditions as performance shares granted under the EOP. They will only vest in full if the participant's business division is profitable (for Corporate Center participants, the Group as a whole must be profitable) in the financial year preceding scheduled vesting. Awards granted under SEEOP are settled by delivering UBS shares at vesting. Compensation expense is recognized on the same basis as for share-settled EOP awards. No new SEEOP awards were granted since 2012. From 2013 (performance year 2012), GEB members have received EOP performance awards.

Incentive Performance Plan (IPP): In 2010, GEB members and certain other senior employees received part of their annual incentive in the form of performance shares granted under the IPP. Each performance share granted was a contingent right to receive between one and three UBS shares at vesting, depending on the achievement of share price targets. Vesting was subject to continued employment with UBS AG and certain other conditions. The IPP awards vested in March 2015. Compensation expense was recognized on a tiered basis from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. IPP was a one-time plan granted in 2010 only.

Performance Equity Plan (PEP): In 2012 GEB members received part of their annual incentive in the form of performance shares granted under the PEP. Each performance share was a contingent right to receive between zero and two UBS shares at vesting, depending on the achievement of Economic Profit (EP) and Total Shareholder Return (TSR) targets. Vesting was subject to continued employment with UBS AG and certain other conditions. The last PEP awards vested in March 2015. Compensation expense was recognized on a tiered basis from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. No PEP awards were granted after 2012.

Special Plan Award Program for the Investment Bank 2012 (SPAP): In April 2012, certain Managing Directors and Group Managing Directors of the Investment Bank were granted an award of UBS shares which vested in 2015. Vesting was subject to performance conditions, continued employment with the firm and certain other conditions. Compensation expense was recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Role-based allowances (RBA): In line with market practice, in certain countries, employees are entitled to receive a role-based allowance in addition to their base salary. This allowance reflects the market value of a specific role and is only paid as long as the employee is within such a role. The allowance is generally paid in cash and above a threshold it is granted in blocked shares. Such shares will be unblocked in equal instalments after two and three years. The compensation expense is recognized in the year of grant.

Mandatory deferred cash compensation plans

Deferred Contingent Capital Plan (DCCP): The DCCP is a mandatory performance award deferral plan for all employees whose total compensation exceeds a certain threshold. For awards granted up to January 2015, employees received part of their annual incentive in the form of notional bonds, which are a right to receive a cash payment at vesting. For awards granted for the performance years 2014 and 2015, employees have been awarded notional additional tier 1 (AT1) instruments, which at the discretion of UBS Group AG (consolidated) can either be settled in the form of a cash payment or a perpetual, marketable AT1 instrument. Awards vest in full after five years, subject to there being no trigger event. Awards granted under the DCCP forfeit if UBS Group AG's consolidated phase-in common equity tier 1 capital ratio falls below 10% for GEB members and 7% for all other employees. In addition, awards are also forfeited if a viability event occurs, that is, if FINMA provides a written notice to UBS Group AG that the DCCP awards must be written down to prevent an insolvency, bankruptcy or failure of UBS Group AG (consolidated), or if UBS Group AG (consolidated) receives a commitment of extraordinary support from the public sector that is necessary to prevent such an event. For GEB members, an additional performance condition applies. If UBS Group AG (consolidated) does not achieve an adjusted profit before tax for any year during the vesting period, GEB members forfeit 20% of their award for each loss-making year. For awards granted up to January 2015, interest on the awards is paid annually for performance years in which the firm generates an adjusted profit before tax. For awards granted since February 2015 interest payments are discretionary. The awards are subject to standard forfeiture and harmful acts provisions, including voluntary termination of employment with UBS AG. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized ratably from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Long-Term Deferred Retention Senior Incentive Scheme (LTDRSIS): Awards granted under the LTDRSIS are granted to employees in Australia and represent a profit share amount based on the profitability of the Australian business. Awards vest after three years and include an arrangement which allows for unpaid installments to be reduced if the business has a loss during the calendar year preceding vesting. The awards are generally forfeitable upon voluntary termination of employment with UBS AG. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of the grant. Otherwise, compensation expense is recognized ratably from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. 2014 was the last year awards were granted under LTDRSIS.

Asset Management Equity Ownership Plan: In order to align their compensation with the performance of the funds they manage, Asset Management employees who receive EOP awards receive them in the form of cash-settled notional funds. The amount depends on the value of the relevant underlying Asset Management funds at the time of vesting. The awards are generally forfeitable upon, among other circumstances, voluntary termination of employment with UBS AG. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee, on a tiered basis.

Note 29 Equity participation and other compensation plans (continued)

Wealth Management Americas financial advisor compensation

Financial advisor compensation plans generally provide for cash payments and deferred awards that are formula driven and fluctuate in proportion to the level of business activity.

UBS AG also may enter into compensation commitments with certain new financial advisors primarily as a recruitment incentive and to incentivize certain eligible active financial advisors to achieve specified revenue production and other performance thresholds. The compensation may be earned and paid to the employee during a period of continued employment and may be forfeited under certain circumstances.

GrowthPlus is a program for selected financial advisors whose revenue production and length of service exceeds defined thresholds from 2010 through 2017. Compensation arrangements were granted in 2010, 2011 and 2015, with potential arrangements to be granted in 2018. The awards vest ratably over seven years from grant with the exception of the 2018 arrangement, which vests over five years.

PartnerPlus is a mandatory deferred cash compensation plan for certain eligible financial advisors. Awards (UBS AG company contributions) are based on a predefined formula during the performance year. Participants are also allowed to voluntarily contribute additional amounts otherwise payable during the year, up to a certain percentage of their pay, which are vested upon contribution. Company contributions and voluntary contributions are credited with interest in accordance with the terms of the plan. Rather than being credited with interest, a participant may elect to have voluntary contributions, along with vested company contributions, credited with notional earnings based on the performance of various mutual funds. Company contributions and interest on both company and voluntary contributions ratably vest in 20% increments six to ten years following grant date. Company contributions and interest/notional earnings on both company and voluntary contributions are forfeitable under certain circumstances. Compensation expense for awards is recognized in the performance year if the employee meets the qualifying separation eligibility requirements at the date of grant. Otherwise, compensation expense for awards is recognized ratably commencing in the performance year to the earlier of the vesting date or the qualifying separation eligibility date of the employee. Compensation expense for voluntary contributions is recognized in the year of deferral.

Discretionary share-based compensation plans

Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP): Until 2009, key and high potential employees were granted discretionary share-settled stock appreciation rights (SARs) or UBS options with a strike price not less than the fair market value of a UBS share on the date the SAR or option was granted. A SAR gives employees the right to receive a number of UBS shares equal to the value of any appreciation in the market price of a UBS share between the grant date and the exercise date. One option gives the right to acquire one registered UBS share at the option's strike price. SARs and options are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. These awards are generally forfeitable upon termination of employment with UBS AG. Compensation expense is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee. No options or SARs awards have been granted since 2009.

Voluntary share-based compensation plans

Equity Plus Plan (Equity Plus): Equity Plus is a voluntary plan that provides eligible employees with the opportunity to purchase UBS shares at market value and receive, at no additional cost, one free notional UBS share for every three shares purchased, up to a maximum annual limit. Share purchases may be made annually from the performance award and/or monthly through regular deductions from salary. If the shares purchased are held for three years, and in general if the employee remains in employment, the notional UBS shares vest. For notional UBS shares granted from April 2014 onwards, employees are entitled to receive a dividend equivalent which may be paid in either notional shares and/or cash. Prior to 2010, instead of notional shares participants received two UBS options for each share they purchased under this plan. The options had a strike price equal to the fair market value of a UBS share on the grant date, a two-year vesting period and generally expired ten years from the grant date. The options are forfeitable in certain circumstances and are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Compensation expense for Equity Plus is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee.

Note 29 Equity participation and other compensation plans (continued)

b) Effect on the income statement

Effect on the income statement for the financial year and future periods

The following table summarizes the compensation expenses recognized for the year ended 31 December 2015 and deferred compensation expenses that will be recognized as an expense in the income statements of 2016 and later. The deferred compensation expenses in the table also include vested and non-vested awards granted mainly in February 2016, which relate to the performance year 2015.

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2015			Personnel expenses deferred to 2016 and later		
CHF million	Expenses relating to awards for 2015	Expenses relating to awards for prior years	Total	Relating to awards for 2015	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	2,073	(94)	1,980	0	0	0
Deferred Contingent Capital Plan (DCCP)	172	258	429	343	446	789
Deferred cash plans (DCP and other cash plans)	0	12	12	0	3	3
Equity Ownership Plan (EOP / SEEOP) – UBS shares	261	461	722	524	338	861
Incentive Performance Plan (IPP)	0	0	0	0	0	0
Total UBS share plans	261	461	722	524	338	861
Equity Ownership Plan (EOP) – notional funds	28	38	67	34	35	69
Total performance awards	**2,535**	**675**	**3,210**	**900**	**822**	**1,722**
Variable compensation						
Variable compensation – other	184	162	346[2]	248[3]	293[4]	541
Financial advisor compensation – cash payments	2,460	0	2,460	0	0	0
Compensation commitments with recruited financial advisors	43	692	735	940	1,899	2,839
GrowthPlus and other deferral plans	132	142	275	710	456	1,166
UBS share plans	37	45	82	66	115	182
Wealth Management Americas: Financial advisor compensation[5]	2,673	879	3,552	1,716	2,470	4,186
Total	**5,391**	**1,716**	**7,108**	**2,864**	**3,585**	**6,449**

1 Total share-based personnel expenses recognized for the year ended 31 December 2015 were CHF 1,028 million and were comprised of UBS share plans of CHF 807 million, Equity Ownership Plan – notional funds of CHF 67 million, related social security costs of CHF 56 million and other compensation plans (reported within Variable compensation – other) of CHF 98 million. 2 Includes replacement payments of CHF 76 million (of which CHF 65 million related to prior years), forfeiture credits of CHF 86 million (all related to prior years), severance payments of CHF 157 million (all related to 2015) and retention plan and other payments of CHF 198 million (of which CHF 183 million related to prior years). 3 Includes DCCP interest expense of CHF 160 million for DCCP awards 2015 (granted in 2016). 4 Includes DCCP interest expense of CHF 200 million for DCCP awards 2014, 2013 and 2012 (granted in 2015, 2014 and 2013). 5 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes charges related to compensation commitments with financial advisors entered into at the time of recruitment which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date.

Note 29 Equity participation and other compensation plans (continued)

Personnel expenses – Recognized and deferred[1]

	Personnel expenses for the year ended 2014			Personnel expenses deferred to 2015 and later		
CHF million	Expenses relating to awards for 2014	Expenses relating to awards for prior years	Total	Relating to awards for 2014	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,822	(108)	1,714	0	0	0
Deferred Contingent Capital Plan (DCCP)	155	194	349	312	386	698
Deferred cash plans (DCP and other cash plans)	0	12	12	0	8	8
Equity Ownership Plan (EOP/SEEOP) – UBS shares	215	444	659	459	367	826
Incentive Performance Plan (IPP)	0	21	21	0	0	0
Total UBS share plans	215	465	680	459	367	826
Equity Ownership Plan (EOP) – notional funds	24	41	65	36	33	69
Total performance awards	**2,216**	**604**	**2,820**	**807**	**794**	**1,601**
Variable compensation						
Variable compensation – other	260	206	466[2]	307[3]	340[4]	647
Financial advisor compensation – cash payments	2,396	0	2,396	0	0	0
Compensation commitments with recruited financial advisors	39	636	675	524	2,058	2,582
GrowthPlus and other deferral plans	81	153	234	189	528	717
UBS share plans	23	57	80	41	143	184
Wealth Management Americas: Financial advisor compensation[5]	2,539	846	3,385	754	2,729	3,483
Total	**5,015**	**1,656**	**6,671**	**1,868**	**3,863**	**5,731**

1 Total share-based personnel expenses recognized for the year ended 31 December 2014 were CHF 999 million and were comprised of UBS share plans of CHF 800 million, Equity Ownership Plan – notional funds of CHF 65 million, related social security costs of CHF 41 million and other compensation plans (reported within Variable compensation – other) of CHF 93 million. 2 Includes replacement payments of CHF 81 million (of which CHF 70 million related to prior years), forfeiture credits of CHF 70 million (all related to prior years), severance payments of CHF 162 million (all related to 2014) and retention plan and other payments of CHF 292 million (of which CHF 206 million related to prior years). 3 Includes DCCP interest expense of CHF 121 million for DCCP awards 2014 (granted in 2015). 4 Includes DCCP interest expense of CHF 161 million for DCCP awards 2013 and 2012 (granted in 2014 and 2013). 5 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes charges related to compensation commitments with financial advisors entered into at the time of recruitment which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date.

During 2015 and 2014, UBS AG accelerated the recognition of expenses for certain deferred compensation arrangements relating to employees that were affected by restructuring programs. Based on the redundancy provisions of the plan rules, these employees retain their deferred compensation awards. However, as the employees are not required to provide future service, compensation expense relating to these awards was accelerated to the termination date based on the shortened service period. The amounts accelerated and recognized relating to share-based payment awards in 2015 and 2014 were CHF 9 million and CHF 38 million respectively, and the amounts related to deferred cash awards were CHF 10 million and CHF 29 million, respectively.

UBS AG also shortened the service period for certain employees in accordance with the mutually agreed termination provisions of their deferred compensation awards. Expense recognition was accelerated to the termination date. The amounts accelerated and recognized relating to share-based payment awards in 2015 and 2014 were CHF 6 million and CHF 11 million, respectively, and the amounts related to deferred cash awards were CHF 11 million and CHF 8 million, respectively.

Note 29 Equity participation and other compensation plans (continued)

Personnel expenses – Recognized and deferred

	Personnel expenses for the year ended 2013			Personnel expenses deferred to 2014 and later		
CHF million	Expenses relating to awards for 2013	Expenses relating to awards for prior years	Total	Relating to awards for 2013	Relating to awards for prior years	Total
Performance awards						
Cash performance awards	1,942	(30)	1,912	0	0	0
Deferred Contingent Capital Plan (DCCP)	152	96	248	348	230	578
Deferred cash plans (DCP and other cash plans)	2	53	55	7	12	19
Equity Ownership Plan (EOP / SEEOP) – UBS shares	190	466	656	520	307	827
Performance Equity Plan (PEP)	0	3	3	0	0	0
Incentive Performance Plan (IPP)	0	33	33	0	21	21
Total UBS share plans	190	502	692	520	328	848
Equity Ownership Plan (EOP) – notional funds	19	60	79	37	36	73
Total performance awards	**2,305**	**681**	**2,986**	**912**	**606**	**1,518**
Variable compensation						
Variable compensation – other	152	136	288[2]	340[3]	398[4]	738
Financial advisor compensation – cash payments	2,219	0	2,219	0	0	0
Compensation commitments with recruited financial advisors	33	605	638	440	2,098	2,538
GrowthPlus and other deferral plans	62	132	194	107	564	671
UBS share plans	20	69	89	45	165	210
Wealth Management Americas: Financial advisor compensation[5]	2,334	806	3,140	592	2,827	3,419
Total	**4,791**	**1,623**	**6,414**	**1,844**	**3,831**	**5,675**

1 Total share-based personnel expenses recognized for the year ended 31 December 2013 were CHF 1.042 million and were comprised of UBS share plans of CHF 787 million, Equity Ownership Plan – notional funds of CHF 79 million, related social security costs of CHF 65 million and other compensation plans (reported within Variable compensation – other) of CHF 111 million. 2 Includes replacement payments of CHF 78 million (of which CHF 72 million related to prior years), forfeiture credits of CHF 146 million (all related to prior years), severance payments of CHF 114 million (all related to 2013) and retention plan and other payments of CHF 242 million (of which CHF 210 million related to prior years). 3 Includes DCCP interest expense of CHF 101 million for DCCP awards 2013 (granted in 2014). 4 Includes DCCP interest expense of CHF 109 million for DCCP awards 2012 (granted in 2013). 5 Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure, assets and other variables. It also includes charges related to compensation commitments with financial advisors entered into at the time of recruitment which are subject to vesting requirements. Amounts reflected as deferred expenses represent the maximum deferred exposure as of the balance sheet date.

Additional disclosures on mandatory, discretionary and voluntary share-based compensation plans (including notional funds granted under EOP)

The total share-based personnel expenses recognized for the years ended 31 December 2015, 2014 and 2013 were CHF 1,028 million, CHF 999 million and CHF 1,042 million, respectively. This includes the current period expense, amortization and related social security costs for awards issued in prior periods and performance year expensing for awards granted to retirement-eligible employees where the terms of the awards do not require the employee to provide future services.

The total compensation expenses for non-vested share-based awards granted up to 31 December 2015 relating to prior years to be recognized in future periods is CHF 553 million and will be recognized as personnel expenses over a weighted average period of 1.9 years. This includes UBS share plans, the Equity Ownership Plan (notional funds), other variable compensation and the Equity Plus Plan. Total deferred compensation amounts included in the 2015 table differ from this amount as the deferred compensation amounts also include non-vested awards granted in February 2016 related to the performance year 2015.

Actual payments to participants in cash-settled share-based plans, including amounts granted as notional funds issued under the EOP, for the years ended 31 December 2015 and 2014 were CHF 98 million and CHF 90 million, respectively. The total carrying amount of the liability related to these plans was CHF 170 million as of 31 December 2015 and CHF 143 million as of 31 December 2014.

Note 29 Equity participation and other compensation plans (continued)

c) Movements during the year

UBS share and performance share awards

Movements in UBS share and notional share awards were as follows:

UBS share awards

	Number of shares 2015	Weighted average grant date fair value (CHF)	Number of shares 2014	Weighted average grant date fair value (CHF)
Outstanding, at the beginning of the year	467,848	15	186,633,491	15
Shares awarded during the year	259,334	17	56,851,628	18
Distributions during the year	(279,415)	15	(69,921,325)	16
Forfeited during the year	(20,323)	19	(6,859,017)	16
Transfer to UBS Group AG			(166,704,777)	15
Outstanding, at the end of the year	427,443	18	467,848	15
of which: shares vested for accounting purposes	*138,908*		*26,946*	

The fair value of shares that became legally vested and were distributed (i.e., all restrictions were fulfilled) during the years ended 2015 and 2014 was CHF 1,443 million and CHF 1,269 million, respectively.

d) Valuation

UBS share awards

UBS AG measures compensation expense based on the average market price of the UBS share on the grant date as quoted on the SIX Swiss Exchange, taking into consideration post-vesting sale and hedge restrictions, non-vesting conditions and market conditions, where applicable. The fair value of the share awards subject to post-vesting sale and hedge restrictions is discounted based upon the duration of the post-vesting restriction and is referenced to the cost of purchasing an at-the-money European put option for the term of the transfer restriction. The weighted average discount for share and performance share awards granted during 2015 is approximately 16.7% (2014: 12.9%) of the market price of the UBS share. The grant date fair value of notional UBS shares without dividend entitlements also includes a deduction for the present value of future expected dividends to be paid between the grant date and distribution.

Note 30 Interests in subsidiaries and other entities

a) Interests in subsidiaries

UBS AG defines its significant subsidiaries as those entities that, either individually or in aggregate, contribute significantly to UBS AG's financial position or results of operations, based on a number of criteria, including the subsidiaries' equity and their contribution to UBS AG's total assets and profit and loss before tax, in accordance with the requirements set by IFRS 12, Swiss regulations and the regulations of the US Securities and Exchange Commission (SEC).

Individually significant subsidiaries

The table below lists UBS AG's individually significant subsidiaries as of 31 December 2015. Unless otherwise stated, the subsidiaries listed below have share capital consisting solely of ordinary shares, which are held fully by UBS AG, and the proportion of ownership interest held is equal to the voting rights held by UBS AG. The country where the respective registered office is located is also generally the principal place of business.

Individually significant subsidiaries as of 31 December 2015

Company	Registered office	Primary business division	Share capital in million		Equity interest accumulated in %
UBS Americas Holding LLC	Wilmington, Delaware, USA	Corporate Center	USD	1,200.0[1]	100.0
UBS Bank USA	Salt Lake City, Utah, USA	Wealth Management Americas	USD	0.0	100.0
UBS Financial Services Inc.	Wilmington, Delaware, USA	Wealth Management Americas	USD	0.0	100.0
UBS Limited	London, United Kingdom	Investment Bank	GBP	226.6	100.0
UBS Securities LLC	Wilmington, Delaware, USA	Investment Bank	USD	1,283.1[2]	100.0
UBS Switzerland AG	Zurich, Switzerland	Personal & Corporate Banking	CHF	10.0	100.0

1 Comprised of common share capital of USD 1,000 and non-voting preferred share capital of USD 1,200,000,000. 2 Comprised of common share capital of USD 100,000 and non-voting preferred share capital of USD 1,283,000,000.

In 2015, UBS transferred its Personal & Corporate Banking and Wealth Management business booked in Switzerland from UBS AG to UBS Switzerland AG, a newly formed bank subsidiary.

➔ **Refer to Note 32 for more information**

UBS Americas Holding LLC, UBS Limited and UBS Switzerland AG are fully held by UBS AG. UBS Bank USA, UBS Financial Services Inc. and UBS Securities LLC are fully held, directly or indirectly, by UBS Americas Holding LLC.

Note 30 Interests in subsidiaries and other entities (continued)

Other subsidiaries

The table below lists other subsidiaries that are not individually significant but that contribute to UBS AG's total assets and aggregated profit before tax thresholds and are thereby disclosed in accordance with the requirements set by the SEC.

Other subsidiaries as of 31 December 2015

Company	Registered office	Primary business division	Share capital in million		Equity interest accumulated in %
Topcard Service AG	Glattbrugg, Switzerland	Personal & Corporate Banking	CHF	0.2	100.0
UBS (Italia) SpA	Milan, Italy	Wealth Management	EUR	95.0	100.0
UBS (Luxembourg) S.A.	Luxembourg, Luxembourg	Wealth Management	CHF	150.0	100.0
UBS Americas Inc.	Wilmington, Delaware, USA	Corporate Center	USD	0.0	100.0
UBS Asset Management (Americas) Inc.	Wilmington, Delaware, USA	Asset Management	USD	0.0	100.0
UBS Asset Management (Australia) Ltd	Sydney, Australia	Asset Management	AUD	20.1[1]	100.0
UBS Asset Management (Deutschland) GmbH	Frankfurt, Germany	Asset Management	EUR	7.7	100.0
UBS Asset Management (Hong Kong) Limited	Hong Kong, Hong Kong	Asset Management	HKD	150.0	100.0
UBS Asset Management (Japan) Ltd	Tokyo, Japan	Asset Management	JPY	2,200.0	100.0
UBS Asset Management (Singapore) Ltd	Singapore, Singapore	Asset Management	SGD	4.0	100.0
UBS Asset Management (UK) Ltd	London, United Kingdom	Asset Management	GBP	125.0	100.0
UBS Asset Management AG	Zurich, Switzerland	Asset Management	CHF	0.1	100.0
UBS Australia Holdings Pty Ltd	Sydney, Australia	Investment Bank	AUD	46.7	100.0
UBS Bank, S.A.	Madrid, Spain	Wealth Management	EUR	97.2	100.0
UBS Beteiligungs-GmbH & Co. KG	Frankfurt, Germany	Wealth Management	EUR	568.8	100.0
UBS Card Center AG	Glattbrugg, Switzerland	Personal & Corporate Banking	CHF	0.1	100.0
UBS Credit Corp.	Wilmington, Delaware, USA	Wealth Management Americas	USD	0.0	100.0
UBS Deutschland AG	Frankfurt, Germany	Wealth Management	EUR	176.0	100.0
UBS Fund Advisor, L.L.C.	Wilmington, Delaware, USA	Wealth Management Americas	USD	0.0	100.0
UBS Fund Mangement (Luxembourg) S.A.	Luxembourg, Luxembourg	Asset Management	EUR	13.0	100.0
UBS Fund Mangement (Switzerland) AG	Basel, Switzerland	Asset Management	CHF	1.0	100.0
UBS Hedge Fund Solutions LLC	Wilmington, Delaware, USA	Asset Management	USD	0.1	100.0
UBS Italia SIM SpA	Milan, Italy	Investment Bank	EUR	15.1	100.0
UBS O'Connor LLC	Dover, Delaware, USA	Asset Management	USD	1.0	100.0
UBS Real Estate Securities Inc.	Wilmington, Delaware, USA	Investment Bank	USD	0.0	100.0
UBS Realty Investors LLC	Boston, Massachusetts, USA	Asset Management	USD	9.0	100.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	Investment Bank	THB	500.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	Investment Bank	AUD	0.3[1]	100.0
UBS Securities Canada Inc.	Toronto, Canada	Investment Bank	CAD	10.0	100.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	Investment Bank	EUR	15.0	100.0
UBS Securities India Private Limited	Mumbai, India	Investment Bank	INR	140.0	100.0
UBS Securities Japan Co., Ltd.	Tokyo, Japan	Investment Bank	JPY	46,450.0	100.0
UBS Securities Pte. Ltd.	Singapore, Singapore	Investment Bank	SGD	420.4	100.0
UBS Services LLC	Wilmington, Delaware, USA	Corporate Center	USD	0.0	100.0
UBS South Africa (Proprietary) Limited	Sandton, South Africa	Investment Bank	ZAR	0.0	100.0
UBS Trust Company of Puerto Rico	Hato Rey, Puerto Rico	Wealth Management Americas	USD	0.1	100.0
UBS UK Properties Limited	London, United Kingdom	Corporate Center	GBP	132.0	100.0

1 Includes a nominal amount relating to redeemable preference shares.

Changes in consolidation scope

During 2015, a number of subsidiaries were incorporated in order to improve the resolvability of UBS AG in response to too big to fail requirements, namely UBS Americas Holding LLC, UBS Switzerland AG and UBS Asset Management AG. UBS Fund Services (Cayman) Ltd and a few smaller subsidiaries of Asset Management were removed from the scope of consolidation as part of the sale of the Alternative Fund Services business.

Non-controlling interests

As of 31 December 2015 and 31 December 2014, non-controlling interests were not material to UBS AG. In addition, as of these dates there were no significant restrictions on UBS AG's ability to access or use the assets and settle the liabilities of subsidiaries resulting from protective rights of non-controlling interests.

→ **Refer to the "Statement of changes in equity" for more information**

Consolidated structured entities

UBS AG consolidates a structured entity (SE) if it has power over the relevant activities of the entity, exposure to variable returns and the ability to use its power to affect its returns. Consolidated SEs include certain investment funds, securitization vehicles and client investment vehicles. UBS AG has no individually significant subsidiaries that are SEs.

Investment fund SEs are generally consolidated when UBS AG's aggregate exposure combined with its decision making rights indicate the ability to use such power in a principal capacity. Typically UBS AG will have decision making rights as fund manager, earning a management fee, and will provide seed capital at the inception of the fund or hold a significant percentage of the fund units. Where other investors do not have the substantive ability to remove UBS AG as decision maker, UBS AG is deemed to have control and therefore consolidates the fund.

Securitization SEs are generally consolidated when UBS AG holds a significant percentage of the asset backed securities issued by the SE and has the power to remove without cause the servicer of the asset portfolio.

Client investment SEs are generally consolidated when UBS AG has a substantive liquidation right over the SE or a decision right over the assets held by the SE and has exposure to variable returns through derivatives traded with the SE or holding notes issued by the SE.

In 2015 and 2014, UBS AG has not entered into any contractual obligation that could require UBS AG to provide financial support to consolidated SEs. In addition, UBS AG did not provide support, financial or otherwise, to a consolidated SE when UBS AG was not contractually obligated to do so, nor has UBS AG an intention to do so in the future. Further, UBS AG did not provide support, financial or otherwise, to a previously unconsolidated SE that resulted in UBS AG controlling the SE during the reporting period.

Note 30 Interests in subsidiaries and other entities (continued)

b) Interests in associates and joint ventures

As of 31 December 2015 and 2014, no associate or joint venture was individually material to UBS AG. In addition, there were no significant restrictions on the ability of associates or joint ventures to transfer funds to UBS AG or its subsidiaries in the form of cash dividends or to repay loans or advances made. There were no quoted market prices for any associates or joint ventures of UBS AG.

Investments in associates and joint ventures

CHF million	**31.12.15**	31.12.14
Carrying amount at the beginning of the year	**927**	842
Additions	**12**	1
Disposals	**(2)**	(2)
Share of comprehensive income	**151**	103
of which: share of net profit[1,2]	***169***	*94*
of which: share of other comprehensive income[3]	***(18)***	*9*
Dividends received	**(114)**	(54)
Foreign currency translation	**(20)**	38
Carrying amount at the end of the year	**954**	927
of which: associates	***925***	*900*
of which: UBS Securities Co. Limited, Beijing[4]	***411***	*404*
of which: SIX Group AG, Zurich[5]	***413***	*406*
of which: other associates	***102***	*90*
of which: joint ventures	***29***	*27*

1 For 2015, consists of CHF 158 million from associates and CHF 11 million from joint ventures. For 2014, consists of CHF 83 million from associates and CHF 11 million from joint ventures. 2 In 2015, the SIX Group sold its stake in STOXX Ltd and Indexium Ltd. The UBS share of the resulting gain on sale was CHF 81 million. 3 For 2015, consists of CHF (18) million from associates and CHF 0 million from joint ventures. For 2014, consists of CHF 8 million from associates and CHF 0 million from joint ventures. 4 During 2015, UBS AG's equity interest increased to 24.99% (20.0% as of 31 December 2014). 5 UBS AG's equity interest amounts to 17.3%. UBS AG is represented on the Board of Directors.

Note 30 Interests in subsidiaries and other entities (continued)

c) Interests in unconsolidated structured entities

During 2015, UBS AG sponsored the creation of various SEs and interacted with a number of non-sponsored SEs, including securitization vehicles, client vehicles as well as certain investment funds, which UBS AG did not consolidate as of 31 December 2015 because it did not control these entities.

➔ **Refer to Note 1a item 3 for more information on the nature, purpose, activities and financing structure of these entities**

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

Interests in unconsolidated structured entities

	31.12.15				
CHF million, except where indicated	Securitization vehicles	Client vehicles	Investment funds	Total	Maximum exposure to loss[1]
Trading portfolio assets	1,060	463	6,102	7,624	7,624
Positive replacement values	41	101	57	200	200
Financial assets designated at fair value		97[2]		97	1,636
Loans	0	0	101	101	101
Financial investments available-for-sale		3,396	102	3,498	3,498
Other assets	0	45[2]	0	45	937
Total assets	1,101[3]	4,102	6,362	11,565	
Negative replacement values	30[4]	631	0	661	19
Total liabilities	30[5]	631	0	661	
Assets held by the unconsolidated structured entities in which UBS AG had an interest (CHF billion)	141[6]	43[7]	320[8]		

	31.12.14				
CHF million, except where indicated	Securitization vehicles	Client vehicles	Investment funds	Total	Maximum exposure to loss[1]
Trading portfolio assets	1,955	676	8,079	10,711	10,711
Positive replacement values	26	83	2	111	111
Financial assets designated at fair value		115[2]	102	217	2,422
Loans	466	40	206	712	712
Financial investments available-for-sale		4,029	94	4,123	4,123
Other assets		52[2]		52	1,248
Total assets	2,447[3]	4,996	8,482	15,925	
Negative replacement values	245[4]	27	75	347	21
Total liabilities	245[5]	27	75	347	
Assets held by the unconsolidated structured entities in which UBS AG had an interest (CHF billion)	355[6]	113[7]	304[8]		

1 For purposes of this disclosure, maximum exposure to loss amounts do not consider the risk-reducing effects of collateral or other credit enhancements. 2 Represents the carrying value of loan commitments, both designated at fair value and held at amortized cost. The maximum exposure to loss for these instruments is equal to the notional amount. 3 As of 31 December 2015, CHF 0.9 billion of the CHF 1.1 billion was held in Corporate Center – Non-core and Legacy Portfolio. As of 31 December 2014, CHF 2.2 billion of the CHF 2.4 billion was held in Corporate Center – Non-core and Legacy Portfolio. 4 Comprised of credit default swap (CDS) liabilities and other swap liabilities. The maximum exposure to loss for CDS is equal to the sum of the negative carrying value and the notional amount. For other swap liabilities, no maximum exposure to loss is reported. 5 Entirely held in Corporate Center – Non-core and Legacy Portfolio. 6 Represents principal amount outstanding. 7 Represents the market value of total assets. 8 Represents the net asset value of the investment funds sponsored by UBS AG (31 December 2015: CHF 310 billion, 31 December 2014: CHF 296 billion) and the carrying value of UBS AG's interests in the investment funds not sponsored by UBS (31 December 2015: CHF 10 billion, 31 December 2014: CHF 8 billion).

Note 30 Interests in subsidiaries and other entities (continued)

UBS AG retains or purchases interests in unconsolidated SEs in the form of direct investments, financing, guarantees, letters of credit, derivatives and through management contracts.

For retained interests, UBS AG's maximum exposure to loss is generally equal to the carrying value of UBS AG's interest in the SE, with the exception of guarantees, letters of credit and credit derivatives for which the contract's notional amount, adjusted for losses already incurred, represents the maximum loss that UBS AG is exposed to. In addition, the current fair value of derivative swap instruments with a positive replacement value only, such as total return swaps, is presented as UBS AG's maximum exposure to loss. Risk exposure for these swap instruments could change over time with market movements.

The maximum exposure to loss disclosed in the table on the previous page does not reflect UBS AG's risk management activities, including effects from financial instruments that UBS AG may utilize to economically hedge the risks inherent in the unconsolidated SE or the risk-reducing effects of collateral or other credit enhancements.

In 2015 and 2014, UBS AG did not provide support, financial or otherwise, to an unconsolidated SE when UBS AG was not contractually obligated to do so, nor has UBS AG an intention to do so in the future.

In 2015 and 2014, income and expenses from interests in unconsolidated SEs primarily resulted from mark-to-market movements recognized in net trading income, which have generally been hedged with other financial instruments, as well as fee and commission income received from UBS sponsored funds.

Interests in securitization vehicles

As of 31 December 2015 and 31 December 2014, UBS AG retained interests in various securitization vehicles. As of 31 December 2015, a majority of our interests in securitization vehicles related to a portfolio of credit default swap (CDS) positions referencing asset-backed securities (ABS), which are held within Corporate Center – Non-core and Legacy Portfolio. The Investment Bank also retained interests in securitization vehicles related to financing, underwriting, secondary market and derivative trading activities.

In some cases UBS AG may be required to absorb losses from an unconsolidated SE before other parties because UBS AG's interest is subordinated to others in the ownership structure. An overview of UBS AG's interests in unconsolidated securitization vehicles and the relative ranking and external credit rating of those interests as of 31 December 2015 and 31 December 2014 is presented in the table on the following page.

➔ **Refer to Note 1a items 3 and 12 for more information on when UBS AG is viewed as the sponsor of an SE and for UBS AG's accounting policies regarding securitization vehicles established by UBS AG**

Interests in client vehicles

As of 31 December 2015 and 31 December 2014, UBS AG retained interests in client vehicles sponsored by UBS AG and third parties that relate to financing and derivative activities and to hedge structured product offerings. Included within these investments are securities guaranteed by US government agencies.

Interests in investment funds

UBS AG holds interests in a number of investment funds, primarily resulting from seed investments or to hedge structured product offerings. In addition to the interests disclosed in the table on the previous page, UBS AG manages the assets of various pooled investment funds and receives fees that are based, in whole or part, on the net asset value of the fund and/or the performance of the fund. The specific fee structure is determined based on various market factors and considers the nature of the fund, the jurisdiction of incorporation as well as fee schedules negotiated with clients. These fee contracts represent an interest in the fund as they align UBS AG's exposure to investors, providing a variable return that is based on the performance of the entity. Depending on the structure of the fund, these fees may be collected directly from the fund assets and/or from the investors. Any amounts due are collected on a regular basis and are generally backed by the assets of the fund. UBS AG did not have any material exposure to loss from these interests as of 31 December 2015 or as of 31 December 2014.

Note 30 Interests in subsidiaries and other entities (continued)

Interests in unconsolidated securitization vehicles[1]

	31.12.15				
CHF million, except where indicated	Residential mortgage-backed securities	Commercial mortgage-backed securities	Other asset-backed securities[2]	Re-securiti-zation[3]	Total
Sponsored by UBS AG					
Interests in senior tranches	0	54	0	13	66
of which: rated investment grade		*54*	*0*		*54*
of which: defaulted				*13*	*13*
Interests in mezzanine tranches	3	7	0	0	10
of which: rated investment grade		*7*			*7*
of which: rated sub-investment grade	*2*				*2*
of which: defaulted	*1*				*1*
Total	3	61	0	13	77
of which: Trading portfolio assets	*3*	*61*	*0*	*13*	*77*
Total assets held by the vehicles in which UBS AG had an interest (CHF billion)	0	28	0	1	29
Not sponsored by UBS AG					
Interests in senior tranches	284	66	383	140	873
of which: rated investment grade	*284*	*65*	*383*	*140*	*872*
Interests in mezzanine tranches	61	17	17	0	95
of which: rated investment grade	*58*	*17*	*17*	*0*	*92*
of which: defaulted	*3*				*3*
Interests in junior tranches	11	3	0	0	14
of which: rated investment grade	*11*	*0*			*11*
of which: not rated	*0*	*3*			*3*
Total	356	86	400	140	983
of which: Trading portfolio assets	*356*	*86*	*400*	*140*	*983*
Total assets held by the vehicles in which UBS AG had an interest (CHF billion)	64	37	6	2	109

1 This table excludes derivative transactions with securitization vehicles. 2 Includes credit card, car and student loan structures. 3 Includes collateralized debt obligations.

Note 30 Interests in subsidiaries and other entities (continued)

Interests in unconsolidated securitization vehicles[1] (continued)

	31.12.14				
CHF million, except where indicated	Residential mortgage-backed securities	Commercial mortgage-backed securities	Other asset-backed securities[2]	Re-securitization[3]	Total
Sponsored by UBS AG					
Interests in senior tranches	0	59	1	389	450
of which: rated investment grade	*0*	*59*	*1*	*381*	*442*
of which: defaulted				*8*	*8*
Interests in mezzanine tranches	1	16	0	6	22
of which: rated investment grade		*7*		*6*	*13*
of which: defaulted	*1*	*1*			*2*
of which: not rated		*8*			*8*
Total	1	75	1	395	472
of which: Trading portfolio assets	*1*	*75*	*1*	*14*	*91*
of which: Loans				*381*	*381*
Total assets held by the vehicles in which UBS AG had an interest (CHF billion)	1	14	3	2	20
Not sponsored by UBS AG					
Interests in senior tranches	376	293	454	207	1,329
of which: rated investment grade	*369*	*286*	*452*	*205*	*1,313*
of which: rated sub-investment grade	*6*	*6*	*2*	*1*	*15*
Interests in mezzanine tranches	154	143	172	62	531
of which: rated investment grade	*134*	*105*	*164*	*54*	*457*
of which: rated sub-investment grade	*15*	*37*	*8*	*8*	*69*
of which: defaulted	*5*	*1*		*0*	*5*
Interests in junior tranches	68	18	1	2	89
of which: rated investment grade	*56*	*11*			*67*
of which: rated sub-investment grade	*4*	*6*			*10*
of which: defaulted	*0*	*0*	*1*		*1*
of which: not rated	*8*	*1*		*2*	*11*
Total	598	453	627	271	1,949
of which: Trading portfolio assets	*598*	*453*	*588*	*225*	*1,865*
of which: Loans		*0*	*39*	*46*	*85*
Total assets held by the vehicles in which UBS AG had an interest (CHF billion)	115	115	88	12	331

1 This table excludes derivative transactions with securitization vehicles. 2 Includes credit card, car and student loan structures. 3 Includes collateralized debt obligations.

Sponsored unconsolidated structured entities in which UBS AG did not have an interest

For several sponsored SEs, no interest was held by UBS AG as of 31 December 2015 or as of 31 December 2014. However, during the respective reporting period UBS AG transferred assets, provided services and held instruments that did not qualify as an interest in these sponsored SEs, and accordingly earned income or incurred expenses from these entities. The table below presents the income earned and expenses incurred directly from these entities during 2015 and 2014 as well as corresponding asset information. The table does not include income earned and expenses incurred from risk management activities, including income and expenses from financial instruments that UBS AG may utilize to economically hedge instruments transacted with the unconsolidated SEs.

Sponsored unconsolidated structured entities in which UBS AG did not have an interest at year end[1]

	As of or for the year ended			
	31.12.15			
CHF million, except where indicated	Securitization vehicles	Client vehicles	Investment funds	Total
Net interest income	2	(11)	0	(10)
Net fee and commission income	0	0	57	57
Net trading income	18	208	48	274
Total income	20	197	104	321
Asset information (CHF billion)	8[2]	1[3]	12[4]	

	As of or for the year ended			
	31.12.14			
CHF million, except where indicated	Securitization vehicles	Client vehicles	Investment funds	Total
Net interest income	6	(51)		(44)
Net fee and commission income			54	54
Net trading income	63	(158)	10	(85)
Total income	69	(208)	64	(75)
Asset information (CHF billion)	4[2]	1[3]	14[4]	

1 These tables exclude profit attributable to preferred noteholders of CHF 77 million for the year ended 31 December 2015 and CHF 142 million for the year ended 31 December 2014. 2 Represents the amount of assets transferred to the respective securitization vehicles. Of the total amount transferred, CHF 3 billion was transferred by UBS AG (31 December 2014: CHF 1 billion) and CHF 5 billion was transferred by third parties (31 December 2014: CHF 3 billion). 3 Represents total assets transferred to the respective client vehicles. Of the total amount transferred, CHF 1 billion was transferred by UBS AG (31 December 2014: CHF 1 billion) and CHF 1 billion was transferred by third parties (31 December 2014: CHF 1 billion). 4 Represents the total net asset value of the respective investment funds.

Note 30 Interests in subsidiaries and other entities (continued)

During 2015 and 2014, UBS AG primarily earned fees and recognized net trading income from sponsored SEs in which UBS AG did not hold an interest. The majority of the fee income arose from investment funds that are sponsored and administrated by UBS AG, but managed by third parties. As UBS AG does not provide any active management services, UBS AG was not exposed to risk from the performance of these entities and was therefore deemed not to have an interest in them.

In certain structures, the fees receivable for administrative purposes may be collected directly from the investors and have therefore not been included in the table above.

In addition, UBS AG incurred net trading income from mark-to-market movements arising primarily from derivatives, such as interest rate swaps and credit derivatives, in which UBS AG purchases protection, and financial liabilities designated at fair value, which do not qualify as interests because UBS AG does not absorb variability from the performance of the entity. The net income reported does not reflect economic hedges or other mitigating effects from UBS AG's risk management activities.

During 2015, UBS AG and third parties transferred assets totaling CHF 9 billion (2014: CHF 6 billion) into sponsored securitization and client vehicles created in 2015. For sponsored investment funds, transfers arose during the period as investors invested and redeemed positions, thereby changing the overall size of the funds, which, when combined with market movements, resulted in a total closing net asset value of CHF 12 billion (31 December 2014: CHF 14 billion).

Note 31 Business combinations

In 2015 and 2014, UBS AG did not complete any significant business combinations.

Note 32 Changes in organization and disposals

Measures to improve the resolvability of the Group in response to too big to fail requirements in Switzerland and other countries in which the Group operates

In December 2014, UBS Group AG completed an exchange offer for the shares of UBS AG and established UBS Group AG as the holding company for UBS Group. During 2015, UBS Group AG filed and completed a court procedure under article 33 of the Swiss Stock Exchange Act (SESTA procedure) resulting in the cancellation of the shares of the remaining minority shareholders of UBS AG. As a result, UBS Group AG now owns 100% of the outstanding shares of UBS AG.

In June 2015, UBS AG transferred its Personal & Corporate Banking and Wealth Management business booked in Switzerland to UBS Switzerland AG.

In the second quarter of 2015, UBS AG also completed the implementation of a more self-sufficient business and operating model for UBS Limited, its investment banking subsidiary in the UK, under which UBS Limited bears and retains a larger proportion of the risk and reward in its business activities.

Also during 2015, UBS AG established a new subsidiary, UBS Americas Holding LLC, which UBS AG intends to designate as its intermediate holding company for its US subsidiaries prior to the 1 July 2016 deadline under new rules for foreign banks in the US pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). During the third quarter of 2015, UBS AG contributed its equity participation in the principal US operating subsidiaries to UBS Americas Holding LLC to meet the requirement under Dodd-Frank that the intermediate holding company own all of our US operations, except branches of UBS AG.

Lastly, UBS AG also established UBS Asset Management AG, a new subsidiary, in 2015.

Sale of subsidiaries and businesses

In 2015, UBS AG sold its Alternative Fund Services (AFS) business to Mitsubishi UFJ Financial Group Investor Services. The Asset Management Investment Fund Services business, which provides fund administration for traditional mutual funds, was not included in the sale. Upon completion of the sale, UBS AG recognized a gain on sale of CHF 56 million and reclassified an associated net foreign currency translation gain of CHF 119 million from *Other comprehensive income* to the *Income statement.*

Also during 2015, UBS AG completed the sale of certain subsidiaries and businesses within Wealth Management, which resulted in the recognition of a combined gain of CHF 197 million.

Finally, in 2015, UBS AG agreed to sell certain businesses within Wealth Management and these sales are expected to close in 2016 subject to customary closing conditions. As of 31 December 2015, the assets and liabilities of these subsidiaries and businesses were presented as a disposal group held-for-sale within *Other assets* and *Other liabilities* and amounted to CHF 279 million and CHF 235 million, respectively. UBS recognized a loss of CHF 28 million in 2015 related to these sales.

Restructuring expenses

Restructuring expenses arise from programs that materially change either the scope of business undertaken by UBS AG or the manner in which such business is conducted. Restructuring expenses are temporary costs that are necessary to effect such programs and include items such as severance and other personnel-related expenses, duplicate headcount costs, impairment and accelerated depreciation of assets, contract termination costs, consulting fees, and related infrastructure and system costs. These costs are presented in the income statement according to the underlying nature of the expense. As the costs associated with restructuring programs are temporary in nature, and in order to provide a more thorough understanding of business performance, such costs are separately presented in this Note.

Note 32 Changes in organization and disposals

Net restructuring expenses by business division and Corporate Center unit

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Wealth Management	**323**	185	178
Wealth Management Americas	**137**	55	59
Personal & Corporate Banking	**101**	64	54
Asset Management	**82**	50	43
Investment Bank	**396**	261	210
Corporate Center	**194**	61	229
of which: Services	***138***	*30*	*(6)*
of which: Non-core and Legacy Portfolio	***56***	*31*	*235*
Total net restructuring expenses	**1,233**	677	772
of which: personnel expenses	***458***	*327*	*156*
of which: general and administrative expenses	***760***	*319*	*548*
of which: depreciation and impairment of property, equipment and software	***12***	*29*	*68*
of which: amortization and impairment of intangible assets	***2***	*2*	*0*

Net restructuring expenses by personnel expense category

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Salaries	**311**	145	65
Variable compensation – performance awards	**38**	35	(15)
Variable compensation – other	**108**	138	88
Contractors	**46**	28	3
Social security	**5**	4	5
Pension and other post-employment benefit plans	**(65)**	(29)	8
Other personnel expenses	**15**	6	3
Total net restructuring expenses: personnel expenses	**458**	327	156

Net restructuring expenses by general and administrative expense category

	For the year ended		
CHF million	**31.12.15**	31.12.14	31.12.13
Occupancy	**109**	49	35
Rent and maintenance of IT and other equipment	**31**	23	8
Administration	**7**	3	2
Travel and entertainment	**16**	11	4
Professional fees	**187**	148	76
Outsourcing of IT and other services	**316**	82	59
Other[1]	**95**	2	364
Total net restructuring expenses: general and administrative expenses	**760**	319	548

1 Mainly comprised of onerous real estate lease contracts.

Note 33 Operating leases and finance leases

Information on lease contracts classified as operating leases where UBS AG is the lessee is provided in Note 33a and information on finance leases where UBS AG acts as a lessor is provided in Note 33b.

a) Operating lease commitments

As of 31 December 2015, UBS AG was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions, as well as rent adjustments based on price indices. However, the lease agreements do not contain contingent rent payment clauses and purchase options, nor do they impose any restrictions on UBS AG's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

CHF million	31.12.15
Expenses for operating leases to be recognized in:	
2016	743
2017	683
2018	558
2019	475
2020	413
2021 and thereafter	1,858
Subtotal commitments for minimum payments under operating leases	4,730
Less: Sublease rental income commitments	348
Net commitments for minimum payments under operating leases	**4,382**

CHF million	31.12.15	31.12.14	31.12.13
Gross operating lease expense recognized in the income statement	**741**	759	792
Sublease rental income	70	73	74
Net operating lease expense recognized in the income statement	**671**	686	718

b) Finance lease receivables

UBS AG leases a variety of assets to third parties under finance leases, such as commercial vehicles, production lines, medical equipment, construction equipment and aircrafts. At the end of the respective leases, assets may be sold to third parties or be leased further. Lessees may participate in any sales proceeds achieved. Leasing charges cover the cost of the assets less their residual value as well as financing costs.

As of 31 December 2015, unguaranteed residual values of CHF 167 million had been accrued, and the accumulated allowance for uncollectible minimum lease payments receivable amounted to CHF 10 million. No contingent rents were received in 2015.

Lease receivables

CHF million	31.12.15		
	Total minimum lease payments	Unearned finance income	Present value
2016	341	23	318
2017–2020	651	38	613
thereafter	158	6	152
Total	**1,150**	**67**	**1,083**

Note 34 Related parties

UBS AG defines related parties as associates (entities which are significantly influenced by UBS AG), post-employment benefit plans for the benefit of UBS AG employees, key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled or jointly controlled by key management personnel or their close family members. Key management personnel is defined as members of the Board of Directors (BoD) and Group Executive Board (GEB).

a) Remuneration of key management personnel

The non-independent members of the BoD have top management employment contracts and receive pension benefits upon retirement. Total remuneration of the non-independent members of the BoD and GEB members, including those who stepped down during 2015, is provided in the table below.

Remuneration of key management personnel

CHF million	**31.12.15**	31.12.14	31.12.13
Base salaries and other cash payments	**21**[1]	22[1]	19
Incentive awards – cash[2]	**9**	8	10
Annual incentive award under DCCP	**20**	18	19
Employer's contributions to retirement benefit plans	**1**	2	2
Benefits in kind, fringe benefits (at market value)	**2**	1	2
Equity-based compensation[3]	**39**	35	38
Total	**92**	86	89

1 Includes role-based allowances that have been made in line with with market practice in response to the EU Capital Requirements Directive of 2013 (CRD IV). 2 Includes immediate and deferred cash. 3 Expenses for shares granted is measured at grant date and allocated over the vesting period, generally for 5 years. In 2015, 2014 and 2013, equity-based compensation was entirely comprised of EOP awards.

The independent members of the BoD do not have employment or service contracts with UBS AG, and thus are not entitled to benefits upon termination of their service on the BoD. Payments to these individuals for their services as external board members amounted to CHF 6.7 million in 2015, CHF 7.1 million in 2014 and CHF 7.6 million in 2013.

b) Equity holdings of key management personnel

	31.12.15	31.12.14
Number of stock options from equity participation plans held by non-independent members of the BoD and the GEB members[1]	**1,401,686**	1,738,598
Number of shares held by members of the BoD, GEB and parties closely linked to them[2]	**3,324,650**	3,716,957

1 Refer to Note 29 for more information. 2 Excludes shares granted under variable compensation plans with forfeiture provisions.

Of the share totals above, 95,597 shares were held by close family members of key management personnel on 31 December 2015 and 31 December 2014. No shares were held by entities that are directly or indirectly controlled or jointly controlled by key management personnel or their close family members on 31 December 2015 and 31 December 2014. Refer to Note 29 for more information. As of 31 December 2015, no member of the BoD or GEB was the beneficial owner of more than 1% of UBS Group AG's shares.

c) Loans, advances and mortgages to key management personnel

Non-independent members of the BoD and GEB members have been granted loans, fixed advances and mortgages on the same terms and conditions that are available to other employees, which are based on terms and conditions granted to third parties but are adjusted for differing credit risk. Independent BoD members are granted loans and mortgages under general market conditions.

Movements in the loan, advances and mortgage balances are as follows.

Loans, advances and mortgages to key management personnel[1]

CHF million	2015	2014
Balance at the beginning of the year	27	20
Additions	6	10
Reductions	(1)	(3)
Balance at the end of the year	33	27

1 Loans are granted by UBS AG. All loans are secured loans.

d) Other related party transactions with entities controlled by key management personnel

In 2015, UBS AG did not enter into transactions with entities which are directly or indirectly controlled or jointly controlled by UBS AG's key management personnel or their close family members. In 2014, UBS AG entered into transactions with Immo Heudorf AG (Switzerland).

Other related party transactions

CHF million	2015	2014
Balance at the beginning of the year	0	10
Additions	0	0
Reductions	0	10
Balance at the end of the year[1]	0	0

1 Comprised of loans.

In 2014 and 2015, entities controlled by key management personnel did not sell goods or provide services to UBS AG, and therefore did not receive any fees from UBS AG. Furthermore, UBS AG did not provide services to such entities in both 2014 and 2015, and therefore also did not receive any fees.

Note 34 Related parties (continued)

e) Transactions with associates and joint ventures

Loans and outstanding receivables to associates and joint ventures

CHF million	**2015**	2014
Carrying value at the beginning of the year	**552**	288
Additions	**9**	313
Reductions	**(85)**	(1)
Impairment	**0**	(51)
Foreign currency translation	**0**	3
Carrying value at the end of the year	**476**	552
of which: unsecured loans	***464***	*539*
includes allowances for credit losses	***1***	*1*

Other transactions with associates and joint ventures

	As of or for the year ended	
CHF million	**31.12.15**	31.12.14
Payments to associates and joint ventures for goods and services received	**149**	169
Fees received for services provided to associates and joint ventures	**7**	1
Commitments and contingent liabilities to associates and joint ventures	**4**	2

➔ **Refer to Note 30 for an overview of investments in associates and joint ventures**

f) Receivables and payables from / to UBS Group AG and other subsidiaries of UBS Group AG

CHF million	**2015**	2014
Receivables		
Loans	**774**	227
Trading portfolio assets	**12**	0
Other assets	**93**	80
Payables		
Due to customers	**12,323**	772
Other liabilities	**943**	511

Note 35 Invested assets and net new money

Invested assets

Invested assets include all client assets managed by or deposited with UBS AG for investment purposes. Invested assets include managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. All assets held for purely transactional purposes and custody-only assets, including corporate client assets held for cash management and transactional purposes, are excluded from invested assets as UBS AG only administers the assets and does not offer advice on how the assets should be invested. Also excluded are non-bankable assets (e.g., art collections) and deposits from third-party banks for funding or trading purposes.

Discretionary assets are defined as client assets that UBS AG decides how to invest. Other invested assets are those where the client ultimately decides how the assets are invested. When a single product is created in one business division and sold in another, it is counted in both the business division that manages the investment and the one that distributes it. This results in double counting within UBS AG total invested assets, as both business divisions are independently providing a service to their respective clients, and both add value and generate revenue.

Net new money

Net new money in a reporting period is the amount of invested assets that are entrusted to UBS AG by new and existing clients, less those withdrawn by existing clients and clients who terminated their relationship with UBS AG.

Net new money is calculated using the direct method, under which inflows and outflows to/from invested assets are determined at the client level based on transactions. Interest and dividend income from invested assets are not counted as net new money inflows. Market and currency movements as well as fees, commissions and interest on loans charged are excluded from net new money, as are the effects resulting from any acquisition or divestment of a UBS AG subsidiary or business. Reclassifications between invested assets and custody-only assets as a result of a change in the service level delivered are generally treated as net new money flows; however, where such change in service level directly results from a new externally-imposed regulation, the one-time net effect of the implementation is reported as an asset reclassification without net new money impact.

The Investment Bank does not track invested assets and net new money. However, when a client is transferred from the Investment Bank to another business division, this produces net new money even though client assets were already with UBS AG. There were no such transfers between the Investment Bank and other business divisions in 2015 and 2014.

Invested assets and net new money

	For the year ended	
CHF billion	**31.12.15**	31.12.14
Fund assets managed by UBS	**282**	270
Discretionary assets	**830**	854
Other invested assets	**1,577**	1,610
Total invested assets[1]	**2,689**	2,734
of which: double count	***185***	*173*
Net new money[1]	**27.7**	58.9

1 Includes double counts.

Development of invested assets

	For the year ended	
CHF billion	**31.12.15**	31.12.14
Total invested assets at the beginning of the year[1]	**2,734**	2,390
Net new money	**28**	59
Market movements[2]	**(24)**	115
Foreign currency translation	**(31)**	173
Other effects	**(16)**	(3)
of which: acquisitions / (divestments)	***(16)***	*0*
Total invested assets at the end of the year[1]	**2,689**	2,734

1 Includes double counts. 2 Includes interest and dividend income.

Note 36 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of foreign operations into Swiss francs.

	Spot rate		Average rate[1]		
	As of		For the year ended		
	31.12.15	31.12.14	**31.12.15**	31.12.14	31.12.13
1 USD	**1.00**	0.99	**0.97**	0.92	0.92
1 EUR	**1.09**	1.20	**1.06**	1.21	1.23
1 GBP	**1.48**	1.55	**1.47**	1.51	1.45
100 JPY	**0.83**	0.83	**0.80**	0.86	0.95

1 Monthly income statement items of foreign operations with a functional currency other than the Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a year represent an average of 12 month-end rates, weighted according to the income and expense volumes of all foreign operations with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for UBS AG.

Note 37 Events after the reporting period

There have been no material events after the reporting period which would require disclosure in or adjustment to the 31 December 2015 Financial Statements.

Note 38 Swiss GAAP requirements

The consolidated financial statements of UBS AG are prepared in accordance with International Financial Reporting Standards (IFRS). The Swiss Financial Market Supervisory Authority (FINMA) requires financial groups that present their financial statements under IFRS to provide a narrative explanation of the main differences between IFRS and Swiss GAAP (FINMA Circular 2015/1 and the Banking Ordinance). Included in this Note are the significant differences in the recognition and measurement between IFRS and the provisions of the Banking Ordinance and the guidelines of FINMA governing true and fair view financial statement reporting pursuant to Article 25 through Article 42 of the Banking Ordinance.

1. Consolidation

Under IFRS, all entities that are controlled by the holding entity are consolidated.

Under Swiss GAAP, controlled entities that are deemed immaterial to the group or that are held temporarily only are exempt from consolidation, but instead are recorded as participations or financial investments.

2. Financial investments classified as available-for-sale

Under IFRS, financial investments classified as available-for-sale are carried at fair value. Changes in fair value are recorded directly in equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in equity is included in net profit or loss for the period. On disposal of a financial investment classified as available-for-sale, the cumulative unrealized gain or loss previously recognized in equity is reclassified to the income statement.

Under Swiss GAAP, classification and measurement of financial investments designated as available-for-sale depends on the nature of the investment. Equity instruments with no permanent holding intent, as well as debt instruments, are classified as *Financial investments* and measured at the lower of (amortized) cost or market value. Market value adjustments up to the original cost amount and realized gains or losses upon disposal of the investment are recorded in the income statement as *Other income from ordinary activities.* Equity instruments with a permanent holding intent are classified as participations in *Investments in subsidiaries and other participations* and measured at cost less impairment. Impairment losses are recorded in the income statement as *Impairment of investments in subsidiaries and other participations.* Reversal of impairments up to the original cost amount as well as realized gains or losses upon disposal of the investment are recorded as *Extraordinary income/Extraordinary expenses* in the income statement.

3. Cash flow hedges

Under IFRS, when hedge accounting is applied, the fair value gain or loss on the effective portion of the derivative designated as a cash flow hedge is recognized in equity. When the hedged cash flows materialize, the accumulated unrealized gain or loss is reclassified to the income statement.

Under Swiss GAAP, the effective portion of the fair value change of the derivative instrument used to hedge cash flow exposures is deferred on the balance sheet as *Other assets* or *Other liabilities*. The deferred amounts are released to the income statement when the hedged cash flows materialize.

4. Fair value option

Under IFRS, UBS AG applies the fair value option to certain financial assets and financial liabilities not held for trading. Instruments for which the fair value option is applied are accounted for at fair value with changes in fair value reflected in *Net trading income*. The fair value option is applied primarily to structured debt instruments, certain non-structured debt instruments, structured reverse repurchase and repurchase agreements and securities borrowing agreements, certain structured and non-structured loans as well as loan commitments.

Under Swiss GAAP, the fair value option can only be applied to structured debt instruments that consist of a debt host contract and one or more embedded derivatives that do not relate to own equity. Furthermore, changes in fair value attributable to changes in unrealized own credit are not recognized in the income statement and the balance sheet.

Note 38 Swiss GAAP requirements (continued)

5. Goodwill and intangible assets

Under IFRS, goodwill acquired in a business combination is not amortized but tested annually for impairment. Intangible assets with an indefinite useful life are also not amortized but tested annually for impairment.

Under Swiss GAAP, goodwill and intangible assets with indefinite useful lives are amortized over a period not exceeding five years, unless a longer useful life, which may not exceed 10 years, can be justified.

6. Pension and other post-employment benefit plans

Swiss GAAP permits the use of IFRS or Swiss accounting standards for pension and other post-employment benefit plans, with the election made on a plan-by-plan basis.

UBS AG has elected to apply IFRS (IAS 19) for the non-Swiss defined benefit plans and Swiss GAAP (FER 16) for the Swiss pension plan in its standalone financial statements. The requirements of Swiss GAAP are better aligned with the specific nature of Swiss pension plans, which are hybrid in that they combine elements of defined contribution and defined benefit plans, but are treated as defined benefit plans under IFRS. Key differences between Swiss GAAP and IFRS include the treatment of dynamic elements, such as future salary increases and future interest credits on retirement savings, which are not considered under the static method used in accordance with Swiss GAAP. Also, the discount rate used to determine the defined benefit obligation in accordance with IFRS is based on the yield of high-quality corporate bonds of the market in the respective pension plan country. The discount rate used in accordance with Swiss GAAP, i.e., the technical interest rate, is determined by the Pension Foundation Board based on the expected returns of the Board's investment strategy.

For defined benefit plans, IFRS requires the full defined benefit obligation net of the plan assets to be recorded on the balance sheet, with changes resulting from remeasurements recognized directly in equity. However, for plans for which IFRS is elected, Swiss GAAP requires that changes due to remeasurements are recognized in the income statement.

Swiss GAAP requires that employer contributions to the pension fund are recognized as personnel expenses in the income statement. Further, Swiss GAAP requires an assessment as to whether, based on the financial statements of the pension fund prepared in accordance with Swiss accounting standards (FER 26), an economic benefit to, or obligation of, the employer arises from the pension fund and is recognized in the balance sheet when conditions are met. Conditions for recording a pension asset or liability would be met if, for example, an employer contribution reserve is available or the employer is required to contribute to the reduction of a pension deficit (on a FER 26 basis).

7. Netting of replacement values

Under IFRS, replacement values and related cash collateral are reported on a gross basis unless the restrictive IFRS netting requirements are met: i) existence of master netting agreements and related collateral arrangements that are unconditional and legally enforceable, both in the normal course of business and in the event of default, bankruptcy or insolvency of UBS AG and its counterparties, and ii) UBS AG's intention to either settle on a net basis or to realize the asset and settle the liability simultaneously.

Under Swiss GAAP, replacement values and related cash collateral are generally reported on a net basis, provided the master netting and the related collateral agreements are legally enforceable in the event of default, bankruptcy or insolvency of UBS AG's counterparties.

8. Negative interest

Under IFRS, negative interest income arising on a financial asset does not meet the definition of interest income and, therefore, negative interest on financial assets and negative interest on financial liabilities is presented within interest expense and interest income, respectively.

Under Swiss GAAP, negative interest on financial assets is presented within interest income and negative interest on financial liabilities is presented within interest expense.

9. Extraordinary income and expense

Certain non-recurring and non-operating income and expense items, such as realized gains or losses from the disposal of participations, fixed and intangible assets, as well as reversals of impairments of participations and fixed assets, are classified as extraordinary items under Swiss GAAP. This distinction is not available under IFRS.

10. Other presentational differences

Under IFRS, financial statements are comprised of an Income statement, Statement of comprehensive income, Balance sheet, Statement of changes in equity, Statement of cash flows and Notes to the financial statements. Under Swiss GAAP, the concept of other comprehensive income does not exist and consequently no Statement of comprehensive income is required. In addition, various other presentational differences exist. ▲

Note 39 Supplemental guarantor information required under SEC regulations

Guarantee of PaineWebber securities

Prior to its acquisition by UBS in 2000, Paine Webber Group Inc. (PaineWebber) was an SEC registrant. Upon acquisition, PaineWebber was merged into UBS Americas Inc., a wholly owned subsidiary of UBS AG. Following the acquisition, UBS AG entered into a full and unconditional guarantee of the senior notes (Debt Securities) issued by PaineWebber. Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS AG without first proceeding against UBS Americas Inc.

As of 31 December 2015, the amount of outstanding senior notes of UBS Americas Inc. was approximately CHF 150 million. These senior notes mature between 2017 and 2018.

Guarantee of other securities

Certain US-domiciled entities that are 100% legally owned by UBS AG have outstanding trust preferred securities, which are registered under the US Securities Act. These entities, UBS Preferred Funding Trust IV and UBS Preferred Funding Trust V, are not consolidated by UBS AG as UBS AG does not absorb any variability from the performance of these entities. However, UBS AG has fully and unconditionally guaranteed these securities. The non-consolidated issuing US domiciled entities are presented in a separate column in the supplemental guarantor information provided in the following tables. Amounts presented in this column are eliminated in the Elimination entries column, as these entities are not consolidated. UBS AG's obligations under the guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS AG and all other liabilities of UBS AG.

As of 31 December 2015, the outstanding amount of the preferred securities was USD 1.3 billion and the amount of senior liabilities of UBS AG to which the holders of these securities would be subordinated was approximately CHF 872 billion.

Joint liability of UBS Switzerland AG

In June 2015, the Retail & Corporate and Wealth Management businesses booked in Switzerland were transferred from UBS AG to UBS Switzerland AG through an asset transfer in accordance with the Swiss Merger Act. Under the terms of the asset transfer agreement, UBS Switzerland AG assumed joint liability for contractual obligations of UBS AG existing on the asset transfer date, including the existing guarantee of abovementioned PaineWebber and other securities. To reflect this joint liability, UBS Switzerland AG is, on a prospective basis, presented in a separate column as a subsidiary co-guarantor.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2015	UBS AG (standalone)[1]	UBS Switzerland AG (standalone)[1]	UBS Americas Inc.[2]	UBS Preferred Funding Trust IV & V	Other subsidiaries[2]	Elimination entries	UBS AG (consolidated)
Operating income							
Interest income	8,911	3,040	1,662	63	1,515	(2,013)	13,178
Interest expense	(5,882)	(544)	(590)		(1,321)	1,888	(6,449)
Net interest income	3,029	2,496	1,072	63	194	(125)	6,729
Credit loss (expense) / recovery	(109)	(12)	0		4	0	(117)
Net interest income after credit loss expense	2,921	2,484	1,072	63	198	(126)	6,612
Net fee and commission income	2,852	2,539	7,751		4,115	(72)	17,184
Net trading income	5,252	709	274		224	(763)	5,696
Other income	10,335	564	496		(917)	(9,366)	1,112
Total operating income	21,359	6,296	9,592	63	3,620	(10,326)	30,605
Operating expenses							
Personnel expenses	6,800	1,607	6,281		1,265	0	15,954
General and administrative expenses	549	2,579	3,442		1,647	2	8,219
Depreciation and impairment of property, equipment and software	672	11	159		76	0	918
Amortization and impairment of intangible assets	22		73		12	0	107
Total operating expenses	8,044	4,197	9,955		3,001	2	25,198
Operating profit / (loss) before tax	13,315	2,099	(362)	63	619	(10,327)	5,407
Tax expense / (benefit)	1,136	489	(1,200)		(1,317)	(16)	(908)
Net profit / (loss)	12,180	1,610	837	63	1,936	(10,313)	6,314
Net profit / (loss) attributable to preferred noteholders	77			31		(31)	77
Net profit / (loss) attributable to non-controlling interests					3	0	3
Net profit / (loss) attributable to UBS AG shareholders	12,103	1,610	837	32	1,933	(10,281)	6,235

1 Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the UBS AG standalone and UBS Switzerland AG standalone financial statements for information prepared in accordance with Swiss GAAP. 2 Amounts presented in these columns serve as a basis for preparing UBS AG consolidated financial statements in accordance with IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of comprehensive income

CHF million For the year ended 31 December 2015	UBS AG (standalone)[1]	UBS Switzerland AG (standalone)[1]	UBS Americas Inc.[2]	UBS Preferred Funding Trust IV & V	Other subsidiaries[2]	Elimination entries	UBS AG (consolidated)
Comprehensive income attributable to UBS AG shareholders							
Net profit / (loss)	12,103	1,610	837	32	1,933	(10,281)	6,235
Other comprehensive income							
Other comprehensive income that may be reclassified to the income statement							
Foreign currency translation, net of tax	(11)	0	121		(843)	467	(266)
Financial investments available-for-sale, net of tax	(51)	43	(21)		(16)	(19)	(64)
Cash flow hedges, net of tax	(503)	(72)	0		0	57	(518)
Total other comprehensive income that may be reclassified to the income statement, net of tax	(564)	(29)	100	0	(859)	504	(848)
Other comprehensive income that will not be reclassified to the income statement							
Defined benefit plans, net of tax	701	(337)	(71)		27	(15)	304
Total other comprehensive income that will not be reclassified to the income statement, net of tax	701	(337)	(71)	0	27	(15)	304
Total other comprehensive income	136	(366)	29	0	(832)	489	(545)
Total comprehensive income attributable to shareholders	12,239	1,244	866	32	1,101	(9,792)	5,690
Total comprehensive income attributable to preferred noteholders	18	0	0	0	0	0	18
Total comprehensive income attributable to non-controlling interests	0	0	0	0	1	0	1
Total comprehensive income attributable to UBS Preferred Funding Trust IV & V	0	0	0	40	0	(40)	0
Total comprehensive income	12,257	1,244	866	72	1,102	(9,832)	5,709

1 Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the UBS AG standalone and UBS Switzerland AG standalone financial statements for information prepared in accordance with Swiss GAAP. 2 Amounts presented in these columns serve as a basis for preparing UBS AG (consolidated) financial statements in accordance with IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated balance sheet

CHF million As of 31 December 2015	UBS AG (standalone)[1]	UBS Switzerland AG (standalone)[1]	UBS Americas Inc.[2]	UBS Preferred Funding Trust IV & V	Other subsidiaries[2]	Elimination entries	UBS AG (consolidated)
Assets							
Cash and balances with central banks	45,125	38,701	4,971		2,509	0	91,306
Due from banks	29,225	3,224	12,776		27,510	(60,868)	11,866
Cash collateral on securities borrowed	27,925	7,414	38,007		6,506	(54,268)	25,584
Reverse repurchase agreements	61,253	16,258	21,039		14,586	(45,243)	67,893
Trading portfolio assets	94,132	1,736	5,931	1,310	30,132	(9,194)	124,047
of which: assets pledged as collateral which may be sold or repledged by counterparties	*53,708*	*0*	*3,038*		*2,264*	*(7,066)*	*51,943*
Positive replacement values	175,943	6,033	21,463		28,921	(64,925)	167,435
Cash collateral receivables on derivative instruments	19,026	1,056	5,964		12,678	(14,962)	23,763
Financial assets designated at fair value	6,303	0	199		2,628	(3,322)	5,808
Loans	89,052	186,872	47,054		14,554	(24,809)	312,723
Financial investments available-for-sale	32,044	23,184	5,360		5,996	(4,042)	62,543
Investments in subsidiaries and associates	45,689	14	1		1	(44,751)	954
Property, equipment and software	6,499	15	972		197	0	7,683
Goodwill and intangible assets	347	0	5,112		1,139	(30)	6,568
Deferred tax assets	2,332	845	7,766		1,890	0	12,833
Other assets	12,108	1,255	10,041		3,111	(4,266)	22,249
Total assets	647,006	286,608	186,654	1,310	152,359	(330,680)	943,256
Liabilities							
Due to banks	31,725	18,948	26,320	4	5,782	(70,944)	11,836
Cash collateral on securities lent	34,094	2,493	23,437		2,274	(54,268)	8,029
Repurchase agreements	20,658	6,505	11,490		16,244	(45,243)	9,653
Trading portfolio liabilities	21,193	128	3,919		11,317	(7,420)	29,137
Negative replacement values	170,718	5,655	21,109		29,877	(64,928)	162,430
Cash collateral payables on derivative instruments	31,399	374	6,438		15,033	(14,962)	38,282
Financial liabilities designated at fair value	61,630	0	288		4,675	(3,598)	62,995
Due to customers	102,483	231,252	53,633		34,002	(18,848)	402,522
Debt issued	70,792	8,274	3,126		321	(153)	82,359
Provisions	1,680	179	1,969		319	17	4,163
Other liabilities	40,255	1,806	16,683	1	20,179	(4,318)	74,606
Total liabilities	586,628	275,611	168,411	4	140,023	(284,664)	886,013
Equity attributable to UBS AG shareholders	58,423	10,997	18,243	4	12,296	(44,714)	55,248
Equity attributable to preferred noteholders	1,954	0	0	1,302	0	(1,302)	1,954
Equity attributable to non-controlling interests	0	0	0	0	41	0	41
Total equity	60,378	10,997	18,243	1,306	12,336	(46,016)	57,243
Total liabilities and equity	647,006	286,608	186,654	1,310	152,359	(330,680)	943,256

1 Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the UBS AG standalone and UBS Switzerland AG standalone financial statements for information prepared in accordance with Swiss GAAP. 2 Amounts presented in these columns serve as a basis for preparing UBS AG (consolidated) financial statements in accordance with IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2015	UBS AG[1]	UBS Switzerland AG[1]	UBS Americas Inc.[1]	Other subsidiaries[1]	UBS AG (consolidated)
Net cash flow from / (used in) operating activities	(1,457)	2,681	(525)	1,298	1,997
Cash flow from / (used in) investing activities					
Purchase of subsidiaries, associates and intangible assets	(12)	0	(1)	0	(13)
Disposal of subsidiaries, associates and intangible assets[2]	464	0	13	0	477
Purchase of property, equipment and software	(1,423)	(5)	(299)	(114)	(1,841)
Disposal of property, equipment and software	503	0	9	35	547
Net (investment in) / divestment of financial investments available-for-sale	(15,144)	3,815	230	3,494	(7,605)
Net cash flow from / (used in) investing activities	(15,613)	3,810	(47)	3,415	(8,434)
Cash flow from / (used in) financing activities					
Net short-term debt issued / (repaid)	(5,603)	24	(826)	0	(6,404)
Distributions paid on UBS AG shares	(2,626)	0	0	0	(2,626)
Issuance of long-term debt, including financial liabilities designated at fair value	46,882	772	7	129	47,790
Repayment of long-term debt, including financial liabilities designated at fair value	(42,415)	(402)	(129)	(1,274)	(44,221)
Dividends paid and repayments of preferred notes	(108)	0	0	0	(108)
Net changes of non-controlling interests	0	0	0	(5)	(5)
Net activity related to group internal capital transactions and dividends[3]	(30,512)	33,293	(114)	(2,666)	0
Net cash flow from / (used in) financing activities	(34,382)	33,687	(1,062)	(3,817)	(5,573)
Effects of exchange rate differences on cash and cash equivalents	(1,309)	67	(241)	(259)	(1,742)
Net increase / (decrease) in cash and cash equivalents	(52,760)	40,246	(1,875)	638	(13,753)
Cash and cash equivalents at the beginning of the year	100,662	0	8,960	7,093	116,715
Cash and cash equivalents at the end of the year	47,902	40,246	7,084	7,731	102,962
Cash and cash equivalents comprise:[3]					
Cash and balances with central banks	45,125	38,701	4,971	2,509	91,306
Due from banks	2,072	1,438	2,009	5,213	10,732
Money market paper[4]	704	107	104	9	924
Total	47,902	40,246	7,084	7,731	102,962[5]

1 Cash flows generally represent a third-party view from a UBS AG (consolidated) perspective. As a consequence, the non-consolidated UBS Preferred Funding Trusts IV and V are not presented in this table. For the year ended 31 December 2015, these trusts had cash inflows of CHF 77 million from operating activities and an equivalent cash outflow for dividends paid to preferred note holders. 2 Includes dividends received from associates. 3 Includes transfer of cash and cash equivalents from UBS AG to UBS Switzerland AG of CHF 33,283 million. Refer to "Establishment of UBS Switzerland AG" in the "Legal entity financial and regulatory information" section of this report for more information on the business transfer from UBS AG to UBS Switzerland AG. 4 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 5 CHF 3,963 million of cash and cash equivalents were restricted.

Consolidated financial statements

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2014	UBS AG (standalone)[1]	UBS Americas Inc.[2]	Other subsidiaries[2]	Elimination entries	UBS AG (consolidated)
Operating income					
Interest income	11,585	1,591	1,160	(1,143)	13,194
Interest expense	(6,287)	(597)	(898)	1,143	(6,639)
Net interest income	5,298	995	262	0	6,555
Credit loss (expense) / recovery	(108)	9	9	13	(78)
Net interest income after credit loss expense	5,190	1,003	270	13	6,477
Net fee and commission income	6,111	7,288	3,799	(122)	17,076
Net trading income	2,750	438	237	416	3,841
Other income	5,584	95	(46)	(5,002)	632
Total operating income	19,636	8,825	4,261	(4,695)	28,026
Operating expenses					
Personnel expenses	7,991	5,806	1,483	0	15,280
General and administrative expenses	5,621	2,415	1,341	0	9,377
Depreciation and impairment of property, equipment and software	595	139	83	0	817
Amortization and impairment of intangible assets	7	59	16	0	83
Total operating expenses	14,214	8,420	2,922	0	25,557
Operating profit / (loss) before tax	5,421	404	1,339	(4,695)	2,469
Tax expense / (benefit)	949	(2,375)	248	(2)	(1,180)
Net profit / (loss)	4,472	2,779	1,091	(4,693)	3,649
Net profit / (loss) attributable to preferred noteholders	142	0	0	0	142
Net profit / (loss) attributable to non-controlling interests	0	0	5	0	5
Net profit / (loss) attributable to UBS AG shareholders	4,330	2,779	1,086	(4,693)	3,502

1 Amounts presented for UBS AG (standalone) represent IFRS-standalone information. Refer to the UBS AG standalone financial statements for information prepared in accordance with Swiss GAAP. 2 Amounts presented in these columns serve as a basis for preparing UBS AG (consolidated) financial statements in accordance with IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of comprehensive income

CHF million For the year ended 31 December 2014	UBS AG (standalone)[1]	UBS Americas Inc.[2]	Other subsidiaries[2]	Elimination entries	UBS AG (consolidated)
Comprehensive income attributable to UBS AG shareholders					
Net profit / (loss)	4,330	2,779	1,086	(4,693)	3,502
Other comprehensive income					
Other comprehensive income that may be reclassified to the income statement					
Foreign currency translation, net of tax	325	928	1,500	(920)	1,834
Financial investments available-for-sale, net of tax	32	78	37	(6)	140
Cash flow hedges, net of tax	693	0	0	0	693
Total other comprehensive income that may be reclassified to the income statement, net of tax	1,050	1,006	1,537	(926)	2,667
Other comprehensive income that will not be reclassified to the income statement					
Defined benefit plans, net of tax	(999)	(167)	(56)	14	(1,208)
Property revaluation surplus, net of tax	0	0	0	0	0
Total other comprehensive income that will not be reclassified to the income statement, net of tax	(999)	(167)	(56)	14	(1,208)
Total other comprehensive income	51	838	1,481	(912)	1,459
Total comprehensive income attributable to UBS AG shareholders	4,381	3,617	2,567	(5,605)	4,961
Total comprehensive income attributable to preferred noteholders	260	0	0	0	260
Total comprehensive income attributable to non-controlling interests	0	0	7	0	7
Total comprehensive income	4,641	3,617	2,575	(5,605)	5,229

1 Amounts presented for UBS AG (standalone) represents IFRS-standalone information. Refer to the UBS AG (standalone) audited financial statements for information prepared in accordance with Swiss GAAP. 2 Amounts presented in these columns serve as a basis for preparing UBS AG consolidated Financial Statements in accordance with IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated balance sheet

CHF million As of 31 December 2014	UBS AG (standalone)[1]	UBS Americas Inc.[2]	Other subsidiaries[2]	Elimination entries	UBS AG (consolidated)
Assets					
Cash and balances with central banks	95,711	6,440	1,923	0	104,073
Due from banks	32,448	7,099	52,637	(78,850)	13,334
Cash collateral on securities borrowed	33,676	36,033	5,181	(50,827)	24,063
Reverse repurchase agreements	64,496	24,417	30,328	(50,827)	68,414
Trading portfolio assets	101,922	6,697	34,479	(4,943)	138,156
of which: assets pledged as collateral which may be sold or repledged by counterparties	*51,476*	*3,310*	*6,969*	*(5,737)*	*56,018*
Positive replacement values	262,073	19,597	51,327	(76,020)	256,978
Cash collateral receivables on derivative instruments	25,501	5,503	14,487	(14,512)	30,979
Financial assets designated at fair value	4,691	481	2,882	(3,562)	4,493
Loans	299,032	43,566	16,553	(43,168)	315,984
Financial investments available-for-sale	42,580	5,403	9,175	0	57,159
Investments in subsidiaries and associates	27,163	2	1	(26,239)	927
Property, equipment and software	5,792	823	238	0	6,854
Goodwill and intangible assets	354	5,381	1,051	0	6,785
Deferred tax assets	4,290	6,479	349	(57)	11,060
Other assets	14,649	9,021	2,256	(2,857)	23,069
Total assets	1,014,379	176,942	222,867	(351,860)	1,062,327
Liabilities					
Due to banks	38,461	38,269	12,611	(78,850)	10,492
Cash collateral on securities lent	33,284	22,961	3,761	(50,827)	9,180
Repurchase agreements	22,087	12,548	28,010	(50,827)	11,818
Trading portfolio liabilities	18,936	4,856	8,234	(4,068)	27,958
Negative replacement values	258,680	19,448	51,993	(76,020)	254,101
Cash collateral payables on derivative instruments	32,106	5,926	18,852	(14,512)	42,372
Financial liabilities designated at fair value	73,857	130	5,598	(4,288)	75,297
Due to customers	362,564	48,236	43,474	(43,294)	410,979
Debt issued	86,894	157	4,312	(156)	91,207
Provisions	2,725	1,268	372	0	4,366
Other liabilities	33,699	17,615	21,985	(2,907)	70,392
Total liabilities	963,293	171,415	199,201	(325,748)	1,008,162
Equity attributable to UBS AG shareholders	49,073	5,527	23,621	(26,113)	52,108
Equity attributable to preferred noteholders	2,013	0	0	0	2,013
Equity attributable to non-controlling interests	0	0	45	0	45
Total equity	51,085	5,527	23,666	(26,113)	54,165
Total liabilities and equity	1,014,379	176,942	222,867	(351,860)	1,062,327

1 Amounts presented for UBS AG (standalone) represents IFRS-standalone information. Refer to the UBS AG (standalone) audited financial statements for information prepared in accordance with Swiss GAAP. 2 Amounts presented in these columns serve as a basis for preparing UBS AG consolidated Financial Statements in accordance with IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2014	UBS AG[1]	UBS Americas Inc.[1]	Other subsidiaries[1]	UBS AG (consolidated)
Net cash flow from / (used in) operating activities	7,438	(1,814)	1,608	7,231
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(18)	0	0	(18)
Disposal of subsidiaries, associates and intangible assets[2]	41	9	20	70
Purchase of property, equipment and software	(1,521)	(300)	(94)	(1,915)
Disposal of property, equipment and software	313	14	23	350
Net (investment in) / divestment of financial investments available-for-sale	7,774	(568)	(3,098)	4,108
Net cash flow from / (used in) investing activities	6,589	(845)	(3,149)	2,596
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	(3,984)	0	1,064	(2,921)
Net movements in treasury shares and own equity derivative activity	(719)	0	0	(719)
Distributions paid on UBS AG shares	(938)	0	0	(938)
Issuance of long-term debt, including financial liabilities designated at fair value	40,272	24	686	40,982
Repayment of long-term debt, including financial liabilities designated at fair value	(32,083)	(494)	(1,632)	(34,210)
Dividends paid and repayments of preferred notes	(110)	0	0	(110)
Net changes of non-controlling interests	0	0	(3)	(3)
Net activity related to group internal capital transactions and dividends	(319)	0	319	0
Net cash flow from / (used in) financing activities	2,118	(470)	434	2,081
Effects of exchange rate differences on cash and cash equivalents	7,394	840	289	8,522
Net increase / (decrease) in cash and cash equivalents	23,539	(2,289)	(819)	20,430
Cash and cash equivalents at the beginning of the year	77,123	11,249	7,911	96,284
Cash and cash equivalents at the end of the year	100,662	8,960	7,093	116,715
Cash and cash equivalents comprise:				
Cash and balances with central banks	95,711	6,440	1,923	104,073
Due from banks	4,119	2,489	5,164	11,772
Money market paper[3]	832	31	6	869
Total	100,662	8,960	7,093	116,715[4]

1 Cash flow generally represent a third-party view from a UBS AG (consolidated) perspective. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 CHF 4,178 million of cash and cash equivalents were restricted.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated income statement

CHF million For the year ended 31 December 2013	UBS AG (standalone)[1]	UBS Americas Inc.[2]	Other subsidiaries[2]	Elimination entries	UBS AG (consolidated)
Operating income					
Interest income	11,308	1,984	1,204	(1,359)	13,137
Interest expense	(7,093)	(695)	(930)	1,366	(7,351)
Net interest income	4,215	1,290	275	6	5,786
Credit loss (expense) / recovery	(19)	(33)	(3)	5	(50)
Net interest income after credit loss expense	4,196	1,257	271	11	5,736
Net fee and commission income	6,430	6,781	3,079	(4)	16,287
Net trading income	4,922	379	159	(329)	5,130
Other income	499	416	(909)	574	580
Total operating income	16,046	8,833	2,600	252	27,732
Operating expenses					
Personnel expenses	8,099	5,584	1,499	0	15,182
General and administrative expenses	3,959	3,364	1,058	0	8,380
Depreciation and impairment of property, equipment and software	575	133	107	0	816
Amortization and impairment of intangible assets	6	60	17	0	83
Total operating expenses	12,639	9,141	2,681	0	24,461
Operating profit / (loss) before tax	3,408	(307)	(81)	252	3,272
Tax expense / (benefit)	570	(937)	261	(3)	(110)
Net profit / (loss)	2,837	630	(342)	256	3,381
Net profit / (loss) attributable to preferred noteholders	204	0	0	0	204
Net profit / (loss) attributable to non-controlling interests	0	0	5	0	5
Net profit / (loss) attributable to UBS AG shareholders	2,634	630	(347)	256	3,172

1 Amounts presented for UBS AG (standalone) represent IFRS-standalone information. Refer to the UBS AG standalone financial statements for information prepared in accordance with Swiss GAAP. 2 Amounts presented in these columns serve as a basis for preparing UBS AG (consolidated) financial statements in accordance with IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of comprehensive income

CHF million For the year ended 31 December 2013	UBS AG (standalone)[1]	UBS Americas Inc.[2]	Other subsidiaries[2]	Elimination entries	UBS AG (consolidated)
Comprehensive income attributable to UBS AG shareholders					
Net profit / (loss)	2,634	630	(347)	256	3,172
Other comprehensive income					
Other comprehensive income that may be reclassified to the income statement					
Foreign currency translation, net of tax	392	(348)	(311)	(204)	(471)
Financial investments available-for-sale, net of tax	17	(163)	(16)	8	(154)
Cash flow hedges, net of tax	(1,520)	0	0	0	(1,520)
Total other comprehensive income that may be reclassified to the income statement, net of tax	(1,112)	(510)	(327)	(196)	(2,145)
Other comprehensive income that will not be reclassified to the income statement					
Defined benefit plans, net of tax	824	110	6	0	939
Property revaluation surplus, net of tax	(6)	0	0	0	(6)
Total other comprehensive income that will not be reclassified to the income statement, net of tax	818	110	6	0	933
Total other comprehensive income	(294)	(401)	(321)	(196)	(1,211)
Total comprehensive income attributable to UBS AG shareholders	2,340	229	(668)	60	1,961
Total comprehensive income attributable to preferred noteholders	559	0	0	0	559
Total comprehensive income attributable to non-controlling interests	0	0	4	0	4
Total comprehensive income	2,899	229	(664)	60	2,524

1 Amounts presented for UBS AG (standalone) represents IFRS-standalone information. Refer to the UBS AG (standalone) audited financial statements for information prepared in accordance with Swiss GAAP. 2 Amounts presented in these columns serve as a basis for preparing UBS AG consolidated Financial Statements in accordance with IFRS.

Note 39 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million For the year ended 31 December 2013	UBS AG[1]	UBS Americas Inc.[1]	Other subsidiaries[1]	UBS AG (consolidated)
Net cash flow from / (used in) operating activities	58,756	(8,311)	3,929	54,374
Cash flow from / (used in) investing activities				
Purchase of subsidiaries, associates and intangible assets	(49)	0	0	(49)
Disposal of subsidiaries, associates and intangible assets[2]	136	0	0	136
Purchase of property, equipment and software	(1,032)	(160)	(44)	(1,236)
Disposal of property, equipment and software	545	5	91	639
Net (investment in) / divestment of financial investments available-for-sale	751	6,076	(861)	5,966
Net cash flow from / (used in) investing activities	351	5,922	(815)	5,457
Cash flow from / (used in) financing activities				
Net short-term debt issued / (repaid)	(1,400)	0	(2,890)	(4,290)
Net movements in treasury shares and own equity derivative activity	(341)	0	0	(341)
Capital issuance	1	0	0	1
Distributions paid on UBS AG shares	(564)	0	0	(564)
Issuance of long-term debt, including financial liabilities designated at fair value	27,442	59	513	28,014
Repayment of long-term debt, including financial liabilities designated at fair value	(65,112)	(486)	(3,356)	(68,954)
Dividends paid and repayments of preferred notes	(1,415)	0	0	(1,415)
Net changes of non-controlling interests	0	0	(6)	(6)
Net activity related to group internal capital transactions and dividends	12	23	(35)	0
Net cash flow from / (used in) financing activities	(41,377)	(405)	(5,774)	(47,555)
Effects of exchange rate differences on cash and cash equivalents	(2,329)	(203)	(174)	(2,705)
Net increase / (decrease) in cash and cash equivalents	15,400	(2,998)	(2,834)	9,569
Cash and cash equivalents at the beginning of the year	61,723	14,247	10,745	86,715
Cash and cash equivalents at the end of the year	77,123	11,249	7,911	96,284
Cash and cash equivalents comprise:				
Cash and balances with central banks	69,808	8,893	2,178	80,879
Due from banks	3,091	2,327	5,699	11,117
Money market paper[3]	4,224	28	35	4,288
Total	77,123	11,249	7,911	96,284[4]

1 Cash flow generally represent a third-party view from a UBS AG (consolidated) perspective. 2 Includes dividends received from associates. 3 Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. 4 CHF 4,534 million of cash and cash equivalents were restricted.

REGISTERED OFFICE OF THE ISSUER

UBS AG, London Branch
1 Finsbury Avenue
London
EC2M 2PP
United Kingdom

ISSUER'S AUDITORS

Ernst & Young Ltd.
Aeschengraben 9
P.O. Box 2149 CH-4002 Basel
Switzerland

LEGAL ADVISERS
(as to Singapore law)

Allen & Gledhill LLP
One Marina Boulevard #28-00
Singapore 018989

WARRANT AGENT

The Central Depository (Pte) Limited
11 North Buona Vista Drive
#06-07 The Metropolis Tower 2
Singapore 138589