

ADDENDUM DATED 21 November 2012

If you are in any doubt about any of the contents of this addendum, you should obtain independent professional advice.

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**Addendum to the Base Listing Document dated 10 April 2012
relating to Non-collateralised Structured Products
to be issued by**



UBS AG
(incorporated with limited liability in Switzerland)
acting through its London Branch

Sponsor
UBS SECURITIES ASIA LIMITED

This addendum includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) for the purpose of giving further information with regard to us. You must read this addendum in conjunction with our base listing document dated 10 April 2012 (our “**base listing document**”).

We accept full responsibility for the accuracy of the information contained in this addendum and/or our base listing document and confirm, having made all reasonable enquiries, that to the best of our knowledge and belief there are no other facts the omission of which would make any statement in this addendum and/or our base listing document misleading.

The Structured Products involve derivatives. Investors should not invest in the Structured Products unless they fully understand and are willing to assume the risks associated with them.

Investors are warned that the price of the Structured Products 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 Structured Products and carefully study the risk factors set out in our base listing document and the relevant supplemental listing document, where necessary, seek professional advice, before they invest in the Structured Products.

The Structured Products constitute our general unsecured contractual obligations and of no other person and will rank equally among themselves and with all our other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the Structured Products, you are relying upon our creditworthiness and have no rights under the Structured Products against (a) the company which has issued the underlying securities; (b) the trustee or the manager of the underlying unit trust; or (c) the index compiler of any underlying index. If we become insolvent or default on our obligations under the Structured Products, you may not be able to recover all or even part of the amount due under the Structured Products (if any).

IMPORTANT INFORMATION

What is this addendum about?

This addendum contains supplemental general information on us, our unaudited third quarter 2012 financial statements for the quarterly period ended 30 September 2012 and our risk management and control extracted from our third quarter 2012 financial report. This addendum is a supplement to our base listing document and supersedes the addendum dated 20 August 2012.

You should read this addendum together with our base listing document (including any other addendum to our base listing document to be issued by us from time to time) and the relevant supplemental listing document (including any addendum to such supplemental listing document to be issued by us from time to time) (together, the “**Listing Documents**”) before investing in any Structured Product.

Where can you inspect the relevant documents?

Copies of this addendum, our base listing document and the relevant supplemental listing document and other documents set out in the relevant supplemental listing document may be inspected during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of UBS Securities Asia Limited.

本增編、我們的基礎上市文件連同相關補充上市文件及於相關補充上市文件內所列的其他文件，可於平日(星期六、日及假期除外)的一般辦公時間於瑞銀証券亞洲有限公司 (UBS Securities Asia Limited) 辦事處查閱。

Are we subject to any litigation?

Save as disclosed in the Listing Documents, we and our subsidiaries are not aware of any litigation or claims of material importance pending or threatened against us or them.

Has our financial position changed since last financial year-end?

There has been no material adverse change in our financial or trading position since 31 December 2011.

What are our credit ratings?

Our long term credit ratings are:

<i>Rating agency</i>	<i>Rating as of the date of this addendum</i>
Moody's Investors Service, Inc., New York	A2
Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies Inc.	A

Rating agencies usually receive a fee from the companies that they rate. When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- a credit rating is not a recommendation to buy, sell or hold the Structured Products;
- ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence; and
- a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the date of this addendum are for reference only. Any downgrading of our credit ratings could result in a reduction in the value of the Structured Products.

The Structured Products are not rated.

Our credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to our ratings from time to time.

How can you get further information about us or the Structured Products?

You may visit http://warrants.ubs.com/en/home_e.cgi to obtain further information about us and/or the Structured Products.

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INFORMATION IN RELATION TO US

Updated “Information in relation to us”

The following pages under this section shall replace the information in the section headed “Information in relation to us” on pages 13 to 24 of our base listing document in its entirety.

1. Overview

UBS AG (“Issuer”) with its subsidiaries (together with the Issuer, “UBS Group”, “Group” or “UBS”) draws on its 150-year heritage to serve private, institutional and corporate clients worldwide, as well as retail clients in Switzerland. UBS’s business strategy is centered on its pre-eminent global wealth management businesses and its universal bank in Switzerland. These businesses, together with a client-focused Investment Bank and a strong, well-diversified Global Asset Management business, will enable UBS to expand its premier wealth management franchise and drive further growth across the Group. Headquartered in Zurich and Basel, Switzerland, UBS has offices in more than 50 countries, including all major financial centers.

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 CH-270.3.004.646-4.

UBS AG is incorporated and domiciled in Switzerland and operates under the Swiss Code of Obligations and Swiss Federal Banking Law as an *Aktiengesellschaft*, a corporation that has issued shares of common stock to investors.

According to Article 2 of the Articles of Association of UBS AG (“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 shares are listed on the SIX Swiss Exchange and the New York Stock Exchange.

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. Board of Directors

The Board of Directors (“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. The BoD’s proposal for election must be such that three quarters of the BoD members will be independent. Independence is determined in accordance with the Swiss Financial Market Supervisory Authority (“FINMA”) circular 08/24, the NYSE rules and the rules and regulations of other securities exchanges on which UBS shares are listed, if any, applying the strictest standard. The Chairman is not required to be independent.

The BoD has ultimate responsibility for the success of the UBS Group and for delivering sustainable shareholder value within a framework of prudent and effective controls. It decides on UBS Group’s strategic aims and the necessary financial and human resources upon recommendation of the Group CEO and sets the UBS Group’s values and standards to ensure that its obligations to its shareholders and others are met.

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

3.1 Members of the Board of Directors

Members	Title	Term of office	Current positions outside UBS AG
Axel A. Weber	Chairman	2013	Member of the Group of Thirty, Washington, D.C.; research fellow at the Center for Economic Policy Research, London, and the Center for Financial Research, Cologne; member of the European Money and Finance Forum and senior research fellow at the Center for Financial Studies, Frankfurt/Main; member of the Monetary Economics and International Economics Councils of the <i>Verein für Socialpolitik</i> ; member of the Advisory Board of the German Market Economy Foundation; member of the Advisory Council of the Goethe University, Frankfurt/Main.
Michel Demaré	Independent Vice Chairman	2013	CFO and member of the Group Executive Committee of ABB; member of the board of Syngenta and of the IMD Foundation, Lausanne.
David Sidwell	Senior Independent Director	2013	Director and Chairperson of the Risk Policy and Capital Committee of Fannie Mae, Washington D.C.; Senior Advisor at Oliver Wyman, New York; trustee of the International Accounting Standards Committee Foundation London; Chairman of the board of Village Care, New York; Director of the National Council on Aging, Washington D.C.
Rainer-Marc Frey	Member	2013	Founder of Horizon21 AG; Chairman of Horizon21 AG, its holding company and related entities and subsidiaries; member of the board of DKSH Group, Zurich, and of the Frey Charitable Foundation, Freienbach.
Ann F. Godbehere	Member	2013	Board member and Chairperson of the Audit Committee of Prudential plc, Rio Tinto plc, Rio Tinto Limited, Atrium Underwriters Ltd. and Atrium Underwriting Group Ltd., London, and of Arden Holdings Ltd., Bermuda. Member of the board of British American Tobacco plc.
Axel P. Lehmann	Member	2013	Member of the Group Executive Committee, Group Chief Risk Officer and Regional Chairman Europe of Zurich Financial Services; Chairman of the board of Farmers Group, Inc. and Chairman of the board of the Institute of Insurance Economics at the University of St. Gallen; member and past Chairman of the Chief Risk Officer Forum, member of the executive committee of the International Financial Risk Institute Foundation and member of the board of Economiesuisse.

Members	Title	Term of office	Current positions outside UBS AG
Wolfgang Mayrhuber	Member	2013	Chairman of the Supervisory Board and Chairperson of the Mediation, the Nomination and the Executive Committees of Infineon Technologies AG, as well as member of the supervisory boards of Munich Re Group, BMW Group, Lufthansa Technik AG and Austrian Airlines AG; member of the board of HEICO Corporation, Hollywood, FL; member of the executive board of Acatech (<i>Deutsche Akademie der Technikwissenschaften</i>) and trustee of the American Academy of Berlin.
Helmut Panke	Member	2013	Member of the board and Chairperson of the Antitrust Compliance Committee of Microsoft Corporation; member of the board and Chairperson of the Board Safety & Risk Committee of Singapore Airlines Ltd.; member of the Supervisory Board of Bayer AG.
William G. Parrett	Member	2013	Independent Director and Chairperson of the Audit Committee of the Eastman Kodak Company, the Blackstone Group LP and Thermo Fisher Scientific Inc.; Past chairman of the board of the United States Council for International Business and of United Way Worldwide; member of the Carnegie Hall Board of Trustees.
Isabelle Romy	Member	2013	Partner at Froriep Renggli, Zurich; associate professor at the University of Fribourg and at the Federal Institute of Technology, Lausanne; Vice Chairman of the Sanction Commission of the SIX Swiss Exchange.
Beatrice Weder di Mauro	Member	2013	Professor at the Johannes Gutenberg University, Mainz; research fellow at the Centre for Economic Policy Research, London; member of the board of Roche Holding Ltd., Basel; member of the Supervisory Board of ThyssenKrupp AG, Essen, and of the <i>Deutsche Investitions- und Entwicklungsgesellschaft</i> , Cologne.
Joseph Yam	Member	2013	Executive Vice President of the China Society for Finance and Banking; Chairman of the board of Macroprudential Consultancy Limited and member of the international advisory councils of a number of government and academic institutions. Board member and Chairperson of the Risk Committee of China Construction Bank. Member of the board of Johnson Electric Holdings Limited.

**OUR UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTERLY PERIOD
ENDED 30 SEPTEMBER 2012 - EXTRACTED FROM OUR THIRD QUARTER 2012
FINANCIAL REPORT**

The information set out below in this section has been extracted without adjustment from our unaudited third quarter 2012 financial report for the quarterly period ended 30 September 2012 released on 30 October 2012. The page numbers of our third quarter 2012 financial report appear on the bottom left or right hand side of the pages in this addendum.

The third quarter 2012 financial report is available for inspection at the office of the Sponsor specified on the back page. You may also visit our website at http://www.ubs.com/global/en/about_ubs/investor_relations/quarterly_reporting/2012.html to access such report.

Interim consolidated financial statements (unaudited)

Income statement

CHF million, except per share data	Note	For the quarter ended			% change from		Year-to-date	
		30.9.12	30.6.12	30.9.11	2Q12	3Q11	30.9.12	30.9.11
Interest income	3	3,891	4,397	4,372	(12)	(11)	12,418	13,830
Interest expense	3	(2,360)	(3,004)	(2,512)	(21)	(6)	(7,903)	(8,748)
Net interest income	3	1,531	1,393	1,861	10	(18)	4,515	5,082
Credit loss (expense)/recovery		(129)	(1)	(89)		45	(94)	(70)
Net interest income after credit loss expense		1,401	1,392	1,771	1	(21)	4,421	5,012
Net fee and commission income	4	3,919	3,649	3,557	7	10	11,411	11,676
Net trading income	3	779	1,369	(28)	(43)		3,109	3,900
Other income	5	188	(1)	1,111		(83)	280	1,339
Total operating income		6,287	6,408	6,412	(2)	(2)	19,221	21,926
Personnel expenses	6	3,789	3,601	3,758	5	1	11,032	12,090
General and administrative expenses	7	1,761	1,652	1,411	7	25	4,810	4,307
Depreciation and impairment of property and equipment		184	179	212	3	(13)	521	564
Impairment of goodwill	8	3,030	0	0			3,030	0
Amortization and impairment of intangible assets		39	26	51	50	(24)	87	97
Total operating expenses		8,803	5,457	5,432	61	62	19,481	17,058
Operating profit before tax		(2,516)	951	980			(260)	4,868
Tax expense/(benefit)	10	(345)	253	(40)		763	384	763
Net profit		(2,170)	698	1,019			(644)	4,106
Net profit attributable to non-controlling interests		1	273	2	(100)	(50)	275	266
Net profit attributable to UBS shareholders		(2,172)	425	1,018			(920)	3,840
Earnings per share (CHF)								
Basic earnings per share	9	(0.58)	0.11	0.27			(0.24)	1.02
Diluted earnings per share	9	(0.58)	0.11	0.27			(0.25)	1.00

Statement of comprehensive income

CHF million	For the quarter ended			Year-to-date			
	30.9.12		30.6.12	30.9.11	30.9.12	30.9.11	
	Total	UBS shareholders	Non-controlling interests	Total	Total	Total	Total
Net profit	(2,170)	(2,172)	1	698	1,019	(644)	4,106
Other comprehensive income							
Foreign currency translation							
Foreign currency translation movements, before tax	(81)	(89)	7	1,155	1,415	201	211
Foreign exchange amounts reclassified to the income statement from equity	(54)	(54)		(4)	0	(51)	11
Income tax relating to foreign currency translation movements	(91)	(91)		(97)	83	(120)	99
Subtotal foreign currency translation movements, net of tax ¹	(226)	(233)	7	1,054	1,498	30	322
Financial investments available-for-sale							
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	175	175		94	1,011	304	1,441
Impairment charges reclassified to the income statement from equity	17	17		28	32	74	37
Realized gains reclassified to the income statement from equity	(86)	(86)		(80)	(788)	(225)	(888)
Realized losses reclassified to the income statement from equity	0	0		12	2	19	22
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	(41)	(41)		(15)	(80)	(57)	(73)
Subtotal net unrealized gains / (losses) on financial investments available-for-sale, net of tax ¹	65	65		41	178	114	538
Cash flow hedges							
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	534	534		1,132	1,899	1,661	2,424
Net (gains) / losses reclassified to the income statement from equity	(303)	(303)		(303)	(17)	(862)	(833)
Income tax effects relating to cash flow hedges	(35)	(35)		(177)	(396)	(159)	(339)
Subtotal changes in fair value of derivative instruments designated as cash flow hedges, net of tax ¹	196	196		652	1,486	640	1,252
Property revaluation surplus							
Gains on property revaluation, before tax	8	8				8	
Income tax effects relating to gains on property revaluation	(2)	(2)				(2)	
Subtotal changes in property revaluation surplus, net of tax	6	6				6	
Total other comprehensive income	42	34	7	1,746	3,162	790	2,112
Total comprehensive income	(2,129)	(2,138)	9	2,445	4,181	146	6,217
Total comprehensive income attributable to non-controlling interests	9			337	89	271	575
Total comprehensive income attributable to UBS shareholders	(2,138)			2,107	4,092	(126)	5,642

¹ Other comprehensive income attributable to UBS shareholders related to foreign currency translations was positive CHF 989 million in the second quarter of 2012 and positive CHF 1,410 million in the third quarter of 2011. Other comprehensive income related to financial investments available-for-sale and cash flow hedges was wholly attributable to UBS shareholders for all periods presented.

Balance sheet

CHF million	Note	30.9.12	30.6.12	31.12.11	% change from	
					30.6.12	31.12.11
Assets						
Cash and balances with central banks		88,473	96,147	40,638	(8)	118
Due from banks		24,859	38,294	23,218	(35)	7
Cash collateral on securities borrowed		57,368	52,200	58,763	10	(2)
Reverse repurchase agreements		135,917	158,524	213,501	(14)	(36)
Trading portfolio assets	11	181,869	179,226	181,525	1	0
<i>of which: assets pledged as collateral which may be sold or repledged by counterparties</i>		48,034	45,563	39,936	5	20
Positive replacement values	15	449,241	458,301	486,584	(2)	(8)
Cash collateral receivables on derivative instruments		32,662	42,069	41,322	(22)	(21)
Financial assets designated at fair value		9,371	9,210	10,336	2	(9)
Loans		278,441	274,489	266,604	1	4
Financial investments available-for-sale	12	69,152	60,012	53,174	15	30
Accrued income and prepaid expenses		6,576	6,483	6,327	1	4
Investments in associates		857	796	795	8	8
Property and equipment		5,909	5,892	5,688	0	4
Goodwill and intangible assets		6,632	9,754	9,695	(32)	(32)
Deferred tax assets		7,440	7,707	8,526	(3)	(13)
Other assets	16	14,308	12,939	12,465	11	15
Total assets		1,369,075	1,412,043	1,419,162	(3)	(4)
Liabilities						
Due to banks		33,281	39,398	30,201	(16)	10
Cash collateral on securities lent		10,362	10,000	8,136	4	27
Repurchase agreements		68,187	95,764	102,429	(29)	(33)
Trading portfolio liabilities	11	50,402	49,980	39,480	1	28
Negative replacement values	15	427,509	446,415	473,400	(4)	(10)
Cash collateral payables on derivative instruments		72,388	68,991	67,114	5	8
Financial liabilities designated at fair value		94,328	93,263	88,982	1	6
Due to customers		369,047	361,783	342,409	2	8
Accrued expenses and deferred income		7,053	6,232	6,850	13	3
Debt issued		117,815	117,695	140,617	0	(16)
Other liabilities	16, 17	61,863	63,422	61,692	(2)	0
Total liabilities		1,312,235	1,352,944	1,361,309	(3)	(4)
Equity						
Share capital		383	383	383	0	0
Share premium		33,619	33,720	34,614	0	(3)
Treasury shares		(1,036)	(1,012)	(1,160)	2	(11)
Equity classified as obligation to purchase own shares		(40)	(35)	(39)	14	3
Retained earnings		22,684	24,855	23,603	(9)	(4)
Cumulative net income recognized directly in equity, net of tax		(3,162)	(3,196)	(3,955)	(1)	(20)
Equity attributable to UBS shareholders		52,449	54,716	53,447	(4)	(2)
Equity attributable to non-controlling interests		4,392	4,383	4,406	0	0
Total equity		56,840	59,099	57,852	(4)	(2)
Total liabilities and equity		1,369,075	1,412,043	1,419,162	(3)	(4)

Statement of changes in equity

CHF million	Share capital	Share premium	Treasury shares	Equity classified as obligation to purchase own shares	Retained earnings
Balance at 31 December 2010	383	34,393	(654)	(54)	19,444
Issuance of share capital					
Acquisition of treasury shares			(2,427)		
Disposition of treasury shares			1,842		
Treasury share gains/(losses) and net premium/(discount) on own equity derivative activity ¹		(22)			
Premium on shares issued and warrants exercised		10			
Employee share and share option plans		(343)			
Tax (expense)/benefit recognized in share premium ¹		296			
Dividends					
Equity classified as obligation to purchase own shares – movements				3	
Preferred securities					
New consolidations and other increases		(4)			
Deconsolidations and other decreases					
Total comprehensive income for the period recognized in equity					3,840
Balance at 30 September 2011	383	34,330	(1,239)	(50)	23,284
Balance at 31 December 2011	383	34,614	(1,160)	(39)	23,603
Issuance of share capital					
Acquisition of treasury shares			(1,321)		
Disposition of treasury shares			1,445		
Treasury share gains/(losses) and net premium/(discount) on own equity derivative activity		(34)			
Premium on shares issued and warrants exercised					
Employee share and share option plans		(149)			
Tax (expense)/benefit recognized in share premium		(432)			
Dividends		(379) ³			
Equity classified as obligation to purchase own shares – movements				(1)	
Preferred securities					
New consolidations and other increases					
Deconsolidations and other decreases					
Total comprehensive income for the period recognized in equity					(920)
Balance at 30 September 2012	383	33,619	(1,036)	(40)	22,684

¹ Presentational changes have been made in 2012. The line Treasury share gains/(losses) and net premium/(discount) on own equity derivative activity is now shown gross of tax. Previously, this line was shown net of tax. All income tax related to share premium is reported on the line Tax (expense)/benefit recognized in share premium. ² Includes reclassifications from equity attributable to non-controlling interests to liabilities for preferred securities dividend payment obligations which were accrued in the period. ³ Reflects a payment out of capital contribution reserves of UBS AG (Parent Bank).

Equity attributable to non-controlling interests

CHF million	For the nine-month period ended	
	30.9.12	30.9.11
Preferred securities¹		
Balance at the beginning of the period	4,359	4,907
Redemptions		(882)
Foreign currency translation	(14)	295
Balance at the end of the period	4,345	4,320
Other non-controlling interests at the end of the period	47	138
Total equity attributable to non-controlling interests	4,392	4,458

¹ Increases and offsetting decreases due to dividend payment obligations are excluded from this table.

Foreign currency translation	Financial investments available-for-sale	Cash flow hedges	Property revaluation surplus	Total equity attributable to UBS shareholders	Non-controlling interests	Total equity
(7,513)	(243)	1,063	0	46,820	5,043	51,863
				0		0
				(2,427)		(2,427)
				1,842		1,842
				(22)		(22)
				10		10
				(343)		(343)
				296		296
				0	(269) ²	(269)
				3		3
				0	(882)	(882)
				(4)	1	(3)
				0	(10)	(10)
13	538	1,252		5,642	575	6,217
(7,500)	295	2,315	0	51,817	4,458	56,275
(6,807)	252	2,600	0	53,447	4,406	57,852
				0		0
				(1,321)		(1,321)
				1,445		1,445
				(34)		(34)
				0		0
				(149)		(149)
				(432)		(432)
				(379)	(277) ²	(656)
				(1)		(1)
				0		0
				0		0
				0	(9)	(9)
34	114	640	6	(126)	271	146
(6,774)	366	3,240	6	52,449	4,392	56,840

Statement of cash flows

	For the nine-month period ended	
CHF million	30.9.12	30.9.11
Cash flow from / (used in) operating activities		
Net profit	(644)	4,106
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 and equipment	521	564
Impairment of goodwill	3,030	0
Amortization and impairment of intangible assets	87	97
Credit loss expense / (recovery)	94	70
Share of net profits of associates	(73)	(30)
Deferred tax expense / (benefit)	320	712
Net loss / (gain) from investing activities	(186)	(924)
Net loss / (gain) from financing activities	6,257	(7,549)
Net (increase) / decrease in operating assets:		
Net due from / to banks	1,461	(6,086)
Reverse repurchase agreements and cash collateral on securities borrowed	78,980	17,443
Trading portfolio, net replacement values and financial assets designated at fair value	4,147	9,342
Loans / due to customers	14,707	(3,559)
Accrued income, prepaid expenses and other assets	(894)	7,553
Net increase / (decrease) in operating liabilities:		
Repurchase agreements, cash collateral on securities lent	(32,017)	7,053
Net cash collateral on derivative instruments	6,544	4,977
Accrued expenses, deferred income and other liabilities	18	(1,525)
Income taxes paid, net of refunds	(169)	(223)
Net cash flow from / (used in) operating activities	82,183	32,021
Cash flow from / (used in) investing activities		
Purchase of subsidiaries, associates and intangible assets	(10)	(41)
Disposal of subsidiaries, associates and intangible assets ¹	40	44
Purchase of property and equipment	(799)	(752)
Disposal of property and equipment	9	219
Net (investment in) / divestment of financial investments available-for-sale	(15,348)	29,418
Net cash flow from / (used in) investing activities	(16,109)	28,887
Cash flow from / (used in) financing activities		
Net short-term debt issued / (repaid)	(27,230)	7,525
Net movements in treasury shares and own equity derivative activity	(1,140)	(1,013)
Dividends paid	(379)	0
Issuance of long-term debt, including financial liabilities designated at fair value	49,196	43,586
Repayment of long-term debt, including financial liabilities designated at fair value	(47,339)	(52,409)
Increase in non-controlling interests	0	1
Dividends paid to / decrease in non-controlling interests	(247)	(702)
Net cash flow from / (used in) financing activities	(27,141)	(3,011)
Effects of exchange rate differences	1,372	(3,391)
Net increase / (decrease) in cash and cash equivalents	40,305	54,506
Cash and cash equivalents at the beginning of the period	85,612	79,934
Cash and cash equivalents at the end of the period	125,917	134,440
Cash and cash equivalents comprise:		
Cash and balances with central banks	88,473	79,752
Money market paper ²	3,738	6,837
Due from banks ³	33,706	47,851
Total	125,917	134,440

¹ Includes dividends received from associates. ² Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available-for-sale. ³ Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments with bank counterparties.

Statement of cash flows (continued)

	For the nine-month period ended	
<i>CHF million</i>	30.9.12	30.9.11
Additional information		
Net cash flow from / (used in) operating activities include:		
Cash received as interest	11,008	12,369
Cash paid as interest	6,906	7,521
Cash received as dividends on equity instruments, investment fund units and associates	1,221	1,341

Notes to the interim consolidated financial statements

Note 1 Basis of accounting

The consolidated financial statements of UBS are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are stated in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. These interim financial statements are presented in accordance with IAS 34 *Interim Financial Reporting*.

In preparing the interim financial statements, the same accounting principles and methods of computation have been applied as in the annual financial statements as of 31 December 2011 except for the changes set out in "Note 1 Basis of accounting" in the "Financial information" section of our first and second quarter 2012 reports. These interim financial statements are unaudited and should be read in conjunction with the audited

financial statements included in our Annual Report 2011. In the opinion of management, all necessary adjustments have been made for a fair presentation of the financial position, results of operations and cash flows.

IAS 19 (revised) Employee Benefits

In June 2011, the IASB issued revisions to IAS 19 *Employee Benefits* ("IAS 19R" or "the revised standard"). The revised standard introduces changes to the recognition, presentation and disclosure of post-employment benefits. IAS 19R eliminates the "corridor method", under which the recognition of actuarial gains and losses was deferred. Instead, all actuarial gains and losses are recognized im-

Estimated effect of adopting IAS 19R

Estimated effect on the balance sheet

CHF billion	Other assets	Deferred tax assets	Other liabilities	Equity
Opening adjustment to 1 January 2010	(3.0)	0.8	1.0	(3.3)
2010 change in reported figures	(0.1)	(0.1)	(0.4)	0.2
2011 change in reported figures	(0.1)	0.4	2.1	(1.8)
2012 change in reported figures	(0.5)	(0.5)	(1.3)	0.3
Total effect on the balance sheet as of 30 September 2012	(3.8)	0.6	1.4	(4.6)

Estimated effect on the income statement

CHF billion	Year-to-date		
	30.9.12	31.12.11	31.12.10
(Increase)/decrease in pension and other post-employment benefit plans expense	0.3	0.0	(0.1)
Decrease/(increase) in tax expense/(benefit)	0.0	0.0	0.0
(Decrease)/increase in net profit	0.3	0.0	(0.1)

CHF	Year-to-date		
	30.9.12	31.12.11	31.12.10
(Decrease)/increase in basic earnings per share	0.08	(0.01)	(0.02)
(Decrease)/increase in diluted earnings per share	0.09	0.00	(0.02)

Estimated effect on the statement of comprehensive income

CHF billion	Year-to-date		
	30.9.12	31.12.11	31.12.10
Actuarial gains/(losses) on defined benefit pension plans, before tax	0.5	(2.2)	0.3
Income tax relating to actuarial gains/(losses) on defined benefit pension plans	(0.5)	0.4	(0.1)
Increase/(decrease) in other comprehensive income	0.0	(1.7)	0.2
Increase/(decrease) in total comprehensive income	0.3	(1.8)	0.2

mediately in *Other comprehensive income* (OCI). The measurement of the defined benefit obligation takes into account risk sharing features, such as those within our Swiss pension plan. In addition, IAS 19R requires net interest expense/income to be calculated as the product of the net defined benefit obligation/asset and the discount rate that is used to measure the defined benefit obligation. The effect of this is to remove the current concept of recognizing an expected return on plan assets. The revised standard also enhances the disclosure requirements for defined benefit plans, providing more information about the characteristics of such plans and the risks to which entities are exposed through participation in

those plans. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted. UBS will early-adopt IAS 19R in its fourth quarter 2012 report on a retrospective basis.

The estimated effect of adopting IAS 19R is shown in the table on the previous page.

The regulatory capital effect of the adoption of IAS 19R, together with related changes in future periods, will be phased in annually from 1 January 2014 such that it becomes fully adjusted on 1 January 2018. On a fully applied basis, adoption of IAS 19R will have an incremental negative effect on common equity tier 1 capital of approximately CHF 1.3 billion.

Note 2 Segment reporting

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are

used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

	Wealth Management	Wealth Management Americas	Investment Bank ¹	Global Asset Management	Retail & Corporate	Corporate Center		UBS
						Core Functions ²	Legacy Portfolio ¹	
<i>CHF million</i>								
For the nine months ended 30 September 2012								
Net interest income	1,470	579	879	(20)	1,630	(114)	90	4,515
Non-interest income ³	3,822	3,902	6,001	1,412	1,173	(1,788)	278	14,800
Income ⁴	5,293	4,481	6,880	1,392	2,803	(1,902)	369	19,315
Credit loss (expense)/recovery	0	1	36	0	(8)	0	(124)	(94)
Total operating income	5,293	4,483	6,916	1,392	2,795	(1,902)	245	19,221
Personnel expenses	2,105	3,174	3,846	672	1,015	167	53	11,032
General and administrative expenses	946	597	1,960	294	629	119	265	4,810
Services (to)/from other business units	215	(11)	112	(6)	(329)	2	17	0
Depreciation and impairment of property and equipment	116	75	201	28	96	4	1	521
Impairment of goodwill	0	0	3,030	0	0	0	0	3,030
Amortization and impairment of intangible assets	5	38	38	6	0	0	0	87
Total operating expenses	3,387	3,873	9,187	994	1,412	292	336	19,481
Performance before tax	1,905	610	(2,271)	398	1,383	(2,194)	(91)	(260)
Tax expense/(benefit)								384
Net profit								(644)
As of 30 September 2012								
Total assets⁵	104,034	59,764	884,206	14,075	146,886	117,061	43,050	1,369,075

¹ In the second quarter of 2012, we transferred the provision for US mortgage loan repurchase demands from the Investment Bank to the Corporate Center – Legacy Portfolio. Expenses related to this provision incurred in periods prior to the second quarter of 2012 are presented within the Investment Bank. Refer to "Note 17b Litigation, regulatory and similar matters" for more information regarding this provision. ² Certain cost allocations to the business divisions are based on periodically agreed flat fees charged to the business divisions on a monthly basis. This could lead to a difference between actually incurred Corporate Center costs and charges to the business divisions. ³ The measurement of the performance of the business divisions excludes own credit gains and losses on financial liabilities designated at fair value. Refer to "Note 1 Basis of accounting" in our financial report for the second quarter of 2012 for more information. ⁴ The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. ⁵ The segment assets are based on a third-party view and this basis is in line with the internal reporting to management, i.e. the amounts do not include inter-company balances. Certain assets managed centrally by the Corporate Center (including property and equipment and certain financial assets) are allocated to the segments on a basis different to which the corresponding costs are allocated. Specifically, certain assets are reported in the Corporate Center whereas the corresponding costs are entirely or partially allocated to the segments based on various internally determined allocations.

Note 2 Segment reporting (continued)

	Wealth Management	Wealth Management Americas	Investment Bank ¹	Global Asset Management	Retail & Corporate	Corporate Center		UBS
						Core Functions ²	Legacy Portfolio ¹	
<i>CHF million</i>								
For the nine months ended 30 September 2011								
Net interest income	1,481	531	991	(11)	1,760	(79)	409	5,082
Non-interest income ³	4,481	3,395	4,972	1,351	1,485	1,743	(511)	16,915
Income ⁴	5,962	3,926	5,962	1,340	3,245	1,664	(102)	21,997
Credit loss (expense)/recovery	10	(1)	5	0	(88)	(1)	4	(70)
Total operating income	5,972	3,925	5,967	1,340	3,157	1,664	(98)	21,926
Personnel expenses	2,509	2,851	4,688	713	1,252	28	49	12,090
General and administrative expenses	876	583	1,755	285	624	75	110	4,307
Services (to)/from other business units	225	(7)	68	(1)	(327)	0	41	0
Depreciation and impairment of property and equipment	122	73	187	28	100	52	2	564
Amortization and impairment of intangible assets	35	35	22	5	0	0	0	97
Total operating expenses	3,767	3,534	6,721	1,030	1,649	155	203	17,058
Performance before tax	2,205	391	(754)	310	1,508	1,509	(301)	4,868
Tax expense/(benefit)								763
Net profit								4,106

As of 31 December 2011

Total assets⁵	100,598	54,150	1,019,537	15,352	148,697	25,100	55,728	1,419,162
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¹ In the second quarter of 2012, we transferred the provision for US mortgage loan repurchase demands from the Investment Bank to the Corporate Center – Legacy Portfolio. Expenses related to this provision incurred in periods prior to the second quarter of 2012 are presented within the Investment Bank. Refer to "Note 17b Litigation, regulatory and similar matters" for more information regarding this provision. ² Certain cost allocations to the business divisions are based on periodically agreed flat fees charged to the business divisions on a monthly basis. This could lead to a difference between actually incurred Corporate Center costs and charges to the business divisions. ³ The measurement of the performance of the business divisions excludes own credit gains and losses on financial liabilities designated at fair value. Refer to "Note 1 Basis of accounting" in our financial report for the second quarter of 2012 for more information. ⁴ The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. ⁵ The segment assets are based on a third-party view and this basis is in line with the internal reporting to management, i.e. the amounts do not include inter-company balances.

Note 3 Net interest and trading income

CHF million	For the quarter ended			% change from		Year-to-date	
	30.9.12	30.6.12	30.9.11	2Q12	3Q11	30.9.12	30.9.11
Net interest and trading income							
Net interest income	1,531	1,393	1,861	10	(18)	4,515	5,082
Net trading income	779	1,369	(28)	(43)		3,109	3,900
Total net interest and trading income	2,309	2,762	1,833	(16)	26	7,624	8,982
Wealth Management	689	683	775	1	(11)	2,059	2,143
Wealth Management Americas	304	311	307	(2)	(1)	937	858
Investment Bank	1,336	975	(1,010)	37		4,209	2,849
<i>of which: investment banking</i>	<i>(12)</i>	<i>27</i>	<i>(7)</i>		<i>71</i>	<i>24</i>	<i>(2)</i>
<i>of which: equities</i>	<i>440</i>	<i>(39)</i>	<i>(1,641)</i>			<i>1,000</i>	<i>(192)</i>
<i>of which: fixed income, currencies and commodities</i>	<i>908</i>	<i>987</i>	<i>639</i>	<i>(8)</i>	<i>42</i>	<i>3,185</i>	<i>3,043</i>
Global Asset Management	(3)	3	1			5	(4)
Retail & Corporate	620	610	702	2	(12)	1,833	2,023
Corporate Center	(636)	180	1,059			(1,420)	1,112
<i>of which: own credit on financial liabilities designated at fair value¹</i>	<i>(863)</i>	<i>239</i>	<i>1,765</i>			<i>(1,788)</i>	<i>1,608</i>
Total net interest and trading income	2,309	2,762	1,833	(16)	26	7,624	8,982
Net interest income							
Interest income							
Interest earned on loans and advances ²	2,351	2,434	2,409	(3)	(2)	7,134	7,376
Interest earned on securities borrowed and reverse repurchase agreements	333	392	445	(15)	(25)	1,125	1,300
Interest and dividend income from trading portfolio	1,030	1,384	1,275	(26)	(19)	3,595	4,476
Interest income on financial assets designated at fair value	92	87	50	6	84	277	157
Interest and dividend income from financial investments available-for-sale	85	101	193	(16)	(56)	288	522
Total	3,891	4,397	4,372	(12)	(11)	12,418	13,830
Interest expense							
Interest on amounts due to banks and customers ³	377	406	510	(7)	(26)	1,226	1,507
Interest on securities lent and repurchase agreements	271	390	327	(31)	(17)	975	1,035
Interest expense from trading portfolio ⁴	508	981	561	(48)	(9)	2,011	2,560
Interest on financial liabilities designated at fair value	445	452	423	(2)	5	1,388	1,491
Interest on debt issued	760	774	691	(2)	10	2,303	2,155
Total	2,360	3,004	2,512	(21)	(6)	7,903	8,748
Net interest income	1,531	1,393	1,861	10	(18)	4,515	5,082
Net trading income							
Investment Bank investment banking	0	34	(3)	(100)	(100)	57	10
Investment Bank equities	401	53	(1,758)	657		873	(175)
Investment Bank fixed income, currencies and commodities	629	702	278	(10)	126	2,400	2,024
Other business divisions and Corporate Center	(251)	580	1,454			(221)	2,042
Net trading income	779	1,369	(28)	(43)		3,109	3,900
<i>of which: net gains/(losses) from financial liabilities designated at fair value^{1,5}</i>	<i>(3,030)</i>	<i>1,761</i>	<i>8,252</i>			<i>(5,051)</i>	<i>8,635</i>

¹ For more information on own credit refer to "Note 13b Own credit on financial liabilities designated at fair value". ² Includes interest income on Cash collateral receivables on derivative instruments. ³ Includes interest expense on Cash collateral payables on derivative instruments. ⁴ Includes expense related to dividend payment obligations on trading liabilities. ⁵ Fair value changes of hedges related to financial liabilities designated at fair value are also reported in Net trading income.

Note 3 Net interest and trading income (continued)

Net trading income in the third quarter of 2012 included a gain of CHF 88 million from credit valuation adjustments for monoline credit protection (of which CHF 64 million related to negative basis trades and CHF 25 million related to other trades) reflected in Other business divisions and Corporate Center. This compares with a CHF 14 million loss in the second quarter of 2012 (of which CHF 11 million related to negative basis trades and CHF 3 million related to other trades) and a CHF 488 million loss in the third quarter of 2011 (of which CHF 397 million related to negative basis trades and CHF 91 million related to other trades).

→ Refer to the "Risk management and control" section of this report for more information on exposure to monolines

Net trading income in the third quarter of 2012 also included a gain of CHF 263 million from the valuation of our option to acquire the SNB StabFund's equity, also reflected in Other business divisions and Corporate Center, compared with a CHF 45 million gain in the second quarter of 2012 and a CHF 209 million loss in the third quarter of 2011.

→ Refer to the "Risk management and control" section of this report for more information on the valuation of our option to acquire the SNB StabFund's equity

Note 4 Net fee and commission income

CHF million	For the quarter ended			% change from		Year-to-date	
	30.9.12	30.6.12	30.9.11	2Q12	3Q11	30.9.12	30.9.11
Equity underwriting fees	205	163	110	26	86	584	497
Debt underwriting fees	230	137	113	68	104	550	436
Total underwriting fees	436	300	223	45	96	1,134	933
M&A and corporate finance fees	172	136	214	26	(20)	482	730
Brokerage fees	928	930	1,058	0	(12)	2,899	3,332
Investment fund fees	907	871	814	4	11	2,672	2,707
Portfolio management and advisory fees	1,509	1,449	1,330	4	13	4,362	4,178
Insurance-related and other fees	113	106	86	7	31	321	283
Total securities trading and investment activity fees	4,065	3,793	3,725	7	9	11,871	12,164
Credit-related fees and commissions	96	109	94	(12)	2	303	321
Commission income from other services	215	218	198	(1)	9	633	608
Total fee and commission income	4,375	4,120	4,018	6	9	12,807	13,093
Brokerage fees paid	206	218	239	(6)	(14)	654	731
Other	251	253	222	(1)	13	742	686
Total fee and commission expense	456	471	461	(3)	(1)	1,396	1,417
Net fee and commission income	3,919	3,649	3,557	7	10	11,411	11,676
<i>of which: net brokerage fees</i>	<i>722</i>	<i>712</i>	<i>818</i>	<i>1</i>	<i>(12)</i>	<i>2,245</i>	<i>2,601</i>

Note 5 Other income

CHF million	For the quarter ended			% change from		Year-to-date	
	30.9.12	30.6.12	30.9.11	2Q12	3Q11	30.9.12	30.9.11
Associates and subsidiaries							
Net gains/(losses) from disposals of subsidiaries ¹	9	(6)	0			(14)	(21)
Net gains/(losses) from disposals of investments in associates	0	0	0			0	13
Share of net profits of associates	37	26	8	42	363	73	30
Total	45	20	8	125	463	59	21
Financial investments available-for-sale							
Net gains/(losses) from disposals	86	67	786	28	(89)	206	866
Impairment charges	(17)	(28)	(32)	(39)	(47)	(74)	(37)
Total	69	39	754	77	(91)	132	829
Net income from properties ²	9	8	8	13	13	26	29
Net gains/(losses) from investment properties ³	1	1	1	0	0	4	6
Other ⁴	64	(69)	340		(81)	59	453
Total other income	188	(1)	1,111		(83)	280	1,339

¹ Includes foreign exchange gains/losses reclassified from other comprehensive income related to disposed or dormant subsidiaries. ² Includes net rent received from third parties and net operating expenses. ³ Includes unrealized and realized gains/losses from investment properties at fair value and foreclosed assets. ⁴ Includes mainly net gains/losses from disposals of loans and receivables and own-used property.

Note 6 Personnel expenses

CHF million	For the quarter ended			% change from		Year-to-date	
	30.9.12	30.6.12	30.9.11	2Q12	3Q11	30.9.12	30.9.11
Salaries and variable compensation	2,388	2,352	2,566	2	(7)	7,553	8,332
Contractors	59	52	55	13	7	158	170
Social security	183	166	154	10	19	547	580
Pension and other post-employment benefit plans	234	147 ¹	210	59	11	122 ¹	579
Wealth Management Americas: Financial advisor compensation ²	741	713	607	4	22	2,134	1,851
Other personnel expenses	184	170	166	8	11	518	578
Total personnel expenses	3,789	3,601	3,758	5	1	11,032	12,090

¹ The expense line Pension and other post-employment benefit plans included a credit of CHF 84 million related to changes to our retiree medical and life insurance benefit plan in the US in the second quarter of 2012 and a credit of CHF 485 million related to changes to our Swiss pension plan in the first quarter of 2012. ² 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 costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements.

Note 7 General and administrative expenses

CHF million	For the quarter ended			% change from		Year-to-date	
	30.9.12	30.6.12	30.9.11	2Q12	3Q11	30.9.12	30.9.11
Occupancy	270	266	251	2	8	797	792
Rent and maintenance of IT and other equipment	111	120	98	(8)	13	351	318
Communication and market data services	162	158	140	3	16	478	455
Administration	132	107	117	23	13	372	377
Marketing and public relations	127	153	104	(17)	22	363	269
Travel and entertainment	102	119	107	(14)	(5)	326	343
Professional fees	261	182	193	43	35	630	558
Outsourcing of IT and other services	353	337	270	5	31	987	853
Provisions for litigation and regulatory matters ¹	239	181	46	32	420	468	238
Other	4	28	84	(86)	(95)	38	104
Total general and administrative expenses	1,761	1,652	1,411	7	25	4,810	4,307

¹ Reflects the net increase/release of provisions for litigation and regulatory matters recognized in the income statement and recoveries from third parties.

Note 8 Impairment of goodwill and other non-financial assets

Introduction

UBS performs an impairment test on its goodwill assets on an annual basis, or when indicators of impairment exist. UBS considers the segments as reported in "Note 2 Segment reporting" as separate cash-generating units. The impairment test is performed for each segment for which goodwill is allocated and compares the recoverable amount and the carrying amount of the segment. An impairment charge is recognized if the carrying amount exceeds the recoverable amount.

An impairment test was performed as of 30 September 2012 with respect to the Investment Bank because indicators of impairment were present for that cash-generating unit. These indicators included negative variances from planned performance, preliminary discussions regarding change in strategy for the Investment Bank and revised business plan information taking account of changes in market conditions and the global economic outlook. The impairment test was based on the business plan approved by the Board of Directors on 29 October 2012. As a result of that impairment test (explained in detail below), losses were recognized in the income statement relating to a full impairment of CHF 3,030 million for goodwill. Additional assets were examined to determine whether their carrying values exceed their recoverable amounts. Impairment losses of CHF 15 million were recognized in the income statement for other intangible assets and CHF 19 million for property and equipment. These impairment losses were recognized in the Investment Bank's operating results (refer to Note 2 Segment Reporting) and in the Group's Income statement as "Impairment of goodwill", "Amortization and impairment of intangible assets", and "Depreciation and impairment of property and equipment".

No indicators of impairment exist for the other business segments. Goodwill allocated to these business segments will be tested through the annual impairment test as of 31 December 2012.

Methodology for goodwill impairment testing

The methodology applied for this impairment test is consistent with the methodology applied in our annual impairment test as of 31 December 2011. The recoverable amount was determined using a discounted cash flow model which uses inputs that consider features of the banking business and its regulatory environment. The recoverable amount is the sum of the discounted earnings

attributable to shareholders from the forecasted fourth quarter of 2012, the first five individually forecasted years thereafter, and the terminal value. The terminal value reflecting all periods beyond the fifth year is calculated on the basis of the forecast of fifth year profit, the discount rate and the long-term growth rate.

The carrying amount for the segment has been determined by reference to the equity attribution framework. Within this framework, which is described in the "Capital management" section of our Annual Report 2011, management attributes equity to the businesses after considering their risk exposure, pro-forma Basel III RWA usage, asset size, goodwill and intangible assets. The framework is used primarily for purposes of measuring the performance of the businesses and includes certain management assumptions. Attributed equity equates to 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 cash-generating units.

Assumptions

Valuation parameters used within the Group'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 attributable to shareholders in years one to five, to changes in the discount rate, 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 Board of Directors. The discount rate is 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 UBS's management.

In performing the impairment test for the Investment Bank as at 30 September 2012, a discount rate of 12% was used for the remainder of 2012 and 13% thereafter (12% for the last annual impairment test on 31 December 2011) and a long-term growth rate of 2.4% was applied, consistent with that used for the last annual impairment test.

Note 9 Earnings per share (EPS) and shares outstanding

	As of or for the quarter ended			% change from		Year-to-date	
	30.9.12	30.6.12	30.9.11	2Q12	3Q11	30.9.12	30.9.11
Basic earnings (CHF million)							
Net profit attributable to UBS shareholders	(2,172)	425	1,018			(920)	3,840
Diluted earnings (CHF million)							
Net profit attributable to UBS shareholders	(2,172)	425	1,018			(920)	3,840
Less: (profit)/loss on equity derivative contracts	(1)	(2)	(5)	(50)	(80)	(1)	(8)
Net profit attributable to UBS shareholders for diluted EPS	(2,173)	423	1,013			(921)	3,832
Weighted average shares outstanding							
Weighted average shares outstanding for basic EPS	3,746,938,472	3,766,724,109	3,759,881,515	(1)	0	3,756,100,044	3,783,195,755
Potentially dilutive ordinary shares resulting from notional shares, in-the-money options and warrants outstanding ^{1,2}	385,983	60,874,591	55,522,658	(99)	(99)	526,869	62,489,915
Weighted average shares outstanding for diluted EPS	3,747,324,455	3,827,598,700	3,815,404,173	(2)	(2)	3,756,626,913	3,845,685,670
Earnings per share (CHF)							
Basic	(0.58)	0.11	0.27			(0.24)	1.02
Diluted	(0.58)	0.11	0.27			(0.25)	1.00
Shares outstanding							
Ordinary shares issued	3,833,580,057	3,833,127,261	3,832,081,010	0	0		
Treasury shares	87,731,484	84,869,397	91,265,502	3	(4)		
Shares outstanding	3,745,848,573	3,748,257,864	3,740,815,508	0	0		
Exchangeable shares	422,413	433,701	516,527	(3)	(18)		
Shares outstanding for EPS	3,746,270,986	3,748,691,565	3,741,332,035	0	0		

¹ Total equivalent shares outstanding on out-of-the-money options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 177,777,494; 224,359,285 and 285,849,194 for the quarters ended 30 September 2012, 30 June 2012 and 30 September 2011, respectively, and 178,095,406 and 276,156,791 for year-to-date 30 September 2012 and 30 September 2011, respectively. An additional 100 million ordinary shares ("contingent share issue") related to the SNB transaction were not dilutive for any periods presented, but could potentially dilute earnings per share in the future. ² Due to UBS's loss in the third quarter of 2012, 62,441,407 and 61,965,756 potential ordinary shares from unexercised employee shares and options are not considered due to the anti-dilutive effect for the quarter ended 30 September 2012 and year-to-date 30 September 2012, respectively.

Note 10 Income taxes

We recognized a net income tax benefit of CHF 345 million in the third quarter of 2012. This includes a net increase in deferred tax assets recognized in the quarter of CHF 355 million mainly relating to the quarterly tax effects of a projected Swiss taxable loss for the year. In addition, a net tax benefit of CHF 75 million arose from the release of provisions in respect of tax positions that had previously been uncertain. These benefits were partially offset by

tax expenses of CHF 85 million in respect of the taxable profits of Group entities.

In addition, a tax charge of CHF 613 million was recorded directly in equity, which mainly reflects a reduction in deferred tax assets recognized for equity losses (mainly treasury share and foreign currency translation losses) not expected to be recovered.

Note 11 Trading portfolio

CHF million	30.9.12	30.6.12	31.12.11
Trading portfolio assets by product type			
Debt instruments			
Government bills/bonds	37,794	38,784	45,297
Corporate bonds, municipal bonds, including bonds issued by financial institutions	31,170	32,306	32,765
Loans	5,704	6,490	4,088
Investment fund units	10,793	9,004	9,859
Asset-backed securities	16,918	17,682	17,035
<i>of which: mortgage-backed securities</i>	13,840	14,489	13,868
Total debt instruments	102,380	104,266	109,045
Equity instruments			
Financial assets for unit-linked investment contracts	16,287	16,256	16,376
Financial assets held for trading	160,626	159,670	162,821
Precious metals and other physical commodities	21,242	19,555	18,704
Total trading portfolio assets	181,869	179,226	181,525
Trading portfolio liabilities by product type			
Debt instruments			
Government bills/bonds	27,372	26,152	17,026
Corporate bonds, municipal bonds, including bonds issued by financial institutions	7,381	8,248	7,122
Investment fund units	817	1,096	1,083
Asset-backed securities	11	88	312
<i>of which: mortgage-backed securities</i>	7	75	287
Total debt instruments	35,582	35,582	25,542
Equity instruments			
	14,820	14,398	13,937
Total trading portfolio liabilities	50,402	49,980	39,480

Note 12 Financial investments available-for-sale

CHF million	30.9.12	30.6.12	31.12.11
Financial investments available-for-sale by product type			
Debt instruments			
Government bills/bonds	48,264	41,221	34,899
Corporate bonds, municipal bonds, including bonds issued by financial institutions	10,304	9,722	8,590
Investment fund units	409	426	445
Mortgage-backed securities	9,361	7,882	8,541
Total debt instruments	68,338	59,250	52,475
Equity instruments			
	814	761	699
Total financial investments available-for-sale	69,152	60,012	53,174

Note 13 Fair value of financial instruments**a) Fair value hierarchy**

All financial instruments at fair value are categorized into one of three fair value hierarchy levels at quarter end, based upon the lowest level input that is significant to the product's fair value measurement in its entirety:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – valuation techniques for which all significant inputs are market observable, either directly or indirectly; and
- Level 3 – valuation techniques which include significant inputs that are not based on observable market data.

Determination of fair values from quoted market prices or valuation techniques¹

<i>CHF billion</i>	Level 1	Level 2	Level 3	Total
As of 30 September 2012				
Financial assets held for trading ²	108.0	45.6	7.0	160.6
<i>of which: pledged as collateral which may be sold or repledged by counterparties</i>	41.9	5.5	0.7	48.0
Positive replacement values	4.8	434.4	10.1	449.2
Financial assets designated at fair value	0.0	4.7	4.6	9.4
Financial investments available-for-sale	51.2	17.0	1.0	69.2
Total assets	164.0	501.7	22.7	688.4
Trading portfolio liabilities	44.1	6.1	0.2	50.4
Negative replacement values	4.7	414.9	7.9	427.5
Financial liabilities designated at fair value	0.0	80.8	13.5	94.3
Other liabilities – amounts due under unit-linked investment contracts		16.3		16.3
Total liabilities	48.8	518.1	21.6	588.5
As of 30 June 2012				
Financial assets held for trading ²	100.5	53.4	5.7	159.7
<i>of which: pledged as collateral which may be sold or repledged by counterparties</i>	38.6	6.7	0.2	45.6
Positive replacement values	4.5	444.0	9.8	458.3
Financial assets designated at fair value	0.5	4.5	4.2	9.2
Financial investments available-for-sale	44.8	14.2	1.0	60.0
Total assets	150.4	516.1	20.7	687.2
Trading portfolio liabilities	40.6	9.2	0.2	50.0
Negative replacement values	4.4	434.2	7.8	446.4
Financial liabilities designated at fair value	0.0	80.3	12.9	93.3
Other liabilities – amounts due under unit-linked investment contracts		16.3		16.3
Total liabilities	45.0	540.0	20.9	606.0
As of 31 December 2011				
Financial assets held for trading ²	99.4	55.7	7.8	162.8
<i>of which: pledged as collateral which may be sold or repledged by counterparties</i>	33.2	6.2	0.5	39.9
Positive replacement values	3.4	469.2	13.9	486.6
Financial assets designated at fair value	0.7	6.9	2.7	10.3
Financial investments available-for-sale	34.8	17.7	0.6	53.2
Total assets	138.4	549.5	25.0	712.9
Trading portfolio liabilities	30.4	8.4	0.6	39.5
Negative replacement values	3.5	459.1	10.8	473.4
Financial liabilities designated at fair value	0.0	76.9	12.1	89.0
Other liabilities – amounts due under unit-linked investment contracts		16.4		16.4
Total liabilities	34.0	560.8	23.5	618.2

¹ Bifurcated embedded derivatives, which are presented on the same balance sheet lines as their host contracts, are excluded from this table. As of 30 September 2012, net bifurcated embedded derivative assets held at fair value, totaling CHF 0.4 billion (of which CHF 0.5 billion were net level 3 assets and CHF 0.1 billion net level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 30 June 2012, net bifurcated embedded derivative assets held at fair value, totaling CHF 0.9 billion (of which CHF 0.6 billion were net level 3 assets and CHF 0.3 billion net level 2 assets) were recognized on the balance sheet within Debt issued. As of 31 December 2011, net bifurcated embedded derivative assets held at fair value, totaling CHF 1.0 billion (of which CHF 0.8 billion were net level 3 assets and CHF 0.2 billion net level 2 assets) were recognized on the balance sheet within Debt issued. ² Financial assets held for trading do not include precious metals and commodities.

Note 13 Fair value of financial instruments (continued)

Movements of level 3 instruments

<i>CHF billion</i>	Financial assets held for trading ¹	Financial assets designated at fair value	Derivative instruments		Financial liabilities designated at fair value
			Positive replacement values	Negative replacement values	
Balance at 31 December 2011	7.8	2.7	13.9	10.8	12.1
Total gains/losses included in the income statement	0.2	0.0	(1.3)	(1.0)	(0.3)
Purchases, sales, issuances and settlements	0.0	0.2	(1.5)	(1.0)	(0.2)
Purchases	1.5	0.0	0.0	0.0	0.0
Sales	(1.5)	0.0	0.0	0.0	0.0
Issuances	0.0	1.1	0.8	0.3	1.2
Settlements	0.0	(0.9)	(2.3)	(1.3)	(1.4)
Transfers into or out of level 3	(0.5)	0.0	(0.2)	0.4	0.1
Transfers into level 3	0.6	0.0	0.5	0.9	1.5
Transfers out of level 3	(1.1)	0.0	(0.7)	(0.4)	(1.5)
Foreign currency translation	(0.3)	(0.1)	(0.5)	(0.5)	(0.1)
Balance at 31 March 2012	7.3	3.0	10.4	8.7	11.5
Total gains/losses included in the income statement	(0.6)	0.1	(0.1)	0.1	(0.1)
Purchases, sales, issuances and settlements	(1.4)	0.6	(0.7)	(1.1)	0.7
Purchases	1.4	0.0	0.0	0.0	0.0
Sales	(2.8)	0.0	0.0	0.0	0.0
Issuances	0.0	0.7	0.3	0.2	2.3
Settlements	0.0	(0.1)	(1.0)	(1.3)	(1.5)
Transfers into or out of level 3	0.2	0.6	0.0	(0.2)	0.5
Transfers into level 3	0.6	0.6	0.5	0.4	1.9
Transfers out of level 3	(0.3)	0.0	(0.5)	(0.6)	(1.4)
Foreign currency translation	0.2	0.0	0.3	0.4	0.3
Balance at 30 June 2012	5.7	4.2	9.8	7.8	12.9
Total gains/losses included in the income statement	(0.4)	(0.1)	(0.6)	(0.4)	0.4
Purchases, sales, issuances and settlements	1.5	0.5	0.1	(0.1)	0.3
Purchases	0.3	0.0	0.0	0.0	0.0
Sales	(0.1)	0.0	0.0	0.0	0.0
Issuances	1.3	0.5	0.1	0.3	0.8
Settlements	0.0	0.0	0.0	(0.4)	(0.5)
Transfers into or out of level 3	0.3	0.1	0.7	0.6	(0.1)
Transfers into level 3	0.6	0.1	0.8	1.1	0.6
Transfers out of level 3	(0.3)	0.0	(0.1)	(0.5)	(0.6)
Foreign currency translation	(0.1)	0.0	0.1	0.0	(0.1)
Balance at 30 September 2012	7.0	4.6	10.1	7.9	13.5

¹ Includes assets pledged as collateral which may be sold or repledged by counterparties.

Note 13 Fair value of financial instruments (continued)

As of 30 September 2012, financial instruments measured with valuation techniques using significant non-market observable inputs (level 3) mainly included the following:

- structured rates and credit positions, including bespoke collateralized debt obligations (CDO) and collateralized loan obligations (CLO);
- reference-linked notes (RLN);
- financial instruments linked to the US and European residential and US and non-US commercial real estate markets;
- corporate bonds and corporate credit default swaps (CDS); and
- lending-related products.

The significant movements in the Level 3 instruments during the quarter ended 30 September 2012 were as follows:

Financial assets held for trading

Financial assets held for trading increased from CHF 5.7 billion to CHF 7.0 billion during the quarter, primarily due to the issuance of CHF 1.3 billion of lending-related products, which was partly offset by net losses of CHF 0.4 billion recognized in the income statement.

Financial assets held for trading transferred into and out of level 3 amounted to CHF 0.6 billion and CHF 0.3 billion, respectively. Transfers into level 3 were primarily comprised of corporate bonds as price verification was not possible due to reduced observability of market inputs. Transfers out of level 3 were comprised of certain US commercial mortgage-backed securities (CMBS) and corporate bonds as independent sources became available and were used to verify fair value.

Financial assets designated at fair value

Financial assets designated at fair value increased from CHF 4.2 billion to CHF 4.6 billion during the quarter, mainly due to the issuance of CHF 0.5 billion of structured financing trades.

Positive replacement values

Positive replacement values increased from CHF 9.8 billion to CHF 10.1 billion during the quarter, mainly due to transfers into

level 3, which totaled CHF 0.8 billion and consisted of CHF 0.5 billion of corporate CDS for which credit spreads and recovery rates could no longer be independently verified and CHF 0.3 billion of structured rates positions for which volatility could not be independently verified. These increases were partly offset by net losses recognized in the income statement of CHF 0.6 billion.

Negative replacement values

Negative replacement values increased from CHF 7.8 billion to CHF 7.9 billion during the quarter, primarily due to transfers into level 3 of CHF 1.1 billion, mainly comprised of CHF 0.6 billion of structured credit bespoke CDO resulting from a reduction in the correlation between the portfolio held and the representative market portfolio used to independently verify market data. This increase was largely offset by net gains of CHF 0.4 billion recognized in the income statement and transfers out of level 3 totaling CHF 0.5 billion, which mainly consisted of CHF 0.2 billion of corporate CDS for which credit spreads and recovery rates could be independently verified and CHF 0.1 billion of index tranche CDS as the reliability of underlying market data increased.

Financial liabilities designated at fair value

Financial liabilities designated at fair value increased from CHF 12.9 billion to CHF 13.5 billion during the quarter, primarily due to issuances totaling CHF 0.8 billion, which consisted of CHF 0.5 billion of structured financing trades and CHF 0.3 billion of credit-linked notes, as well as net losses of CHF 0.4 billion recognized in the income statement. These increases were partly offset by settlements totaling CHF 0.5 billion, of which CHF 0.3 billion were structured financing trades and CHF 0.1 billion were credit-linked notes. Financial liabilities designated at fair value transferred into and out of level 3 amounted to CHF 0.6 billion and CHF 0.6 billion, respectively. Transfers into level 3 consisted primarily of equity linked notes where the volatility of the embedded option could not be independently verified, and transfers out of level 3 consisted primarily of equity-linked notes where the volatility of the embedded option could be independently verified.

Note 13 Fair value of financial instruments (continued)

b) Valuation information

Own credit on financial liabilities designated at fair value

Own credit changes are calculated based on a funds transfer price (FTP) curve, which provides a single level of discounting for uncollateralized funded instruments within UBS. The FTP curve is used to value uncollateralized and partially uncollateralized funding transactions designated at fair value, and for relevant tenors is set by reference to the level at which UBS medium term notes (MTN) are priced. The FTP curve spread is considered to be representative of the credit risk which reflects the premium that market participants require to purchase UBS MTN.

Amounts for the quarter represent the change during the quarter, and life-to-date amounts reflect the cumulative change

since initial recognition. The change in own credit for the period can be analyzed in two components: (i) changes in fair value that are attributable to the change in our credit spreads during the period, and (ii) the effect of "volume changes", which is the change in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay, changes in the interest rates and changes in the value of reference instruments issued by third parties. The disclosed own credit amounts are also impacted by foreign currency movements.

An own credit loss on financial liabilities designated at fair value of CHF 863 million was recorded in the third quarter.

Own credit on financial liabilities designated at fair value

CHF million	As of or for the quarter ended			Year-to-date	
	30.9.12	30.6.12	30.9.11	30.9.12	30.9.11
Total gain / (loss) for the period ended	(863)	239	1,765	(1,788)	1,608
of which: credit spread related only	(884)	132	1,591	(1,884)	1,502
Life-to-date gain	132	983	1,985		

c) Deferred day 1 profit or loss

The table reflects the activity in deferred profit or loss for financial instruments for which fair value is determined using valuation models for which not all significant inputs are market observable. Such financial instruments are initially recognized at their transaction price, even if the values obtained from the relevant valuation model on day 1 differ. Day 1 reserves are released and profit is

recorded in net trading income as either the underlying parameters become observable, the transaction is closed out or through an appropriate amortization methodology. The table shows the aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance (movement of deferred day 1 profit or loss).

Deferred day 1 profit or loss

CHF million	For the quarter ended		
	30.9.12	30.6.12	30.9.11
Balance at the beginning of the period	508	406	505
Deferred profit / (loss) on new transactions	34	170	43
Recognized (profit) / loss in the income statement	(103)	(88)	(111)
Foreign currency translation	(5)	20	27
Balance at the end of the period	434	508	464

Note 14 Reclassification of financial assets

In the fourth quarter of 2008 and the first quarter of 2009, financial assets were reclassified out of held-for-trading to loans and receivables. On their reclassification date these assets had fair values of CHF 26 billion and CHF 0.6 billion, respectively.

The table below provides notional values, fair values and carrying values by product category for the remaining reclassified financial assets.

Held-for-trading assets reclassified to loans and receivables

<i>CHF billion</i>	30.9.12			Ratio of carrying to notional value (%)
	Notional value	Fair value	Carrying value	
US student loan and municipal auction rate securities	3.1	2.7	2.8	90
Monoline-protected assets	0.6	0.6	0.5	91
Leveraged finance	0.4	0.4	0.4	83
US reference-linked notes	0.1	0.1	0.1	71
Other assets	0.6	0.5	0.5	83
Total	4.9	4.2	4.3	88

Held-for-trading assets reclassified to loans and receivables

<i>CHF billion</i>	30.9.12	30.6.12	31.12.11
Carrying value	4.3	4.8	5.3
Fair value	4.2	4.5	4.9
Pro-forma fair value gain/(loss)	(0.1)	(0.3)	(0.4)

In the third quarter of 2012, the carrying value of the remaining reclassified financial assets decreased by CHF 0.5 billion, mainly due to the sale of assets with a carrying value of CHF 0.3 billion at the time of the sale. The net impact on operating profit before tax

from the reclassified assets was a loss of CHF 31 million (see table below). If these financial assets had not been reclassified, the impact on the third quarter 2012 operating profit before tax would have been a profit of approximately CHF 0.1 billion.

Contribution of the reclassified assets to the income statement

<i>CHF million</i>	For the quarter ended		Year-to-date
	30.9.12	30.6.12	30.9.12
Net interest income	36	33	102
Credit loss (expense)/recovery	(93)	(17)	(88)
Other income ¹	26	(71)	(21)
Impact on operating profit before tax	(31)	(55)	(7)

¹ Includes net gains/losses on the disposal of reclassified financial assets.

Note 15 Derivative instruments

	30.9.12				
<i>CHF billion</i>	Positive replacement values	Notional values related to positive replacement values ¹	Negative replacement values	Notional values related to negative replacement values ¹	Other notional values ²
Derivative instruments					
Interest rate contracts	300	6,911	273	6,572	19,620
Credit derivative contracts	45	1,255	42	1,242	239
Foreign exchange contracts	79	3,571	87	3,522	8
Equity/index contracts	19	267	19	280	25
Commodity contracts, including precious metals contracts	6	110	6	117	15
Unsettled purchases of non-derivative financial assets ³	0	49	0	38	0
Unsettled sales of non-derivative financial assets ³	0	40	0	44	0
Total derivative instruments, based on IFRS netting^{4,5}	449	12,203	428	11,815	19,907
Replacement value netting, based on capital adequacy rules	(356)		(356)		
Cash collateral netting, based on capital adequacy rules	(45)		(18)		
Total derivative instruments, based on capital adequacy netting⁶	48		53		
	30.6.12				
	Positive replacement values	Notional values related to positive replacement values ¹	Negative replacement values	Notional values related to negative replacement values ¹	Other notional values ²
Derivative instruments					
Interest rate contracts	301	7,242	279	6,970	19,588
Credit derivative contracts	55	1,299	52	1,221	323
Foreign exchange contracts	78	3,556	90	3,548	6
Equity/index contracts	19	239	20	269	20
Commodity contracts, including precious metals contracts	5	102	5	94	17
Unsettled purchases of non-derivative financial assets ³	1	58	0	28	0
Unsettled sales of non-derivative financial assets ³	0	38	1	48	0
Total derivative instruments, based on IFRS netting^{4,5}	458	12,535	446	12,179	19,954
Replacement value netting, based on capital adequacy rules	(366)		(366)		
Cash collateral netting, based on capital adequacy rules	(41)		(24)		
Total derivative instruments, based on capital adequacy netting⁶	51		56		
	31.12.11				
	Positive replacement values	Notional values related to positive replacement values ¹	Negative replacement values	Notional values related to negative replacement values ¹	Other notional values ²
Derivative instruments					
Interest rate contracts	296	8,172	276	8,113	20,019
Credit derivative contracts	67	1,298	64	1,245	172
Foreign exchange contracts	97	3,194	106	3,123	12
Equity/index contracts	19	192	20	211	15
Commodity contracts, including precious metals contracts	7	101	7	91	18
Unsettled purchases of non-derivative financial assets ³	0	40	0	11	0
Unsettled sales of non-derivative financial assets ³	0	18	0	30	0
Total derivative instruments, based on IFRS netting^{4,5}	487	13,014	473	12,823	20,236
Replacement value netting, based on capital adequacy rules	(383)		(383)		
Cash collateral netting, based on capital adequacy rules	(46)		(28)		
Total derivative instruments, based on capital adequacy netting⁶	58		62		

¹ 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. ² Receivables resulting from these derivatives are recognized on the balance sheet under Cash collateral receivables on derivative instruments totaling: CHF 3.5 billion (30 June 2012: CHF 4.5 billion; 31 December 2011: CHF 2.4 billion). Payables resulting from these derivatives are recognized on the balance sheet under Cash collateral payables on derivative instruments totaling: CHF 3.7 billion (30 June 2012: CHF 3.7 billion; 31 December 2011: CHF 2.7 billion). ³ Changes in the fair value of purchased and sold non-derivative financial assets between trade date and settlement date are recognized as replacement values. ⁴ Replacement values based on International Financial Reporting Standards netting. ⁵ Includes agency transactions with a positive replacement value of CHF 5.4 billion (30 June 2012: CHF 5.9 billion; 31 December 2011: CHF 6.3 billion) and a negative replacement value of CHF 5.3 billion (30 June 2012: CHF 6.1 billion; 31 December 2011: CHF 6.7 billion) for which notional values were not included in the table above due to significantly different risk profile. ⁶ Includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law.

Note 16 Other assets and liabilities

<i>CHF million</i>	30.9.12	30.6.12	31.12.11
Other assets			
Prime brokerage receivables	7,265	5,913	6,103
Deferred pension expenses	3,778	3,783	3,300
Other	3,265	3,242	3,062
Total other assets	14,308	12,939	12,465
Other liabilities			
Prime brokerage payables	37,357	39,170	36,746
Amounts due under unit-linked investment contracts	16,367	16,327	16,481
Provisions	1,876	1,648	1,626
Current and deferred tax liabilities	523	520	584
Other	5,740	5,756	6,255
Total other liabilities	61,863	63,422	61,692

Note 17 Provisions and contingent liabilities**a) Provisions**

<i>CHF million</i>	Operational risks ¹	Litigation, regulatory and similar matters ²	Restructuring	Loan commitments and guarantees	Other ³	Total provisions
Balance at 31 December 2011	58	482	467	93	525	1,626
Increase in provisions recognized in the income statement	8	70	139	0	21	239
Release of provisions recognized in the income statement	(3)	(18)	(7)	(3)	(3)	(34)
Provisions used in conformity with designated purpose	(14)	(66)	(72)	0	(30)	(181)
Reclassifications	0	0	(37) ⁴	3	0	(34)
Foreign currency translation / unwind of discount	(1)	(15)	(8)	(2)	(6)	(32)
Balance at 31 March 2012	49	454	484	92	506	1,584
Increase in provisions recognized in the income statement	9	210	32	1	23	275
Release of provisions recognized in the income statement	0	(27)	(26)	(1)	(3)	(58)
Provisions used in conformity with designated purpose	(6)	(75)	(88)	0	(23)	(192)
Reclassifications	0	0	(2) ⁴	(15)	0	(17)
Foreign currency translation / unwind of discount	0	22	22	2	9	55
Balance at 30 June 2012	52	584	422	78	513	1,648
Increase in provisions recognized in the income statement	10	285	4	0	113	413
Release of provisions recognized in the income statement	(1)	0	(14)	(16)	(63) ⁵	(93)
Provisions used in conformity with designated purpose	(8)	(13)	(55)	0	(19)	(95)
Reclassifications	0	44	0	(2)	(44)	(2)
Foreign currency translation / unwind of discount	(1)	(2)	5	1	2	5
Balance at 30 September 2012	52	897	363	61	503	1,876

¹ Includes provisions for litigation resulting from security risks and transaction processing risks. ² Includes litigation resulting from legal, liability and compliance risks. ³ Includes reinstatement costs for leasehold improvements of CHF 101 million as of 30 September 2012 (31 December 2011: CHF 109 million), provisions for onerous lease contracts of CHF 87 million as of 30 September 2012 (31 December 2011: CHF 106 million), provisions related to employee benefits (including service anniversaries and sabbatical leave) of CHF 262 million as of 30 September 2012 (31 December 2011: CHF 227 million) and other items. ⁴ Reflects a reclassification to share premium of restructuring provisions related to share-based compensation. ⁵ Includes the release of provisions for Swiss long-service and sabbatical awards.

Note 17 Provisions and contingent liabilities (continued)

b) 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 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 the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group 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. If any of those conditions is not met, such matters result in contingent liabilities.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 17a) 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 which 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.

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 notwithstanding the extent of 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 those cases where disclosure of information could be expected to seriously prejudice our position, such information is omitted. This includes information as to whether the matter has given rise to a provision or a contingent liability, or the estimated financial effect of a matter where that can be determined.

1. Municipal bonds

In 2011, UBS announced a USD 140.3 million settlement with the US Securities and Exchange Commission (SEC), the Antitrust Divi-

sion of the US Department of Justice (DOJ), the Internal Revenue Service (IRS) and a group of state attorneys general relating to the investment of proceeds of municipal bond issuances and associated derivative transactions. The settlement resolves the investigations by those regulators which had commenced in November 2006. Several related putative class actions, which were filed in Federal District Courts against UBS and numerous other firms, remain pending. However, approximately USD 63 million of the regulatory settlement will be made available to potential claimants through a settlement fund, and payments made through the fund should reduce the total monetary amount at issue in the class actions for UBS. In August 2012, three former UBS employees were convicted by a federal jury in New York City on conspiracy and fraud charges. They have stated that they will appeal.

2. Auction rate securities

In 2008, UBS entered into settlements with the SEC, the New York Attorney General (NYAG) and the Massachusetts Securities Division whereby UBS agreed to offer to buy back Auction Rate Securities (ARS) from eligible customers, and to pay penalties of USD 150 million (USD 75 million to the NYAG and USD 75 million to the other states). UBS has since finalized settlements with all of the states. The settlements resolved investigations following the industry-wide disruption in the markets for ARS and related auction failures beginning in early 2008. The SEC continues to investigate individuals affiliated with UBS regarding the trading in ARS and disclosures. UBS has also been named in (i) several putative class actions; (ii) arbitration and litigation claims asserted by investors relating to ARS, including a pending consequential damages claim by a former customer for damages of USD 76 million; and (iii) arbitration and litigation claims asserted by issuers, including a pending litigation under state common law and a state racketeering statute seeking at least USD 40 million in compensatory damages, plus exemplary and treble damages, and several arbitration claims filed in early 2012 alleging violations of state and federal securities law that seek compensatory and punitive damages, among other relief.

3. Inquiries regarding cross-border wealth management businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. In France, a criminal investigation into allegations of illicit cross-border activity has been initiated with the appointment of a "Juge d'instruction". We have also received inquiries from German authorities concerning certain matters relating to our cross-border business. UBS is cooperating with these inquiries, re-

Note 17 Provisions and contingent liabilities (continued)

quests and investigations within the limits of financial privacy obligations under Swiss and other applicable laws.

4. Matters related to the financial crisis

UBS is responding to a number of governmental inquiries and investigations and is involved in a number of litigations, arbitrations and disputes related to the financial crisis of 2007 to 2009 and in particular mortgage-related securities and other structured transactions and derivatives. In particular, the SEC is investigating UBS's valuation of super senior tranches of collateralized debt obligations (CDO) during the third quarter of 2007, and UBS's structuring and underwriting of certain CDOs during the first and second quarters of 2007. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC in its investigations. UBS has also communicated with and has responded to other inquiries by various governmental and regulatory authorities concerning various matters related to the financial crisis. These matters concern, among other things, UBS's (i) disclosures and writedowns, (ii) interactions with rating agencies, (iii) risk control, valuation, structuring and marketing of mortgage-related instruments, and (iv) role as underwriter in securities offerings for other issuers.

UBS is a defendant in several lawsuits filed by institutional purchasers of CDOs structured by UBS in which plaintiffs allege, under various legal theories, that UBS misrepresented the quality of the collateral underlying the CDOs. Plaintiffs in these suits collectively seek to recover several hundred million dollars in claimed losses, including one case in which plaintiffs claim losses of at least USD 331 million.

5. Lehman principal protection notes

From March 2007 through September 2008, UBS Financial Services Inc. (UBSFS) sold approximately USD 1 billion face amount of structured notes issued by Lehman Brothers Holdings Inc. (Lehman), a majority of which were referred to as "principal protection notes," reflecting the fact that while the notes' return was in some manner linked to market indices or other measures, some or all of the investor's principal was an unconditional obligation of Lehman as issuer of the notes. Based on its role as an underwriter of Lehman structured notes, UBSFS has been named as a defendant in a putative class action asserting violations of disclosure provisions of the federal securities laws. UBSFS has filed an opposition, currently pending before the court, to plaintiffs' motion to certify the case as a class action. Firms that underwrote other non-structured Lehman securities have been named as defendants in the same purported class action, and those underwriters have entered into settlements. In 2011, UBSFS entered into a settlement with FINRA related to the sale of these notes, pursuant to which UBSFS agreed to pay a USD 2.5 million fine and approximately USD 8.25 million in restitution and interest to a limited number of investors in the US. UBSFS has also been named in numerous individual civil suits and customer arbitrations, which

proceedings are at various stages. The individual customer claims, some of which have resulted in awards payable by UBSFS, relate primarily to whether UBSFS adequately disclosed the risks of these notes to its customers.

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

Background: 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. The overall market for privately issued US RMBS during this period was approximately USD 3.9 trillion.

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.

Securities Lawsuits Concerning Disclosures in RMBS Offering Documents: UBS has been named as a defendant relating to its role as underwriter and issuer of RMBS in a large number of lawsuits relating to approximately USD 43 billion in original face amount of RMBS underwritten or issued by UBS. Many of the lawsuits are in their early stages, and have not advanced beyond the motion to dismiss phase; others are in varying stages of discovery. Of the original face amount of RMBS at issue in these cases, approximately USD 10 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 33 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.

These lawsuits include actions brought by the Federal Housing Finance Agency (FHFA), as conservator for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac and collectively with Fannie

Note 17 Provisions and contingent liabilities (continued)

Mae, the GSEs) in connection with the GSEs' investments in USD 4.5 billion in original face amount of UBS-sponsored RMBS and USD 1.8 billion in original face amount of third-party RMBS. These suits assert claims for damages and rescission under federal and state securities laws and state common law and allege losses of approximately USD 1.2 billion. The court denied UBS's motion to dismiss in May 2012, but the US Court of Appeals for the Second Circuit has agreed to hear an appeal with respect to two legal issues that were the subject of UBS's motion to dismiss. The FHFA also filed suits in 2011 against UBS and other financial institutions relating to their role as underwriters of third-party RMBS purchased by the GSEs asserting claims under various legal theories, including violations of the federal and state securities laws and state common law. UBS was previously named as a defendant in three lawsuits brought by insurers of RMBS claiming equitable and contractual subrogation rights and seeking recovery of insurance payments to RMBS investors on the basis that UBS and other RMBS underwriters aided and abetted misrepresentations and fraud by RMBS issuers. Two of these lawsuits have been dismissed; the remaining lawsuit is pending.

In July 2012 a federal court in New Jersey dismissed with prejudice on statute of limitations grounds a putative class action lawsuit that asserted violations of the federal securities laws against various UBS entities, among others, in connection with USD 2.6 billion in original face amount of UBS-sponsored RMBS. The named plaintiff filed a notice of appeal in August 2012.

Loan repurchase demands related to sales of 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 they 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. We have been notified by certain institutional purchasers and insurers of mortgage loans and RMBS, including Freddie Mac, of their contention that possible breaches of representations may entitle the purchasers to re-

quire that UBS repurchase the loans or to other relief. The table below summarizes repurchase demands received by UBS and UBS's repurchase activity from 2006 through October 23, 2012. In the table, repurchase demands characterized as *Demands resolved in litigation* and *Demands rescinded by counterparty* are considered to be finally resolved. Repurchase demands in all other categories are not finally resolved.

As described below, Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, made additional loan repurchase demands totaling approximately USD 422 million in original principal balance in August and September 2012, and it is not clear when or to what extent additional demands may be made by Assured Guaranty, Freddie Mac or others.

Payments that UBS has made or agreed to make 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 or agreed to make to date have related to so-called "Option ARM" loans; severity rates may vary for other types of loans or for Option ARMs with different characteristics. Actual losses upon repurchase will 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. It is not possible to predict future losses upon repurchase for reasons including timing and market uncertainties.

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. Only a small number of our demands have been resolved, and we have not recognized any asset on our balance sheet in respect of the unresolved de-

Loan repurchase demands by year received – original principal balance of loans¹

USD million	2006–2008	2009	2010	2011	through 23 October 2012	Total
Actual or agreed loan repurchases / make whole payments by UBS	11.7	1.4	0.1			13.2
Demands resolved or expected to be resolved through enforcement of UBS's indemnification rights against third-party originators		77.4	1.8	45.0	8.5	132.7
Demands resolved in litigation	0.6	20.7				21.3
Demands in litigation			345.6	731.7	1,041.1	2,118.5
Demands rebutted by UBS but not yet rescinded by counterparty		3.2	1.8	290.0	188.2	483.1
Demands rescinded by counterparty	110.2	100.4	18.8	8.3		237.7
Demands in review by UBS		2.1	0.1	9.1	6.4	17.6
Total	122.5	205.1	368.2	1,084.1	1,244.2	3,024.1

¹ Loans submitted by multiple counterparties are counted only once.

Note 17 Provisions and contingent liabilities (continued)

mands. 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.

We cannot reliably estimate the level of future repurchase demands, and do not know whether our rebuttals of such demands will be a good predictor of future rates of rebuttal. We also cannot reliably estimate the timing of any such demands.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: In February 2012, Assured Guaranty filed suit against UBS RESI in New York State Court asserting claims for breach of contract and declaratory relief based on UBS RESI's alleged failure to repurchase allegedly defective mortgage loans with an original principal balance of at least USD 997 million that serve as collateral for UBS-sponsored RMBS insured in part by Assured Guaranty. Assured Guaranty also claims that UBS RESI breached representations and warranties concerning the mortgage loans and breached certain obligations under commitment letters. Assured Guaranty seeks unspecified damages that include payments on current and future claims made under Assured Guaranty insurance policies totaling approximately USD 308 million at the time of the filing of the complaint, as well as compensatory and consequential losses, fees, expenses and pre-judgment interest. The case was removed to federal court, and in August 2012, the Court granted UBS RESI's motion to dismiss Assured Guaranty's claims for breach of UBS RESI's contractual repurchase obligations, holding that only the trustee for the securitization trust has the contractual right to enforce those obligations. The Court also granted UBS RESI's motion to dismiss Assured Guaranty's claims for declaratory relief. The Court denied UBS RESI's motion to dismiss Assured Guaranty's claims for breach of representation and warranty and breach of the commitment letters. The case is now in discovery.

In October 2012, consistent with the Court's holding that only the trustee may assert claims seeking to enforce UBS RESI's repurchase obligations, US Bank, as trustee for the RMBS trusts at issue in the Assured Guaranty litigation, filed a related action in the Southern District of New York seeking to enforce UBS RESI's obligation to repurchase loans with an original principal balance of approximately USD 2 billion for which Assured Guaranty had previously demanded repurchase. With respect to the portion of the loans subject to this suit that were originated by institutions still in existence, UBS will seek to enforce its indemnity rights against those institutions.

In April 2012, 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 complaint for this suit was filed in September 2012. Freddie Mac seeks, among other relief, specific perfor-

mance 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.

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.

Our balance sheet at 30 September 2012 reflected a provision of USD 228 million with respect to matters described in this item 6. We cannot predict when the provision will be utilized.

7. Claims related to UBS disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with UBS's disclosures relating to UBS's positions and losses in mortgage-related securities, UBS's positions and losses in auction rate securities, and UBS's US cross-border business. In 2011, the court dismissed all claims based on purchases or sales of UBS ordinary shares made outside the US, and, on 28 September 2012, the court dismissed with prejudice the remaining claims based on purchases or sales of UBS ordinary shares made in the US for failure to state a claim. Plaintiffs are appealing the court's decision. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement Income Security Act (ERISA) retirement plans in which there were purchases of UBS stock. In 2011, the court dismissed the ERISA complaint. In March 2012, the court denied plaintiffs' motion for leave to file an amended complaint. Plaintiffs have appealed.

8. 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 em-

Note 17 Provisions and contingent liabilities (continued)

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 have been 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 the US, the BMIS Trustee has filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in 2010 against 23 defendants including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants in this action was not less than USD 2 billion. A second claim was filed in 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants was not less than USD 555 million. Following a motion by UBS, in 2011 the District Court 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. The BMIS Trustee has appealed the District Court's decision. 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.

9. Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2009, the City of Milan filed civil proceedings against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007. The primary allegation was that UBS Limited and the other international banks obtained hidden and/or illegal profits by entering into the derivative contracts with Milan. In addition, two current UBS employees and one former employee, together with employees from other banks, a former officer of Milan and a former adviser to Milan, are facing

a criminal trial for alleged "aggravated fraud" in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. UBS Limited is also the subject of an administrative charge brought in the context of the criminal trial of the individuals of failing to have in place a business organizational model to avoid the alleged misconduct by employees, the sanctions for which could include a limitation on activities in Italy and/or fines. In March 2012, UBS Limited and UBS Italia SIM Spa finalized a settlement agreement with Milan which enabled Milan to terminate the interest rate swap component of the existing derivative transactions in consideration of Milan's release of all of its civil damages claims, including those filed in the criminal proceedings. Under the settlement, UBS Limited applied a discount to the cost of the transaction for Milan without any admission of liability. The settlement did not dispose of the ongoing criminal or administrative proceedings, nor did it dispose of a civil consumer group claim lodged in the criminal proceeding.

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy and Lazio and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. Florence and Tuscany have also attempted to invoke Italian administrative law remedies which purport to allow a public entity to challenge its own decision to enter into the relevant contracts and avoid their obligations thereunder. UBS is resisting these attempts. UBS has issued proceedings before the English courts in connection with a number of these transactions, seeking to obtain declaratory judgments as to the validity and enforceability of UBS's English law contractual arrangements with its counterparties and, to the extent relevant, the legitimacy of UBS's conduct in respect of those counterparties. In recent months, discussions have commenced with several of the Italian public sector entities in relation to these claims. In March 2012, an in-principle settlement was reached with the Region of Lombardy, subject to appropriate documentation. In April 2012, UBS AG and UBS Limited settled the existing disputes with the Region of Tuscany without any admission of liability. An application seeking the dismissal of a related criminal investigation has been filed with the Prosecutor.

10. HSH Nordbank AG (HSH)

HSH has filed an action against UBS in New York State court relating to USD 500 million of notes acquired by HSH in a synthetic CDO transaction known as North Street Referenced Linked Notes, 2002-4 Limited (NS4). The notes were linked through a credit default swap between the NS4 issuer and UBS to a reference pool of corporate bonds and asset-backed securities. HSH alleges that UBS knowingly misrepresented the risk in the transaction, sold HSH notes with "embedded losses", and improperly profited at HSH's expense by misusing its right to substitute assets in the reference pool within specified parameters. HSH is seeking USD 500 million in compensatory damages plus pre-judgment interest. The case was initially filed in 2008. In March 2012, a New York state

Note 17 Provisions and contingent liabilities (continued)

appellate court dismissed HSH's fraud claim and affirmed the trial court's dismissal of its negligent misrepresentation claim and punitive damages demand. As a result, the claims remaining in the case are for breach of contract and breach of the implied covenant of good faith and fair dealing. HSH has sought permission to appeal the appellate court's decision to the New York Court of Appeals.

11. Kommunale Wasserwerke Leipzig GmbH (KWL)

In 2006 and 2007, KWL entered into a series of Credit Default Swap (CDS) transactions with bank swap counterparties, including UBS. UBS entered into back-to-back CDS transactions with the other counterparties, Depfa Bank plc (Depfa) and Landesbank Baden-Württemberg (LBBW), in relation to their respective swaps with KWL. Under the CDS contracts between KWL and UBS, the last of which were terminated by UBS in 2010, a net sum of approximately USD 138 million has fallen due from KWL but not been paid. Earlier in 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS is valid, binding and enforceable as against KWL. The English court ruled in 2010 that it has jurisdiction and will hear the proceedings and UBS issued a further claim seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL. KWL withdrew its appeal from that decision and the civil dispute is now proceeding before the English court. UBS has added its monetary claim to the proceedings. KWL is defending against UBS's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS pursuant to another CDS contract. UBS, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS and UBS Limited.

In 2010, KWL issued proceedings in Leipzig, Germany against UBS, Depfa and LBBW, claiming that the swap transactions are void and not binding on the basis of KWL's allegation that KWL did not have the capacity or the necessary internal authorization to enter into the transactions and that the banks knew this. Upon and as a consequence of KWL withdrawing its appeal on jurisdiction in England, KWL also withdrew its civil claims against UBS and Depfa in the German courts, and no civil claim will proceed against either of them in Germany. The proceedings brought by KWL against LBBW are now proceeding before the German courts. The Leipzig court has ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS in the Leipzig proceedings.

The back-to-back CDS transactions were terminated in 2010. In 2010, UBS and UBS Limited issued separate proceedings in the English High Court against Depfa and LBBW seeking declarations

as to the parties' obligations under the back-to-back CDS transactions and monetary claims. UBS Limited contends that it is owed USD 83.3 million, plus interest, by Depfa. UBS contends that it is owed EUR 75.5 million, plus interest, by LBBW. Depfa and LBBW respectively are defending against the claims and have also issued counterclaims. Additionally Depfa has added a claim against KWL to the proceedings against it and KWL has served a defense.

In 2011, the former managing director of KWL and two financial advisers were convicted on criminal charges related to certain KWL transactions, including swap transactions with UBS and other banks.

In 2011, the SEC commenced an inquiry regarding the KWL transactions and UBS is providing information to the SEC relating to those transactions.

12. Puerto Rico

In August 2012, UBS Financial Services Inc. of Puerto Rico (UBS PR) was named in a purported class action alleging that UBS PR misrepresented and omitted facts in connection with the sale of shares of Puerto Rico closed-end funds in 2008 and 2009. The class action follows UBS PR's May 2012 civil administrative settlement with the SEC, which also involved UBS PR's sale of closed-end funds during that period. In 2011, UBS PR and a large number of unrelated parties were named as defendants in a purported civil derivative action filed in Puerto Rico Superior Court. That case, in which the plaintiffs seek to bring claims on behalf of the Employee Retirement System of Puerto Rico, involves an allegation that defendants violated Puerto Rico law in connection with the issuance of billions of dollars of bonds underwritten by UBS PR and the investment of the proceeds of those bond issuances. UBS PR's motion to dismiss that action is pending.

13. LIBOR

Numerous government agencies, including the SEC, the US Commodity Futures Trading Commission (CFTC), the DOJ, the UK Financial Services Authority (FSA), the Monetary Authority of Singapore (MAS), FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions are conducting investigations regarding submissions with respect to British Bankers' Association LIBOR (London Interbank Offered Rate) 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 addition, the Swiss Competition Commission (WEKO) has commenced an investigation of numerous banks and financial intermediaries concerning possible collusion relating to LIBOR and TIBOR (Tokyo Interbank Offered Rate) reference rates and certain derivatives transactions. In July 2012, following the announcement of a settlement by a UK-based bank with the FSA, CFTC and DOJ, the UK Government announced that there will be a Parliamentary inquiry into "transparency, conflicts of interest and the culture and professional

Note 17 Provisions and contingent liabilities (continued)

standards of the financial services industry including the interaction with the criminal law"; and a narrower review by the FSA that concerns the LIBOR process. At the same time, the UK Serious Fraud Office announced that it has formally accepted the LIBOR matter for investigation.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ and WEKO, 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 Swiss franc LIBOR and certain transactions related to Swiss franc LIBOR. The Canadian Competition Bureau has granted UBS conditional immunity in connection with potential competition law violations related to submissions for Yen 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 we reported to those authorities, 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. 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.

In 2011, the Japan Financial Services Agency (JFSA) commenced administrative actions and issued orders against UBS Securities Japan Ltd (UBS Securities Japan) and UBS AG, Tokyo Branch in

connection with their investigation of Yen LIBOR and Euroyen TIBOR. These actions were based on findings by the Japan Securities and Exchange Surveillance Commission (SESC), and, in the case of UBS AG, Tokyo Branch, the JFSA, that a former UBS Securities Japan trader engaged in inappropriate conduct relating to Euroyen TIBOR and Yen LIBOR, including approaching UBS AG, Tokyo Branch, and other banks to ask them to submit TIBOR rates taking into account requests from the trader for the purpose of benefiting trading positions.

A number of putative class actions and other actions are pending in federal court in Manhattan against UBS and numerous other banks on behalf of certain parties who transacted in LIBOR-based derivatives. The complaints allege manipulation, through various means, of the US dollar LIBOR rate and prices of US dollar LIBOR-based derivatives in various markets. Claims for damages are asserted under various legal theories, including violations of the US Commodity Exchange Act and antitrust laws. In April 2012, plaintiffs filed consolidated amended complaints which UBS and the other bank defendants moved to dismiss in June 2012. In October 2012, a putative class action was filed in federal court in Manhattan against UBS and numerous other banks on behalf of consumers who secured mortgage loans that were pegged to US dollar LIBOR. The complaint alleges that the defendants conspired to increase the US dollar LIBOR rate to increase rates on adjustable rate mortgages, in violation of federal and state antitrust laws and the federal racketeering statute. This case has not been consolidated with the other cases. There is one other putative class action pending in federal court in Manhattan against UBS and other banks that has not been transferred or consolidated with the others. The substantive allegations of this action are almost identical to the allegations of the other actions except that this suit expressly alleges causes of action based on the alleged manipulation of Yen LIBOR and Euroyen TIBOR. An action relating to EURIBOR (Euro Interbank Offered Rate) was brought and subsequently voluntarily withdrawn by plaintiffs. Plaintiffs in the civil actions seek unspecified damages and other relief.

Note 17 Provisions and contingent liabilities (continued)

14. SinoTech Energy Limited

Since 2011, multiple putative class action complaints have been filed and consolidated in federal court in Manhattan, against SinoTech Energy Limited (SinoTech), its officers and directors, its auditor at the time of its initial public offering (IPO), and its underwriters, including UBS. The second amended complaint filed in June 2012 alleges, with respect to the underwriters, that the registration statement and prospectus filed in connection with SinoTech's 2010 USD 168 million IPO of American Depositary Shares, of which UBS underwrote 70%, contained materially misleading statements and omissions, including allegations regarding the authenticity and accuracy of certain asset purchase contracts purportedly entered into between SinoTech and its vendors. Plaintiff asserts violations of the US federal securities laws and seeks unspecified compensatory damages, among other relief.

In 2012, SinoTech's securities were delisted by Nasdaq and their registration was revoked by the SEC. In April 2012, the SEC filed a complaint against SinoTech and three of its executives alleging certain improprieties arising out of actions that occurred subsequent to the initial public offering.

15. Swiss retrocessions

The Zurich High Court decided in January 2012, in a test case, that fees received by a bank for the distribution of financial products issued by third parties should be considered to be "retrocessions" unless they are received by the bank for genuine distribution services. Fees considered to be retrocessions would have to be disclosed to the affected clients and, absent specific client consent, surrendered to them. Both parties have appealed the decision to the Swiss Supreme Court and a decision is expected to be rendered in the fourth quarter of 2012. If the holding in this case is not reversed on appeal and is followed in other cases, UBS (and other banks in Switzerland) could be subject to significant reimbursement claims by certain clients for past fees. Depending upon the outcome of the case, it could also lead to changes in our business practices in the future.

16. Unauthorized trading incident

FINMA and the FSA have been conducting a joint investigation of the unauthorized trading incident that occurred in the Investment Bank and was announced in September 2011. In addition, FINMA and the FSA have announced that they have commenced enforcement proceedings against UBS in relation to this matter.

In October 2012, the consolidated complaint was filed in a putative securities fraud class action pending in federal court in Manhattan against UBS AG and certain of its current and former officers relating to the unauthorized trading incident. The lawsuit was filed on behalf of parties who purchased publicly traded UBS securities on any US exchange, or where title passed within the US, during the period 17 November 2009 through 15 September 2011. The complaint alleges that UBS misrepresented, through its public statements and financial disclosures, that its risk controls and procedures were effective, and that the falsity of these representations became apparent when UBS disclosed the unauthorized trading incident in September 2011, a disclosure that purportedly caused UBS's stock price to drop 10% in one day. Plaintiff seeks unspecified damages and interest, among other relief.

17. 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 to UBS in the amount of approximately USD 1.2 billion, including interest and penalties. 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. These assessments are being or will be challenged in administrative proceedings. BTG has also provided notice to UBS of several additional Pactual-related inquiries by the Brazilian tax authorities that relate to the period of UBS's ownership of Pactual, but involving substantially smaller amounts.

Note 18 Financial instruments not recognized on the balance sheet

The table below shows the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

CHF million	30.9.12			30.6.12			31.12.11		
	Gross	Sub-participations	Net	Gross	Sub-participations	Net	Gross	Sub-participations	Net
Guarantees									
Credit guarantees and similar instruments	8,247	(423)	7,824	8,594	(328)	8,266	8,671	(315)	8,356
Performance guarantees and similar instruments	3,631	(866)	2,765	3,452	(619)	2,833	3,337	(493)	2,845
Documentary credits	7,130	(601)	6,529	6,780	(622)	6,158	6,897	(737)	6,160
Total guarantees	19,008	(1,890)	17,118	18,826	(1,569)	17,257	18,905	(1,545)	17,360
Commitments									
Loan commitments	64,773	(1,177)	63,595	64,180	(1,349)	62,831	58,192	(1,640)	56,552
Underwriting commitments	615	(595)	21	546	(390)	156	1,160	(278)	882
Total commitments	65,388	(1,772)	63,616	64,726	(1,739)	62,987	59,352	(1,918)	57,434
Forward starting transactions¹									
Reverse repurchase agreements	35,702			35,526			27,113		
Securities borrowing agreements	1,504			1,885			502		
Repurchase agreements	28,768			32,854			21,134		

¹ Cash to be paid in the future by either UBS or the counterparty.

Note 19 Events after the reporting period

Following the approval of a new business plan by the Board of Directors on 29 October 2012, on 30 October 2012 the Group announced an acceleration of the implementation of its strategy to transform the firm by making further changes to the business of the Investment Bank, as well as further plans to improve the long-term efficiency of the Group as a whole. In the future, our Investment Bank will be focused on advisory, research, equities, foreign exchange and precious metals. The businesses and positions to be

exited will include a number of the least capital-efficient elements of our fixed income business and will be managed within the Corporate Center with the aim of managing down the remaining positions over several years in the most value-accretive way for shareholders. They will be reported as part of Corporate Center starting in the first quarter of 2013. Together with the effect of future cost reduction initiatives, we expect to incur restructuring charges of approximately CHF 3.3 billion.

Note 20 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of our foreign operations into Swiss francs:

	Spot rate			Average rate ¹				
	As of			For the quarter ended			Year-to-date	
	30.9.12	30.6.12	30.9.11	30.9.12	30.6.12	30.9.11	30.9.12	30.9.11
1 USD	0.94	0.95	0.91	0.95	0.94	0.84	0.94	0.88
1 EUR	1.21	1.20	1.22	1.20	1.20	1.18	1.20	1.23
1 GBP	1.52	1.49	1.42	1.53	1.49	1.24	1.49	1.45
100 JPY	1.21	1.19	1.18	1.22	1.19	1.09	1.17	1.09

¹ Monthly income statement items of foreign operations with a functional currency other than Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a quarter represent an average of three month-end rates, weighted according to the income and expense volumes of all foreign operations of the Group with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for the Group.

OUR RISK MANAGEMENT AND CONTROL - EXTRACTED FROM OUR THIRD QUARTER 2012 FINANCIAL REPORT

The information set out below in this section has been extracted without adjustment from our third quarter 2012 financial report. The page numbers of our third quarter 2012 financial report appear on the bottom left or right hand side of the pages in this addendum.

The third quarter 2012 financial report is available for inspection at the office of the Sponsor specified on the back page. You may also visit our website at http://www.ubs.com/global/en/about_ubs/investor_relations/quarterly_reporting/2012.html to access such report.

Risk management and control

Overall, our credit and market risk profile did not change materially over the third quarter.

Credit risk

The tables in this section provide an update of our credit risk exposures on 30 September 2012, including details of our banking products, allowances and provisions for credit losses and the composition and credit quality of our key loan portfolios in Wealth Management, Wealth Management Americas and Retail & Corporate. This section also includes an update on counterparty exposures from banking products and over-the-counter (OTC) derivative contracts booked within the Investment Bank and the Legacy Portfolio.

→ Refer to the "Group results" section of this report for information on credit loss expense/recovery in the third quarter

Gross banking products and impairments

The credit risk exposures reported in the table "Allowances and provisions for credit losses" represent the International Financial Reporting Standards (IFRS) balance sheet view of our gross banking products portfolios. These comprise the balance sheet line items *Balances with central banks*, *Due from banks*, and *Loans* as well as the off-balance sheet items *Guarantees* and *Loan commitments*. The table also shows the IFRS reported allowances and provisions for credit losses and impaired exposure.

Our gross loan exposure increased by CHF 4 billion to CHF 279 billion, of which CHF 2.5 billion was impaired. The CHF 0.8 billion increase in impaired loans related to certain student loan auction rate securities that have been sold, or are expected to be sold, in the fourth quarter of 2012. The impaired exposure in the Legacy Portfolio is expected to reduce by CHF 1.0 billion following the final execution of the sales. The aggregate effect of these transactions on Basel III risk-weighted assets is a CHF 0.7 billion reduction recognized in the third quarter and a further reduction of approximately CHF 5 billion expected to be recognized in the fourth quarter. Excluding this portfolio, the ratio of impaired loans to total loans improved slightly from 0.6% to 0.5%.

During the third quarter we recalibrated the internal ratings for counterparties in several of our portfolios, extending the sample of historical defaults to take into account observations further back in time than had been considered previously. The extension of the sample reduces the pro-cyclicality of the rating tools. This resulted in some internal ratings changing, a generally downward shift in the ratings of counterparties within our Swiss mortgage portfolio and a generally upward shift in the ratings of counterparties within the corporates portfolio.

Allowances and provisions for credit losses¹

CHF million, except where indicated	IFRS exposure, gross		Impaired exposure ²		Specific allowances and provisions for credit losses ³		Estimated liquidation proceeds of collateral		Impairment ratio (%)	
	30.9.12	30.6.12	30.9.12	30.6.12	30.9.12	30.6.12	30.9.12	30.6.12	30.9.12	30.6.12
Group										
Balances with central banks	86,910	94,398							0.0	0.0
Due from banks	24,882	38,318	56	57	23	24			0.2	0.1
Loans	279,300	275,245	2,546	1,767	725	633	1,366	634	0.9	0.6
<i>of which: related to Legacy Portfolio⁴</i>	13,972	14,695	1,161	324	193	88	976	234	8.3	2.2
<i>of which: related to other loans</i>	265,328	260,550	1,385	1,443	532	545	389	400	0.5	0.6
Guarantees	19,008	18,826	71	69	57	71	6	2	0.4	0.4
Loan commitments	64,773	64,180	51	50	5	7			0.1	0.1
Banking products	474,872	490,967	2,724	1,942	809	735	1,371	637	0.6	0.4
Wealth Management										
Balances with central banks	269	258							0.0	0.0
Due from banks	2,162	2,191							0.0	0.0
Loans	84,876	81,697	58	60	40	41	21	20	0.1	0.1
Guarantees	2,322	2,471							0.0	0.0
Loan commitments	1,471	1,279							0.0	0.0
Banking products	91,100	87,896	58	60	40	41	21	20	0.1	0.1
Wealth Management Americas										
Balances with central banks	5,174	5,640							0.0	0.0
Due from banks	1,806	1,620							0.0	0.0
Loans	30,405	29,613	1	1	1	1	0	0	0.0	0.0
Guarantees	402	402							0.0	0.0
Loan commitments	1,287	1,221							0.0	0.0
Banking products	39,074	38,496	1	1	1	1	0	0	0.0	0.0
Investment Bank										
Balances with central banks	32,038	30,434							0.0	0.0
Due from banks	16,713	29,161	11	11	3	5			0.1	0.0
Loans	13,120	12,592	482	495	44	48	158	158	3.7	3.9
Guarantees	6,820	6,917	49	48	47	46			0.7	0.7
Loan commitments	54,886	54,598	50	49					0.1	0.1
Banking products	123,577	133,701	592	603	93	98	158	158	0.5	0.5
Global Asset Management										
Balances with central banks										
Due from banks	332	329							0.0	0.0
Loans	80	76							0.0	0.0
Guarantees										
Loan commitments										
Banking products	411	405	0	0	0	0	0	0	0.0	0.0
Retail & Corporate										
Balances with central banks	1,961	2,068							0.0	0.0
Due from banks	3,296	3,183	45	45	21	19			1.4	1.4
Loans	136,819	136,562	845	889	448	456	211	222	0.6	0.7
Guarantees	9,332	8,905	23	22	10	20	6	2	0.2	0.2
Loan commitments	7,087	6,931	1	1	5	7			0.0	0.0
Banking products	158,494	157,650	913	957	483	502	216	224	0.6	0.6
Corporate Center										
Balances with central banks	47,468	55,998							0.0	0.0
Due from banks	574	1,833							0.0	0.0
Loans	14,001	14,706	1,161	324	193	88	976	234	8.3	2.2
<i>of which: related to Legacy Portfolio⁴</i>	13,972	14,695	1,161	324	193	88	976	234	8.3	2.2
Guarantees	132	131				5			0.0	0.0
Loan commitments	42	152							0.0	0.0
Banking products	62,216	72,819	1,161	324	193	94	976	234	1.9	0.4

¹ Excludes allowances for securities borrowed. ² Excludes reclassified securities that are not considered impaired. ³ Excludes CHF 134 million (30.6.12: CHF 122 million) in collective loan loss allowances. ⁴ Includes reclassified securities, refer to "Note 14 Reclassification of financial assets" in the "Financial information" section of this report for more information.

Wealth Management loan portfolio

Our Wealth Management loan portfolio is mainly secured by securities, residential property and cash (including certain fiduciary investments) as outlined in the table "Wealth Management and Retail & Corporate: composition of loan portfolio, gross".

Retail & Corporate loan portfolio

Our largest loan portfolio is our mortgage portfolio within Retail & Corporate, which principally comprises mortgage loans within Switzerland.

The composition of the Retail & Corporate loan portfolio was largely unchanged over the quarter and 91% was secured by collateral. Based on our internal ratings, 56% of the unsecured loan

portfolio was rated investment grade compared with 59% at the end of the prior quarter. The slight decrease was largely a result of the aforementioned recalibration of internal ratings. Furthermore, 60% of the unsecured portfolio related to cash flow-based lending to corporate counterparties, and 21% to lending to public authorities.

Investment Bank

The table "Investment Bank: banking products and OTC derivatives exposure" shows the Investment Bank's banking products (loans, guarantees and loan commitments) and OTC derivatives portfolios, gross and net of allowances, provisions, credit valuation adjustments (CVA) and single-name credit hedges. Further

Wealth Management and Retail & Corporate: composition of loan portfolio, gross

	Wealth Management				Retail & Corporate			
	30.9.12		30.6.12		30.9.12		30.6.12	
	CHF million	%	CHF million	%	CHF million	%	CHF million	%
Secured by residential property	30,845	36.3	30,128	36.9	97,932	71.6	96,948	71.0
Secured by commercial/industrial property	1,936	2.3	1,934	2.4	19,959	14.6	19,908	14.6
Secured by cash	12,266	14.5	12,544	15.4	234	0.2	238	0.2
Secured by securities	33,208	39.1	30,767	37.7	1,337	1.0	1,550	1.1
Secured by guarantees & other collateral	6,462	7.6	6,243	7.6	5,725	4.2	5,643	4.1
Unsecured loans	158	0.2	80	0.1	11,631	8.5	12,276	9.0
Total loans, gross	84,876	100.0	81,697	100.0	136,819	100.0	136,562	100.0
Total loans, net of allowances and credit hedges	84,833		81,653		136,242		135,989	

Investment Bank: banking products and OTC derivatives exposure¹

CHF million	Banking products		OTC derivatives	
	30.9.12	30.6.12	30.9.12	30.6.12
Total exposure, before deduction of allowances and provisions, CVA and hedges	79,363	79,814	28,325	34,886
Less: allowances, provisions, CVA	(55)	(58)	(646)	(877)
Less: credit protection bought (credit default swaps, notional)	(18,455)	(20,296)	(2,723)	(2,690)
Net exposure after allowances and provisions, CVA and hedges	60,853	59,461	24,956	31,319

¹ Banking products: risk view, excludes balances with central banks, due from banks and internal risk adjustments; OTC derivatives: net replacement value includes the impact of netting agreements (including cash collateral) in accordance with Swiss federal banking law.

Investment Bank: distribution of net banking products exposure, across UBS internal rating and loss given default (LGD) buckets

Internal UBS rating	Moody's Investors Service mapping	Standard & Poor's mapping	Exposure	30.9.12 LGD buckets				Weighted average LGD (%)	30.6.12	
				0–25%	26–50%	51–75%	76–100%		Exposure	Weighted average LGD (%)
Investment grade	Aaa to Baa3	AAA to BBB-	41,347	9,875	19,894	5,819	5,760	44	38,624	43
Sub-investment grade			19,505	11,531	6,109	978	887	25	20,837	30
of which: 6–9	Ba1 to B1	BB+ to B+	12,966	8,079	3,512	803	572	24	12,396	29
of which: 10–12	B2 to Caa	B to CCC	6,226	3,246	2,526	158	297	27	8,043	33
of which: 13 and defaulted	Ca and lower	CC and lower	313	206	71	17	19	23	397	17
Net banking products exposure, after application of credit hedges¹			60,853	21,406	26,003	6,796	6,647	38	59,461	39

¹ Banking products: risk view, excludes balances with central banks, due from banks and internal risk adjustments.

breakdowns are provided within the table "Investment Bank: distribution of net banking products exposure, across internal UBS ratings and loss given default (LGD) buckets".

At the end of the third quarter and based on internal ratings, 68% of our net banking products exposure was classified as investment grade compared with 65% at the end of the prior quarter. The slight increase was largely a result of the aforementioned recalibration of internal ratings. The majority of the exposure had estimated loss given defaults of between 0% and 50%.

Legacy Portfolio

The loans of CHF 14 billion within our Legacy Portfolio predominantly comprise assets that were reclassified in the fourth quarter of 2008 from *Held for trading to Loans and receivables*, student loan auction rate securities and our loan to the RMBS Opportunities Master Fund, LP, a special purpose entity managed by BlackRock Financial Management Inc.

The outstanding balance receivable from the RMBS Opportunities Master Fund, LP, taking into account the amounts held in escrow, reduced in the third quarter of 2012 by USD 0.3 billion to USD 3.8 billion.

The net replacement value of our OTC contracts after application of master netting agreements, hedges, allowances and credit valuation adjustments within the Legacy Portfolio decreased slightly to CHF 3.5 billion from CHF 3.9 billion at the end of the prior quarter.

→ Refer to the "Risk, treasury and capital management" section of our Annual Report 2011 for more information on our loan to the RMBS Opportunities Master Fund, LP

Exposure to student loan auction rate securities

Our exposure to student loan auction rate securities (ARS) was largely unchanged at USD 5.4 billion. At the end of the third quarter, 78% of the collateral underlying the remaining student loan ARS inventory was backed by Federal Family Education Loan Program guaranteed collateral, which is reinsured by the US Department of Education for no less than 97% of principal and interest. All of our student loan ARS positions are held as *Loans and receivables* and are subject to a quarterly impairment test that includes a review of performance reports for each issuing trust.

Exposure to monoline insurers

The majority of our exposure to monoline insurers arises from credit default swap (CDS) protection purchased to hedge specific positions. The table "Exposure to monoline insurers, by rating" shows the CDS protection purchased from monoline insurers, calculated as the sum of the fair values of individual CDS after credit valuation adjustments (CVA).

The total fair value of CDS protection purchased from monoline insurers decreased to USD 0.8 billion after cumulative CVA of USD 0.3 billion.

→ Refer to "Non-trading portfolios – valuation and sensitivity information by instrument category" for more information

Exposures to selected eurozone countries

We continue to monitor and manage our exposure to peripheral European countries closely, and our direct exposure to Greece, Italy, Ireland, Portugal and Spain remains limited.

Student loan ARS inventory

USD million	Carrying value	
	30.9.12	30.6.12
US student loan ARS	5,448 ¹	5,575
of which: rated BB– and above	5,117	5,192
of which: rated below BB–	331	382

¹ Includes USD 2.8 billion (CHF 2.6 billion) at carrying value of student loan ARS that were reclassified to Loans and receivables from Held for trading in the fourth quarter 2008. Refer to "Note 14 Reclassification of financial assets" in the "Financial information" section of this report for more information.

Exposure to monoline insurers, by rating¹

USD million	30.9.12			
	Notional amount ²	Fair value of CDS	Credit valuation adjustment	Fair value of CDS after credit valuation adjustment
	Column 1	Column 2	Column 3	Column 4 (= 2–3)
Credit protection bought from monoline insurers, by rating³				
of which: from monolines rated investment grade (BBB and above)	1,150	334	83	251
of which: from monolines rated sub-investment grade (BB and below)	4,612	818	249	569
Total 30.9.12	5,762	1,152	332	820
Total 30.6.12	6,154	1,449	486	963

¹ Excludes the benefit of credit protection purchased from unrelated third parties. ² Represents gross notional amount of credit default swaps (CDS) purchased as credit protection. ³ Categorization based on the lowest insurance financial strength rating assigned by external rating agencies.

In addition to monitoring direct exposure, we actively consider the inter-linkages among eurozone countries and institutions. We monitor and evaluate the policy responses of key EU institutions and the International Monetary Fund. In addition, we evaluate the implications of these developments for a broad range of countries and institutions beyond Europe when calibrating our eurozone-focused stress scenarios and making assumptions about the behavior of a variety of factors, including currency, GDP, equity markets, consumer price index, corporate spreads, sovereign CDS and interest rates, for a number of key countries and regions. We apply these stress scenarios to our risk portfolios as part of our firm-wide stress testing framework. Furthermore, we subject our OTC exposures with a wide range of counterparties to these stress scenarios to gain an understanding of potential adverse impacts on our counterparty exposures, as well as to help identify so-called wrong way risks.

The table "Exposures to selected eurozone countries" provides an overview of our exposure to eurozone countries rated lower than AAA/Aaa by at least one of the major rating agencies. Exposures to Andorra, Cyprus, Estonia, Malta, Monaco, Montenegro, San Marino, Slovakia, and Slovenia are grouped in "Other".

→ Refer to the "Risk, treasury and capital management" section of our Annual Report 2011 for more information on country risk

Basis of preparation

The presentation of exposures follows our internal risk view, which allocates exposure to countries based on the risk domicile of the counterparty or issuer and without recognizing any expected recovery values.

We have classified our exposures into the following product categories:

- Banking products are loans (at amortized cost), loan commitments (notional basis) and guarantees (notional basis), and include an immaterial amount of available-for-sale debt and equity positions (at fair value).
- Traded products include the counterparty risk arising from OTC derivatives and securities financing transactions, presented at net positive replacement value after taking into account master netting agreements.
- Trading inventory includes securities such as bonds and equities, as well as the risk relating to the underlying reference assets for derivative positions, including those linked to credit protection we buy or sell.

In general, exposures are shown against the country of domicile of the contractual counterparty or the issuer of the security. For some counterparties whose economic substance in terms of assets or source of revenues is primarily located in a different country, the exposure is allocated to the risk domicile of that different country.

This is the case, for example, with legal entities incorporated in financial offshore centers, which have their main assets and revenue streams outside the country of domicile. The same principle applies to exposures for which we hold third-party guarantees or collateral, where we report the exposure against the country of domicile of either the guarantor or the issuer of the underlying security, or against the country where pledged physical assets are located.

We apply a specific approach to banking products exposures to branches of financial institutions which are located in a country other than that of the domicile of the legal entity. In such cases, exposures are recorded in full against the country of domicile of the firm and additionally in full against the country in which the branch is located.

In the case of derivatives, we show the counterparty risk associated with the positive replacement value against the country of domicile of the counterparty (presented within "Traded products"). In addition, the risk associated with the instantaneous fall in value of the underlying reference asset to zero (assuming no recovery) is shown against the country of domicile of the issuer of the reference asset (presented within "Trading inventory"). This approach ensures that we capture both the counterparty and issuer elements of risk arising from derivatives and applies comprehensively for all credit derivatives, including single-name CDS. As a basic example: if a CDS protection for a notional value of 100 bought from a counterparty domiciled in country X referencing debt of an issuer domiciled in country Y has a positive replacement value of 20, we record (i) the fair value of the CDS (20) against country X (within "Traded products") and (ii) the hedge benefit (notional minus fair value) of the CDS ($100 - 20 = 80$) against country Y (within "Trading inventory"). In the example of protection bought, the 80 hedge benefit would offset against any exposure arising from securities held and issued by the same entity as the reference asset, floored at zero per issuer. In the case of protection sold, this would be reflected as a risk exposure of 80 in addition to any exposure arising from securities held and issued by the same entity as the reference asset.

The risk-reducing effects of master netting agreements and collateral either in the form of cash or portfolios of diversified marketable securities, are taken into account when determining what is presented as "Exposure before hedges".

Within banking products and traded products, the risk-reducing effect of any credit protection is taken into account on a notional basis when determining the "Net of hedges" exposures.

As we manage the trading inventory on a net basis, we net the value of long positions against short positions with the same underlying issuer. Net exposures are, however, floored at zero per issuer in the figures presented. We therefore do not recognize the potentially offsetting benefit of certain hedges and short positions across issuers.

Exposures to selected eurozone countries

CHF million	Total	Banking products (loans, loan commitments, guarantees)				Traded products (counterparty risk from derivatives and securities financing) after master netting agreements and net of collateral	Trading inventory (securities and potential benefits / remaining exposure from derivatives)	
		Net of hedges ¹	Exposure before hedges	Net of hedges ¹	of which: unfunded	Exposure before hedges	Net of hedges	Net long per issuer
30.9.12								
France	9,608	8,280	3,993	2,905	791	2,107	1,866	3,509
Sovereign, agencies and central bank	3,016	2,807	180	92		230	109	2,606
Local governments	12	12	10	10		1	1	1
Banks	2,298	2,298	1,728	1,728		416	416	154
Other ²	4,283	3,163	2,075	1,075		1,460	1,339	748
Italy	5,969	4,053	1,695	1,143	607	2,241	877	2,033
Sovereign, agencies and central bank	2,601	1,273	29	29		1,530	202	1,042
Local governments	115	115	0	0		59	59	56
Banks	911	911	552	552		331	331	28
Other ²	2,342	1,755	1,115	562		321	285	907
Spain	4,426	3,624	3,697	3,081	94	375	190	354
Sovereign, agencies and central bank	174	174	16	16		0	0	158
Local governments	51	51	0	0		16	16	36
Banks	3,057	3,057	2,940 ³	2,940		109	109	8
Other ²	1,144	342	742	125		250	65	152
Austria	1,931	1,764	232	232	64	1,260	1,093	439
Sovereign, agencies and central bank	1,254	1,087	51	51		1,017	850	186
Local governments	5	5	0	0		0	0	5
Banks	477	477	32	32		227	227	218
Other ²	194	194	149	149		17	17	29
Ireland⁴	1,655	1,655	465	465	17	941	941	248
Sovereign, agencies and central bank	84	84	0	0		3	3	81
Local governments	0	0	0	0		0	0	0
Banks	490	490	400	400		29	29	61
Other ²	1,082	1,082	65	65		910	910	107
Belgium	1,169	1,154	164	164	39	389	373	617
Sovereign, agencies and central bank	921	906	4	4		346	331	571
Local governments	0	0	0	0		0	0	0
Banks	146	146	106	106		26	26	14
Other ²	103	103	54	54		17	17	32
Portugal	163	66	112	16	15	4	4	47
Sovereign, agencies and central bank	30	30	0	0		0	0	30
Local governments	3	3	0	0		0	0	3
Banks	23	23	15	15		4	4	4
Other ²	108	11	97	1		0	0	10
Greece	39	39	2	2	1	1	1	36
Sovereign, agencies and central bank	32	32	0	0		1	1	30
Local governments	0	0	0	0		0	0	0
Banks	1	1	1	1		0	0	0
Other ²	7	7	1	1		0	0	5
Other	190	190	134	134	9	37	37	20

¹ Not deducted from the "Net of hedges" exposures are total allowances and provisions of CHF 27 million (of which: Austria CHF 14 million and France CHF 7 million). ² "Other" includes corporates, insurance companies and funds. ³ The majority of the banking products exposure shown to Spanish banks relates to secured facilities that are collateralized by non-European sovereign debt securities. ⁴ The majority of the Ireland exposure relates to funds and foreign bank subsidiaries.

Market risk

Most of our market risk originates from the Investment Bank's trading activities. In addition, the Group Treasury function (part of Corporate Center) assumes foreign-exchange and interest-rate risk in connection with its balance sheet, profit and loss and capital management responsibilities. Market risk also arises within our Legacy Portfolio (part of Corporate Center), and our wealth and asset management operations also take limited market risk in relation to client business.

Trading portfolios

For the purposes of our disclosure, the 1-day, 95% level of confidence risk management value-at-risk (VaR), which includes all positions subject to internal management VaR limits, is used to quantify market risk exposures in our trading portfolio.

Value-at-risk

VaR is a statistical measure of market risk, representing the market risk losses that could potentially be realized over a set time horizon at an established level of confidence. This assumes no change in the firm's trading positions over the relevant time period.

We recognize that no single measure may encompass the entirety of risks associated with a position or portfolio; consequently we employ a suite of comprehensive metrics with both overlapping and complementary characteristics in order to create a holistic framework which ensures material completeness of risk identification and measurement, and ensures that our aggregate risk exposures lie within our articulated risk appetite. As a statistical aggregate risk measure, and as the basis of regulatory capital underpinning for market risk, VaR is supplemented by a comprehensive framework of non-statistical measures and corresponding limits, to ensure that those risks in our portfolio which are not captured adequately by VaR are nevertheless individually identi-

fied and controlled appropriately. VaR is also complemented by an extensive series of stress tests and scenario analyses, which undergo continuous evaluation, to ensure that, were an extreme, but nevertheless plausible, event to occur, the resulting losses would not exceed our appetite for losses.

Actual realized market risk losses may differ from those implied by our VaR for a variety of reasons. For example, the five-year historical period used in creating our VaR measure may include fluctuations in market rates and prices that differ from those in the future; our VaR measure is calibrated to a 95% level of confidence and may not indicate potential losses beyond this level, and the impact on revenue of a market move may differ from that assumed by our VaR model. All VaR measures are subject to limitations and must be interpreted accordingly and used in conjunction with other risk measures.

The tables show our minimum, maximum, average and period-end management VaR. The significant decrease in maximum VaR in the third quarter is mainly due to the incident in the prior quarter related to the Facebook initial public offering. Excluding the effect of this incident, maximum VaR would still have been lower, by 31%, than in the prior quarter. The main contributors to Group VaR continue to be credit spread risk and, to a lesser extent, interest rate risk.

Backtesting

Backtesting compares 1-day 99% level of confidence regulatory VaR calculated on positions at the close of each business day with the revenues generated by those positions on the following business day. Backtesting revenues exclude non-trading revenues, such as fees and commissions, and estimated revenues from intraday trading. A backtesting exception occurs when backtesting revenues are negative and the absolute value of those revenues is greater than the previous day's VaR. We did not have any backtesting exceptions at Group level in the third quarter.

Group: value-at-risk (1-day, 95% confidence, 5 years of historical data)

CHF million, except where indicated	For the quarter ended 30.9.12				For the quarter ended 30.6.12			
	Min.	Max.	Average	30.9.12	Min.	Max.	Average	30.6.12
Business division								
Wealth Management	0	0	0	0	0	0	0	0
Wealth Management Americas	1	2	1	1	1	2	2	2
Investment Bank	22	30	26	27	25	164	38	30
Global Asset Management	0	0	0	0	0	0	0	0
Retail & Corporate	0	0	0	0	0	0	0	0
Corporate Center	9	17	11	10	9	15	12	11
Diversification effect	- ¹	- ¹	(11)	(9)	- ¹	- ¹	(11)	(11)
Total management VaR, Group	24	35	28	29	27	167	42	32
Diversification effect (%)			(28)	(24)			(21)	(25)

¹ As the minimum and maximum occur on different days for different business divisions, it is not meaningful to calculate a portfolio diversification effect.

Group: value-at-risk (1-day, 95% confidence, 5 years of historical data)

CHF million, except where indicated	For the quarter ended 30.9.12				For the quarter ended 30.6.12			
	Min.	Max.	Average	30.9.12	Min.	Max.	Average	30.6.12
Risk type								
Equities	8	13	10	12	9	160	17	12
Interest rates	13	21	17	16	17	33	23	17
Credit spreads	23	35	27	30	29	42	34	31
Foreign exchange	3	13	7	7	3	10	6	7
Energy, metals and commodities	1	6	3	2	1	5	3	2
Diversification effect	- ¹	- ¹	(35)	(38)	- ¹	- ¹	(41)	(37)
Total management VaR, Group	24	35	28	29	27	167	42	32
Diversification effect (%)			(56)	(57)			(50)	(54)

¹ As the minimum and maximum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification effect.

Non-trading portfolios

For the purpose of our disclosure, the market risks associated with our non-trading portfolios are quantified using sensitivity analysis.

This section includes a description of the valuation of certain significant product categories and related valuation techniques and models. In addition, sensitivity information is provided for certain significant instrument categories that are excluded from management VaR and the interest rate risk in the banking book as disclosed in the "Risk, treasury and capital management" section of our annual reports and semi-annual Pillar 3 reports. Some numbers are stated in US dollars, with the Swiss franc equivalent shown in brackets for comparative purposes.

Non-trading portfolios – valuation and sensitivity information by instrument category

Credit valuation adjustments on monoline credit protection

Included in our Legacy Portfolio are negative basis trades, whereby we purchased CDS protection from monoline insurers against UBS-held underlyings, including residential mortgage-backed securities (RMBS) collateralized debt obligations (CDO) and commercial mortgage-backed securities (CMBS) CDO, transactions with collateralized loan obligations (CLO) and asset-backed securities (ABS) CDO. Since the start of the financial crisis, the credit valuation adjustments (CVA) relating to these monoline exposures have been a source of valuation uncertainty, given market illiquidity and the contractual terms of these exposures relative to other monoline-related instruments.

CVA amounts related to monoline credit protection are based on a methodology that uses CDS spreads on the monolines as a key input in determining an implied level of expected loss. Where a monoline has no observable CDS spread, a judgment is made on the most comparable monoline or combination of monolines and the corresponding spreads are used instead. For RMBS CDO, CMBS CDO and CLO asset categories, cash flow projections are used in conjunction with current fair values of the underlying assets to provide estimates of expected future exposure levels. For other asset categories, future exposure is derived from current exposure levels.

To assess the sensitivity of the monoline CVA calculation to alternative assumptions, the impact of a 10% increase in monoline CDS spreads (e.g. from 1,000 basis points to 1,100 basis points for a specific monoline) was considered. Such an increase would have resulted in a USD 21 million (CHF 19 million) increase in the reported monoline CVA compared with USD 25 million (CHF 24 million) at the end of the prior quarter.

The sensitivity of the monoline CVA to a decrease of 1 percentage point in the monoline recovery rate assumptions (e.g. from 30% to 29% for a specific monoline, conditional on default occurring) is estimated to increase the reported figures by approximately USD 2 million (CHF 2 million) compared with USD 4 million

(CHF 3 million) at the end of the prior quarter. The sensitivity to credit spreads and recovery rates is substantially linear.

US reference-linked notes

The US reference-linked notes (RLN) consist of a series of transactions whereby we purchased credit protection, predominantly in note form, on a notional portfolio of fixed income assets. The referenced assets are comprised of USD ABS. These are primarily CMBS and RMBS and/or corporate bonds and loans across all rating categories. While the assets in the portfolio are marked-to-market, the credit protection embodied in the RLN is fair valued using a market standard approach to the valuation of portfolio credit protection (Gaussian copula). This approach is intended to effectively simulate correlated defaults within the portfolio, where the expected losses and defaults of the individual assets are closely linked to the observed market prices (spread levels) of those assets. Key assumptions of the model include correlations and recovery rates. We apply fair value adjustments related to potential uncertainty in each of these parameters, which are only partly observable. In addition, we apply fair value adjustments for uncertainties associated with the use of observed spread levels as the primary inputs. These fair value adjustments are calculated by applying shocks to the relevant parameters and revaluing the credit protection. These shocks for correlation, recovery and spreads are set to various levels depending on the asset type and/or region and may vary over time depending on the best judgment of the relevant trading and control personnel. Correlation and recovery shocks are generally in the reasonably possible range of 5 to 15 percentage points. Spread shocks vary more widely and depend on whether the underlying protection is funded or unfunded to reflect cash or synthetic basis effects. These fair value adjustments may also be considered a measurement of sensitivity.

The fair value of the US RLN credit protection was USD 129 million (CHF 121 million) at the end of the third quarter, including adjustments described above of USD 12 million (CHF 12 million). This compares with USD 194 million (CHF 184 million) at the end of the prior quarter, which included an adjustment of USD 14 million (CHF 14 million). The reduction in fair value was largely due to write-downs in the reference pool assets which led to reductions in the notional exposure and corresponding fair values.

Non-US reference-linked notes

The same valuation model and the same approach to calculation of fair value adjustments are applied to the non-US RLN credit protection and the US RLN credit protection as described above, except that the spread is shocked by 10% for European corporate names.

The fair value of the non-US RLN credit protection was USD 334 million (CHF 314 million) at the end of the third quarter, including adjustments of USD 23 million (CHF 21 million). This com-

compares with a fair value of USD 404 million (CHF 384 million) at the end of the prior quarter, which included adjustments of USD 30 million (CHF 29 million). The reduction of the fair value exposure was mainly due to mark-to-market changes.

Option to acquire the equity of the SNB StabFund

Our call option to purchase the SNB StabFund's equity is recognized on the balance sheet as a derivative at fair value (positive replacement values) with changes in fair value recognized in profit or loss. At the end of the third quarter, the fair value of the option (after reserves) was USD 2,199 million (CHF 2,068 million). This compares with USD 1,923 million (CHF 1,825 million) at the end of the prior quarter. The increase in the value of the option during the period is primarily attributable to an increase in the market value of the underlying SNB StabFund assets.

The option valuation model utilizes cash flow projections for assets within the SNB StabFund across various economic scenarios. This model is calibrated to market levels by setting the spread above the one-month LIBOR rates used to discount future cash flows, such that the model-generated price of the underlying asset pool equals our assessed fair value of the asset pool. The model incorporates a model reserve (fair value adjustment) to address the inherent valuation uncertainty associated with the forecasting process. This adjustment was USD 114 million (CHF 107 million) at the end of the third quarter compared with USD 117 million (CHF 111 million) at the end of the prior quarter.

A 100 basis-point increase in the discount rate would have decreased the option value by USD 174 million (CHF 164 million) at the end of the third quarter, compared with USD 156 million (CHF 148 million) at the end of the prior quarter. A 100 basis-point decrease would have increased the option value by USD 194 million (CHF 182 million) at the end of the third quarter, compared with USD 175 million (CHF 166 million) at the end of the prior quarter.

Interest rate risk in the banking book

As part of its management of interest rate risk, Group Treasury has managed portfolios that aimed to economically hedge negative effects on the firm's interest income stemming from the unusually low yield environment. As discussed in the "Capital management" section of this report, the risk positions in these portfolios were closed during the third quarter. This changed our interest rate risk in the banking book 1-basis-point sensitivity by approximately CHF 5 million. Full information on interest rate risk sensitivity in the banking book was included in our Annual Report 2011, with updated quantitative information presented in our first half 2012 Pillar 3 report.

→ Refer to the "Risk, treasury and capital management" section of our Annual Report 2011 and our first half 2012 Pillar 3 update for more information on interest rate risk in the banking book

Operational risk

The implementation of the enhanced operational risk framework remained a key focus during the third quarter. Momentum was maintained on implementation across the four main pillars, which are as follows:

1. Introduction of a clear and logical taxonomy to provide a consistent framework for assessment and analysis of operational risk
2. Assessment of the design and operating effectiveness of controls through the internal control assessment process
3. Assessment of residual risk through the operational risk assessment process
4. Remediation to address identified deficiencies which are outside accepted levels of residual risk

The quarterly internal control assessment process, which requires functions to provide positive evidence of the effective operation of their key procedural controls, was completed for the second time. This process was enhanced based on observations and best practices obtained from independent quality assessments of the first cycle. The process to aggregate and interpret the collective impact of deficiencies identified during the internal control assessment process was advanced through the inclusion of initial risk appetite statements for assessment. Issues with the largest potential impact on UBS or a high degree of regulatory focus, and the associated remediation programs, continue to be sponsored at the most senior level of the firm. Legacy operational risk tools are being replaced by an enhanced system. A second major release of this system in September 2012 included functionality to support control administration, the internal control assessment process and SOX testing. A further system release will be completed in 2012 and planning for 2013 continues.

Operational risk control provides an independent and objective view on whether material operational risks are being managed adequately. In an effort to further support an integrated approach, the operational risk issue rating methodology was adopted by all internal control functions and both internal and external audit. Assessment of all known issues, irrespective of source, against the same rating scale supports clear prioritization and management focus on the key issues. The specialist risk teams established during the second quarter continue to lead cross-divisional collaboration to ensure a coordinated approach to control in key areas such as information security, fraud, business continuity, financial reporting and treasury.

Implementation of the revised operational risk framework will continue to progress into 2013, including further work on defining and determining operational risk appetite for each operational risk taxonomy category.

→ Refer to the "Risk, treasury and capital management" section of our Annual Report 2011 for information on our operational risk framework

→ Refer to the "Capital management" section of this report for quantification of operational risk risk-weighted assets

PARTIES

HEAD OFFICE OF THE ISSUER

UBS AG

Bahnhofstrasse 45
CH-8001 Zurich
Switzerland
and
Aeschenvorstadt 1
CH-4051 Basel
Switzerland

OFFICE OF THE ISSUER

UBS AG London Branch

1 Finsbury Avenue
London
EC2M 2PP
United Kingdom

PLACE OF BUSINESS OF THE ISSUER IN HONG KONG

52nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

SPONSOR

UBS Securities Asia Limited

52nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

LEGAL ADVISOR AS TO HONG KONG LAW

King & Wood Mallesons

13th Floor
Gloucester Tower
The Landmark
15 Queen's Road Central
Central
Hong Kong

AUDITORS

Ernst & Young Ltd

Aeschengraben 9
P.O. Box 2149 CH-4002 Basel
Switzerland

LIQUIDITY PROVIDER

UBS Securities Hong Kong Limited

52nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong