UBS

For the year ended
31 December 2014

UBS Limited
Annual Report and Financial Statements

Company Registration Number: 2035362

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Directors and Officers

Board of Directors

Chairman and Non-Executive[1,2,3,4]
Richard W J Hardie

Non-Executive
Michael J Cassidy, CBE[1,2,3,4]
John H Tattersall[1,2,3,4]
Jonathan (Bobby) P A Magee[1,4]

Chief Executive
Andrea Orcel

Finance Director[1]
Nigel P Bretton

Chief Operating Officer
Beatriz Martin Jimenez

Other Executives
Duncan G Rodgers
David C B Soanes

Additional Information

Secretary
John S Mitchell-Hewson, FCIS

Assistant Secretaries
Deborah A Harvey, FCIS
Harriet H L Charles, ACIS

Registered office and principal place of business
1 Finsbury Avenue
London, EC2M 2PP

Registered Auditors
Ernst & Young LLP
1 More London Place
London, SE1 2AF

1 Denotes member of the UBS Limited Audit Committee 2 Denotes member of the UBS Limited Nomination Committee 3 Denotes member of the UBS Limited Remuneration Committee 4 Denotes member of the UBS Limited Risk Committee

Strategic Report

Principal activities

UBS Limited (the Company) is part of UBS Group AG Consolidated group, which includes UBS Group AG and its consolidated subsidiaries, also referred to as "the Group." The Company is a direct wholly owned subsidiary of UBS AG and is included in its consolidated accounts. UBS Group AG, a company incorporated with limited liability in Switzerland, is the ultimate holding company ("the Parent").

During the year, the Company continued to carry on a financial services business as a bank authorised in the UK by the Prudential Regulation Authority and regulated by both the Financial Conduct Authority and Prudential Regulation Authority under the provisions of the Financial Services and Markets Act 2000, as amended. The Company's Equities business operates a Multilateral Trading Facility. The Company also maintains certain exchange memberships in the United Kingdom and elsewhere in order to facilitate or support its business activities.

As a consolidated part of the Group, the Company and its performance have been, and continue to be, closely monitored and overseen by the Parent and UBS AG through Group and Divisional governance and business frameworks. Independent governance is maintained through the UBS Limited Board supported by Board Committees to oversee the operation and risk affairs of the Company. Certain financial information is included in the published Quarterly results of the Parent. The Company is also required to adhere to relevant Group and Divisional policies and codes.

On 24 January 2003 UBS AG issued a deed poll providing a form of guarantee to clients of the Company. This guarantee remains in place.

The Company is headquartered in London and the reported results for the year include branches in France, Germany, Poland, Sweden, The Netherlands and Switzerland and the two Representative Offices in Carouge, Geneva and Opfikon, Zurich. In December 2014 the Company extended its branch network through the establishment of a branch in the Netherlands which then acquired the business of UBS Investment Bank Nederland B.V, whose principal activities are in line with those of the Company.

Business review for 2014

The Company conducts business in a broad range of investment banking products and services. Through the Investment Bank the Company provides corporate and institutional clients with expert advice, innovative financial solutions, outstanding execution and comprehensive access to capital markets. It offers financial advisory and capital markets, research, equities, foreign exchange and tailored fixed income services in rates and credit through two business units, Corporate Client Solutions and Investor Client Services. Corporate Client Solutions include all advisory and financing solutions businesses, origination, structuring and execution, including equity and debt capital markets in service of corporate, financial institution and sponsor clients. Investor Client Services includes execution, distribution and trading for institutional investors. It comprises equities businesses, including cash, derivatives and financing services and foreign exchange, rates and credit businesses.

Corporate Center comprises Core functions and the Non-core and Legacy portfolio. Core functions include treasury services such as funding and balance sheet and capital management. The Non-core and Legacy portfolio was divisionally re-aligned out of the Investment Bank into Corporate Center in 2012.

Prior to May 2014, the Company conducted its business under a business operating model designed to transfer substantially all credit, market, funding and other risks to UBS AG without recourse.

In response to regulatory developments and in consultation with the UK and Swiss financial services regulators, the Company implemented a modified business operating model during May 2014, under which the Company bears and retains a greater degree of the risk and reward of its business activities. This principally involves the Company retaining and managing credit risk as well as some market and other risks and the Company taking an independent role in managing its funding and liquidity requirements. The Company's market risk in relation to the majority of its OTC derivatives business is transferred to UBS AG.

The Company's regulatory capital was increased prior to the modified business model being implemented and the Company's management, liquidity and funding processes, and treasury governance have been enhanced in accordance with the change in business model.

Results review

The profit on ordinary activities, before taxation, for the year amounted to £77m (2013: £27m). After taxation the Company retained a profit of £178m for the year (2013:£21m) which resulted in the Company having retained profits at 31 December 2014 of £220m (2013: £80m).

Profit for the current year reflects the new business operating model since May 2014, with the Company's revenues and expenses largely generated from its cash business and corporate client businesses, in addition to fees generated from UBS AG in relation to market access provided to UBS AG. Prior to May 2014, the Company's operating profit was determined in accordance with the business operating model then in effect. The 2014 results include an upward revaluation of recognized deferred tax assets of £106m in respect of tax losses carried forward. Details are provided in Note 9: Deferred tax assets.

Principal risks and uncertainties

Details of the risk management principles adopted by the Directors are provided in Note 33: Risk, Treasury and Capital management to the financial statements. As a direct wholly-owned subsidiary of UBS AG the Company operates in line with UBS AG and Parent policies, including environmental and ethical standards.

Going concern

For the purposes of the revised guidance to Directors of UK companies issued in 2009 by the UK Financial Reporting Council on Going Concern and Liquidity Risk, the Directors have, on the basis of their assessment of the Company's financial position and of the enquiries made of the Parent and UBS AG, reasonably concluded that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, the Directors shall continue to adopt the going concern basis in the preparation of its financial statements.

Key performance indicators

The Parent and UBS AG maintain an oversight of the Company's performance under the respective Divisional business and governance management structures. The Directors are satisfied that during the year the Company's business has operated and performed in accordance with the business operating plan. The Directors actively monitor the Company's financial soundness including compliance with regulatory limits.

The Company is measured against daily Capital and Liquidity metrics and limits and is evaluated against the Board approved business plan.

Governance

As a subsidiary of the Parent, the Company operates within the framework of the broader UBS Group as regards business strategy, resources and overall policy and governance framework. UBS Limited's Articles of Association, the Board, Board reserved matters and Board Committees establish the structures through which the Company maintains its own governance and oversight of its activities.

During 2014 the Company modified its governance arrangements and committee structure including establishing respective UBS Limited Risk and Remuneration Committees and modifying the Nomination Committee. Each of those Committees comprises only Non-Executive Director members.

Additionally, a UBS Limited Asset and Liability Committee (ALCO) was established. The UBS Limited Audit Committee was retained, while the former UBS Limited Capital and Collateral Committee was discontinued with the majority of its role transferred to the ALCO. The Board conducted a self-review of its board and committee governance structures and operation at the end of 2014 and concluded that they were working appropriately within their respective remits.

Future developments

In 2015, UBS Limited will continue to develop its modified business model in response to regulatory developments and in consultation with the UK and Swiss financial services regulators. This will involve the Company retaining and managing increased levels of market risk in relation to derivative positions. At the same time the Company is aiming to improve capital efficiency as, in particular, Non-core and Legacy positions wind down.

The Company is considering adding to its European branch network in a number of European locations and may combine with the business of a local UBS subsidiary in those locations.
Whilst this Strategic Report has been prepared to provide the Company's shareholders with a fair review of the Company's business, a description of the principal risks and uncertainties and the anticipated effect of transactions and strategic initiatives on its business and future development, it may not be relied upon for any other purpose.

The Strategic Report may contain forward-looking statements. While these statements represent the Company's judgments and expectations concerning the matters described, a number of risks, uncertainties and other factors could cause actual developments and results to differ materially from expectations. No assurance can be given that any forward-looking statement will be realized.

Pillar 3 disclosures

The Pillar 3 Disclosures for the Company can be found on the UBS Group AG website under the 'Pillar 3 disclosures of subsidiaries in the UK' pages accessible through the Investor Relations pages on the UBS Group AG homepage, or by using the following link:
http://www.ubs.com/global/en/about_ubs/investor_relations/other_filings/pillar_3.html

Approved by the Board of Directors on 26 March 2015 and signed on their behalf by:

John S Mitchell-Hewson
Secretary

Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year ended 31 December 2014 ('the year') which have been prepared in accordance with the provisions of the Companies Act 2006.

Strategic report

In accordance with the provisions of Section 414A of the Companies Act 2006, the Directors have prepared a Strategic Report complying with the provisions of Section 414C of the Companies Act 2006. The Strategic Report is included with this Report and the audited Financial Statements for the year.

Dividends

The Directors recommend the declaration of a final dividend amounting in aggregate to £51m in respect of the year (2013: £21m).

There was no Interim dividend paid during the year (2013: nil).

Directors

The names of the current Directors are shown on page 3.

During the year there were four appointments to, and six departures from, the Board. Mr Nigel P Bretton was appointed a Director, and Finance Director, of the Company on 21 October 2014. Mr David C B Soanes was appointed as a Director on 3 December 2014. Mr Andrea Orcel was appointed a Director, and as the Chief Executive Officer, of the Company on 5 December 2014. Mr Jonathan (Bobby) P A Magee was appointed as a Non-Executive Director on 12 March 2015.

Mr Philip J Allison resigned as a Director of the Company on 25 March 2014. Mr Sean E Ryan resigned as a Director, and as Finance Director, of the Company on 11 July 2014. Ms Anna M I Haemmerli resigned as a Director on 6 August 2014. Mr J Mark Yallop resigned as a Director, and as Chief Executive Officer, of the Company on 30 September 2014 and Mr James W Hartop resigned as a Director on 13 October 2014. Ms Sally A James did not seek a further term and ceased to be a Director (Non-Executive) on 31 December 2014, the date upon which her term expired.

Since the year, there has been one further appointment to, and one resignation from, the Board. On 28 January 2015 Ms Beatriz Martin Jimenez was appointed a Director, and as Chief Operating Officer, of the Company and Mr Wayne Lawson-Turnbull resigned as a Director, and as Chief Operating Officer, of the Company.

Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with those International Financial Reporting Standards as adopted by the European Union ('IFRSs').

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present fairly the financial positions, financial performance and cash flows of the Company;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- make judgments and accounting estimates that are reasonable;
- state that the Company has complied with the IFRSs; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

Each of the Directors at the date of approval of this Report and Audited Financial Statements has confirmed that:

- so far as he/she is aware, there was no relevant audit information of which the Auditors were unaware; and
- he/she has taken all the steps they ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Auditors have been made aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Employees

The Company has 24 employees of its own: 20 are located in The Netherlands as staff of the newly established Netherlands Branch, 2 are in Switzerland as the Managers of its Representative Offices and 2 are located in Poland employed by the Poland Branch (2013: 3). UBS AG group has made, and continues to make, available a number of its employees to be engaged either on a full-time or part-time basis in the performance of certain functions or operations in connection with the Company's business.

Political contributions

There were no contributions for political purposes made by the Company during the year (2013: nil).

Auditors

Ernst & Young LLP, Chartered Accountants and Registered Auditor, have indicated their willingness to continue in office and, in the event the Company dispenses with the holding of annual general meetings, as permitted by the Companies Act 2006 ('the Act'), shall continue in office in accordance with Section 487 of the Act or, if annual general meetings are continued with, until the conclusion of the next annual general meeting and in which case a resolution of their re-appointment will be proposed.

Approved by the Board of Directors on 26 March 2015 and signed on their behalf by:

John S Mitchell-Hewson
Secretary.
1 Finsbury Avenue, London EC2M 2PP

Independent Auditor's report to the members of UBS Limited

We have audited the financial statements of UBS Limited for the year ended 31 December 2014 which comprise the Income Statement, the Statement Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP

Neville Gray (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London, 26 March 2015

Notes:

- The maintenance and integrity of the UBS Group AG web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
- Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement for the year ended 31 December 2014

Income statement

GBP million	Notes	31.12.2014	31.12.2013
Interest and similar income	2	313	331
Interest and similar expense	2	(270)	(325)
Net interest income		43	7
Credit loss (expense)/recovery	14	(2)	–
Net interest income after credit loss expense		40	7
Net fee and commission income	3	439	(8)
Net trading income	2	(45)	14
Net gain on sale of financial Investments	4	4	4
Other operating income	4	43	197
Total operating income		482	214
Personnel expenses	5	(1)	(1)
General and other administrative expenses	6	(403)	(187)
Total operating expenses		(404)	(187)
Profit before tax		77	27
Taxation	8	101	(5)
Profit for the financial year		178	21

Note: All activities in current/prior year were continuing

The notes on pages 14 to 76 form an integral part of the financial statements.

Statement of other comprehensive income for year ended 31 December 2014

Statement of other comprehensive income

GBP million	Notes	31.12.14	31.12.13
Net profit		**178**	21
Other comprehensive income			
Other comprehensive income that may be reclassified to the income statement			
Financial investments available-for-sale			
Net unrealized gains / (losses) on financial investments available-for-sale, before tax		6	–
Disposal of financial investments		–	(4)
Total other comprehensive income that may be reclassified to the income statement		**6**	(4)
Total comprehensive income		**184**	17

The notes on pages 14 to 76 form an integral part of the financial statements.

Balance sheet as at December 2014

Balance sheet

GBP million	Notes	31.12.14	31.12.13 (restated)	31.12.12[3] (restated)
Assets				
Cash and balances with central banks		**9**	3	–
Due from banks[1]	12	**784**	1,587	5,801
Cash collateral on securities borrowed	13	**2,643**	954	1,465
Reverse repurchase agreements	13	**8,914**	20,377	25,367
Trading portfolio assets	15	**3,937**	1,021	1,131
of which: assets pledged as collateral which may be sold or repledged by counterparties	*25*	***1,402***	–	–
Positive replacement values	16	**30,042**	38,208	85,181
Cash collateral receivable on derivative instruments[1]	13	**7,052**	10,139	17,304
Financial assets designated at fair value	18	**527**	857	930
Loans and advances to customers[2]	12	**323**	277	318
Other amounts due from group undertakings	31	**74**	101	70
Financial investments available-for-sale	17	**5,512**	3,411	2,872
Other assets	19	**141**	30	57
Deferred tax assets	9	**106**	–	–
Total assets		**60,063**	**76,965**	**140,495**
Liabilities				
Due to banks[2]	20	**5,150**	1,584	6,195
Cash collateral on securities lent	13	**946**	768	1,177
Repurchase agreements	13	**7,818**	20,377	24,753
Trading portfolio liabilities	15	**2,447**	543	974
Negative replacement values	16	**29,929**	38,231	85,181
Cash collateral payable on derivative instruments[1]	13	**7,991**	10,144	17,469
Financial liabilities designated at fair value	21	**559**	857	930
Due to customers	20	**754**	897	674
Other amounts owed to group undertakings	31	**147**	79	67
Other liabilities	23	**123**	35	76
Tax provision		**6**	4	–
Provisions	22	**3**	17	7
Total liabilities		**55,872**	**73,535**	**137,504**
Equity				
Share capital	29	**227**	227	194
Share premium		**3,123**	3,123	2,656
Revaluation reserve		**6**	–	5
Retained earnings		**220**	80	136
Other equity instruments		**615**	–	–
Total equity		**4,191**	**3,430**	**2,991**
Total liabilities and equity		**60,063**	**76,965**	**140,495**

1 Client money derecognition restatement has resulted in a reduction in Due from banks of £3,819m, Cash collateral receivables on derivatives of £1,539m and Cash collateral payables on derivatives of £5,358m in 2013. In 2012 the result is a reduction in Due from banks of £5,073m, Cash collateral receivables on derivatives of £422m and Cash collateral payables on derivatives of £5,496m. Refer to Note 1b: *Changes in accounting policy* for more information. 2 Loans and advances to customers and Due to banks have been restated due to the derecognition of a margin loan, both decreased by £543m. 3 There are no material differences to the 2013 opening balance sheet.

These Financial Statements were approved by the Directors on 26 March 2015 and signed on their behalf by:

Nigel Bretton, Finance Director
26 March 2015

The notes on pages 14 to 76 form an integral part of the financial statements.

Statement of changes in equity for year ended 31 December 2014

Statement of changes in equity

GBP million	*Share capital*	*Share premium*	*Revaluation reserve*	*Retained earnings*	*Other equity instruments*	*Total shareholders' funds*
Balance as of 1 January 2013	194	2,656	5	136	–	2,991
Profits for the year	–	–	–	21	–	21
Other comprehensive income	–	–	(4)	–	–	(4)
Total comprehensive income	**–**	**–**	**(4)**	**21**	**–**	**17**
Increase in share capital	33	467	–	–	–	500
Dividends	–	–	–	(77)	–	(77)
Balance as of 31 December 2013	**227**	**3,123**	**–**	**80**	**–**	**3,430**
Profit for the year	–	–	–	178	–	178
Other comprehensive income	–	–	6	–	–	6
Total comprehensive income	**–**	**–**	**6**	**178**	**–**	**183**
Increase in share capital	–	–	–	–	–	–
Issue of other equity instruments	–	–	–	–	615	615
Interest on other equity instruments	–	–	–	(17)	–	(17)
Dividends	–	–	–	(21)	–	(21)
Balance as of 31 December 2014	**227**	**3,123**	**6**	**220**	**615**	**4,191**

The notes on pages 14 to 76 form an integral part of the financial statements.

Statement of cash flows for the year ended 31 December 2014

Statement of cash flows

GBP million	31.12.14	31.12.13 (restated)
Profit before tax	**77**	27
Cash flow from / (used in) operating activities		
Adjustment to reconcile profit before tax to cash flow from / (used in) operating activities		
Non-cash items included in profit before tax and other adjustments:		
Net loss / (gain) from investing activities	**(4)**	(4)
Net (increase) / decrease in operating assets and liabilities		
Net due from / to banks[1,2]	**5,186**	9,997
Reverse repurchase agreements and cash collateral on securities borrowed	**9,774**	5,501
Trading portfolio, net replacement values and financial assets designated at fair value	**(1,116)**	(299)
Loans / due to customers[2]	**(190)**	(822)
Accrued income, prepaid expenses and other assets	**(72)**	(5)
Repurchase agreements and cash collateral on securities lent	**(12,381)**	(4,785)
Cash collateral on derivative instruments[1]	**(2,153)**	(18,315)
Accrued expenses and other liabilities	**140**	(12)
Income taxes paid	**(3)**	(8)
Net cash flow used in operating activities	**(742)**	(8,727)
Cash flow used in investing activities		
Net investment in financial investments available-for-sale	**(2,101)**	(540)
Net cash flow used in investing activities	**(2,101)**	(540)
Cash flow from financing activities		
Capital issuance	**615**	500
Interest on other equity instruments	**(17)**	–
Dividends paid	**(21)**	(77)
Net cash flow from financing activities	**577**	423
Net increase / (decrease) in cash and cash equivalents	**(2,266)**	(8,844)
Cash and cash equivalents at the beginning of the year	**9,258**	18,102
Cash and cash equivalents at the end of the year	**6,992**	9,258
Cash and cash equivalents comprise		
Due from banks with original maturity of less than three months	**6,992**	9,258
Total	**6,992**	9,258

1 Client money derecognition has resulted in a restatement of 2013 comparatives, refer to Note 1b: *Changes in accounting policies* for more information. 2 Loans and advances to customers and Due to banks have been restated due to the derecognition of a margin loan, both decreased by £543m.

Notes to the financial statements for the year ended 31 December 2014

Note 1 Accounting policies

a) Significant accounting policies

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

Basis of accounting
The Financial Statements have been prepared on an historical cost basis except for the valuation of financial instruments and derivatives. This is in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

The Company has adopted all the standards, interpretations and amendments effective for the year ended 31 December 2014. The International Accounting Standards Board (IASB) has issued various standards, interpretations and amendments that are not yet effective and therefore have not yet been adopted by the Company.

Pounds sterling is the functional currency of the Company which is the currency of the primary economic environment in which the Company operates and the currency in which these Financial Statements are presented. The Company continues to adopt the going concern basis in the preparation of its financial statements.

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

The following notes to the Financial Statements contain information about those areas of estimation uncertainty considered to require critical judgment and have the most significant effect on the amounts recognized in the Financial Statements: Note 8 *Taxation,* Note 14 *Allowances and provisions for credit losses,* Note 22 *Provisions,* Note 24 *Fair value measurement and* Note 28 *Retirement benefit plan.*

Recognition and derecognition of financial instruments
The Company recognizes financial instruments on its balance sheet when the Company becomes a party to the contractual provisions of the instruments. Unless the recognition criteria are satisfied, these assets and the related income are excluded from UBS Limited's Financial Statements, as they are not assets of the Company.

Financial assets
The Company enters into certain transactions where it transfers financial assets recognized on its balance sheet but retains either all or a portion of the risks and rewards of the transferred financial assets. If all or substantially all of the risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transactions where transfers of financial assets result in the Company retaining all or substantially all risks and rewards include securities lending and repurchase transactions.

In transactions where substantially all of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS Limited derecognizes the financial asset if control over the asset is surrendered. The rights and obligations retained following the transfer are recognized separately as assets and liabilities, respectively.

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

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

Refer to Note 25 *Restricted and transferred financial assets* for more information.

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

Balances with UBS AG
The Company has a banking relationship with UBS AG, the parent undertaking. Transactions include, inter alia, current accounts and deposits. In these Financial Statements, such balances are treated as bank accounts and not as amounts owed to and by group undertakings.

Foreign currencies
Transactions denominated in foreign currency are translated into the functional currency of the reporting unit at the spot exchange rate on the date of the transaction. At the balance sheet date, all monetary assets and liabilities denominated in foreign currency are translated to the functional currency using the closing exchange rate.

Foreign exchange differences on financial investments available-for-sale are recorded directly in Equity until the asset is sold or becomes impaired, with the exception of translation differences on the amortized cost of monetary financial investments available-for-sale which are reported in Net trading income, along with all other foreign exchange differences on monetary assets and liabilities.

Determination of fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Determination of fair value is considered a critical accounting policy for the Company and further details are disclosed in Note 24 *Fair value measurement.*

Structured entities (SE)
SEs are entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate only to administrative tasks and the relevant activities are directed by means of contractual arrangements. The Company assesses whether an entity is SE by considering the nature of the activities of the entity as well as the substance of voting or similar rights afforded to other parties, including investors and independent boards or directors. The Company considers rights such as the ability to liquidate the entity or remove the decision maker to be similar to voting rights when the holder has the substantive ability to exercise such rights without cause. In the absence of such rights or in cases where the existence of such rights cannot be fully established, the entity is considered to be an SE.

The Company interacts with SEs for a variety of reasons including allowing clients to obtain or be exposed to particular risk profiles, to provide funding or to sell or purchase credit risk. Many SEs are established as bankruptcy remote, meaning that only the assets in the SE are available for the benefit of the SE's investors and such investors have no other recourse to the Company. Where the Company acts purely as an advisor, administrator or placement agent for an SE created by a third-party entity, it is not considered to be sponsored by the Company.

Each individual entity is assessed for consolidation in line with the consolidation principles described above, considering the nature and scope of the Company's involvement. When the Company does not consolidate an SE but has an interest in an SE, additional disclosures are provided in Note 32 on the nature of these interests. The classes of SEs UBS is involved with include the following:

- *Securitization structured entities* are established to issue securities to investors that are backed by assets held by the SE and whereby (i) significant credit risk associated with the securitized exposures has been transferred to third parties and (ii) there is more than one risk position or tranche issued by the securitization vehicle in line with the Basel III securitization definition. All securitization entities are classified as SEs.
- *Client investment structured entities* are established predominantly for clients to invest in specific assets or risk exposures through purchasing notes issued by the SE, predominantly on a fixed-term basis.
- *Investment fund structured entities* have a collective investment objective, are managed by an investment manager and are either passively managed, such that any decision-making does not have a substantive effect on variability, or are actively managed and investors or their governing bodies do not have substantive voting or similar rights.

Cash and cash equivalents
For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with an original maturity of 3 months or less including cash, money market paper and balances with central and other banks.

Where the Company holds money on behalf of clients that is retained on the balance sheet, because the Company obtains a benefit or retains control, this money is included within cash and cash equivalents. The return received on managing client money is included within interest income.

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

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

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

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

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

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

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

Refer to Note 15 for more information on trading portfolio assets and liabilities.

Financial Instruments designated at fair value through profit or loss

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

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

In order to reduce an accounting mismatch, the Company has applied the fair value option to certain structured loans and reverse repurchase and securities borrowing agreements which are part of portfolios managed on a fair value basis.

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

The Company applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments in the trading portfolio.

Refer to Notes 18 and 21 for more information on financial assets and liabilities designated at fair value.

Financial investments available-for-sale

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

Financial investments available-for-sale include debt securities held as part of the multi-currency portfolio of unencumbered, high-quality, short-term assets managed centrally by Treasury and strategic equity investments.

Financial investments available-for-sale are recognized initially at fair value less transaction costs and are measured subsequently at fair value. Unrealized gains and losses are reported in *Equity*, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. Unrealized gains before tax are presented separately from unrealized losses before tax in Note 17.

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

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

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

The Company applies the same recognition and derecognition principles to financial assets available-for-sale as to financial instruments in the trading portfolio, except that unrealized gains and losses between trade date and settlement date are recognized in *Equity* rather than in the income statement.

Refer to Note 17 for more information on financial investments available-for-sale.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not classified as held-for-trading, not designated as at fair value through profit and loss or available-for-sale, and are not assets for which the Company may not recover substantially all of its

initial net investment, other than because of a credit deterioration. Financial assets classified as loans and receivables include:
- originated loans where funding is provided directly to the borrower;
- participation in a loan from another lender and purchased loans;
- securities which are classified as loans and receivables at acquisition date.

Loans and receivables are recognized when the Company becomes a party to the contractual provisions of the instrument, which is when funding is advanced to borrowers. They are recorded initially at fair value, based on the amount provided to originate or purchase the loan or receivable, together with any transaction costs directly attributable to the acquisition. Subsequently, they are measured at amortized cost using the EIR method, less allowances for credit losses.

Interest on loans and receivables is included in *Interest earned on loans and advances* and is recognized on an accrual basis. Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments are generally deferred and amortized to *Interest earned on loans and advances* over the life of the loan using the EIR method. Where no loan is expected to be advanced, any fees are recognized as follows:
- for loan commitments that are not expected to result in a loan being advanced, the fees are recognized in *Commission income* over the commitment period; and
- for loan syndication fees where the Company does not retain a portion of the syndicated loan, or where the Company does retain a portion of the syndicated loan at the same effective yield for comparable risk as other participants, fees are credited to *Commission income* when the services have been provided.

Allowances and provisions for credit losses

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

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

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

Counterparty-specific: A loan is considered impaired when management determines that it is probable that the Company will not be able to collect all amounts due (or the equivalent value thereof) based on the original contractual terms. Individual credit exposures are evaluated based on the borrower's character, overall financial condition and capacity, resources and payment record, the prospects for support from any financially responsible guarantors and, where applicable, the realizable value of any collateral. The estimated recoverable amount is the present value, calculated using the claim's original EIR, of expected future cash flows including amounts that may result from restructuring or the liquidation of collateral. If a loan has a variable interest rate, the discount rate used for calculating the recoverable amount is the current EIR.

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

Refer to Note 14 for more information on allowances and provisions for credit losses.

Securities borrowing and lending

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

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

Interest receivable or payable for financing transactions is recognized in the income statement on an accrual basis and is recorded as *Interest income* or *Interest expense*.

Refer to Note 13 for more information on securities borrowing and lending.

Repurchase and reverse repurchase agreements

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

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

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense over the life of each agreement.

The Company generally offsets reverse repurchase agreements and repurchase agreements with the same counterparty, maturity, currency and Central Securities Depository (CSD) in accordance with the relevant accounting requirements.

Refer to Note 13 for more information on repurchase and reverse repurchase transactions.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are remeasured subsequently to fair value.

Derivative instruments are generally reported on the balance sheet as *Positive replacement values* or *Negative replacement values*. Derivative instruments that trade on an exchange or through a clearing house are generally classified as *Cash collateral receivable on derivative instruments* or *Cash collateral payable on derivative instruments*. They are not classified within replacement values because the change in fair value of these instruments is settled each day, either in fact or in substance, through the cash payment of variation margin. Products that receive this treatment are futures contracts and 100% daily margined exchange-traded options. Changes in the fair values of derivatives are recorded in *Net trading income*, unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships.

Loan commitments

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

Loan commitments that can be cancelled by the Company at any time (without giving a reason) according to their general terms and conditions, are not recognized on the balance sheet and are not included in the off-balance-sheet disclosures. Upon a loan drawdown by the counterparty, the amount of the loan is accounted for in accordance with *Loans and advances to customers*.

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

- derivative loan commitments, being loan commitments that can be settled net in cash or by delivering or issuing another financial instrument, or loan commitments for which there is evidence of selling loans resulting from similar loan commitments before or shortly after origination;

- loan commitments designated at fair value through profit and loss; and
- all other loan commitments. These are not recorded in the balance sheet, but a provision is recognized if it is probable that a loss has been incurred and a reliable estimate of the amount of the obligation can be made. Other loan commitments include irrevocable forward starting reverse repurchase and irrevocable securities borrowing agreements. Any change in the liability relating to these other loan commitments is recorded in the income statement in Credit loss expense / recovery.

Other operating income
Other operating income relates to charges for the provision of investment banking services to group companies.

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

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

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

Current and deferred taxes are recognized as income tax benefit or expense in the income statement except for current and deferred taxes recognized for unrealized gains or losses on financial investments available-for-sale, and for certain foreign currency translations of foreign operations. Refer to Note 8 for more information on corporation taxes.

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

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

The majority of UBS Limited's provisions relate to litigation, regulatory and similar matters. Provisions that are similar in nature are aggregated to form a class, while the remaining provisions, including those of less significant amounts, are presented under *Other provisions*.

The Company recognizes provisions for litigation, regulatory and similar matters when, in the opinion of management after seeking legal advice, it is more likely than not that the Company 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.

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

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

Refer to Note 22 for more information on provisions.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Revenue comprises fees for corporate finance advisory services which are taken to the income statement at the point in time when, under the terms of the contract, the conditions have been met such that the company is entitled to the fees specified. Revenue also comprises profits on dealing operations, being gains less losses, both realized and unrealized, on financial assets, arrived at after taking into account attributable dividends and directly related interest, together with commission income receivable.

Interest income is recognized at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Fee income

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

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

Refer to Note 3 for more information on net fee and commission income.

Netting

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

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

Refer to Note 1b) and Note 26 for more information on offsetting financial assets and financial liabilities.

b) Changes in accounting policies, comparability and other adjustments

Effective in 2014:

Removing exchange-traded derivative client cash balances from the Company's balance sheet

UBS Limited collects cash and securities collateral, in the form of initial and variation margin, from its clients and remits them to central counterparties (CCPs), brokers and deposit banks through its exchange traded derivative (ETD) clearing and execution services. In the fourth quarter of 2014, the Company changed its practice for recognizing cash initial margin collected and remitted (together, client cash balances) to more closely align with evolving market practices. Specifically, if through contractual agreement or by regulation or practice, (i) the Company is not permitted to reinvest client cash balances; (ii) interest paid by the CCP, broker or deposit bank on cash deposits forms part of the client cash balances with deductions being made solely as compensation for clearing and execution services provided; (iii) the Company does not guarantee and is not liable to the client for the performance of the CCP, broker or deposit bank; and (iv) the client cash balances are legally isolated from the Company's estate, the Company concluded that it does not obtain benefits from or control client cash balances. Therefore, those amounts are not deemed to represent assets and corresponding liabilities of UBS Limited and are no longer reflected within *Cash collateral payable on derivative instruments* for the amounts due to clients, *Cash collateral receivable on derivative instruments in relation to amounts posted to CCP* and *Due from Banks* for any amounts that are deposited at third party deposit banks.

Cash collateral receivable on derivatives decreased by £1,488m, *Due from Banks* decreased by £3,641m and *Cash collateral payable on derivatives* decreased by £5,129m as of 31 December 2014.

The comparative balance sheets as of 31 December 2013 were restated. A balance sheet as of the beginning of 2013 has been presented as the change in practice was deemed to have a material impact on the financial statements. There was no impact on total equity, net profit or capital ratios.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32, Financial Instruments: Presentation)

On 1 January 2014, the Company adopted *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32, *Financial Instruments: Presentation)*. The amended IAS 32 restricts offsetting on the balance sheet to only those arrangements in which a right of set-off exists that is unconditional and legally enforceable, in the normal course of business and in the event of the default, bankruptcy or insolvency of the Company and its relevant counterparties and for which the Company intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

The amendments also provide incremental guidance for determining when gross settlement systems, e.g., a delivery versus payment (DVP) process used to settle repurchase agreements, result in the functional equivalent of net settlement.

Under the revised rules, the Company is no longer able to offset certain derivative arrangements, mainly credit derivative contracts and equity/index contracts, due to a combination of product and counterparty-specific considerations. The balance sheet as of 2013 has not been restated because the change in policy was not deemed to have a material impact on the financial statements.

Refer to Note 26: *Offsetting financial assets and liabilities for more information*

IFRIC Interpretation 21, Levies

In 2014, the Company adopted *IFRIC Interpretation 21, Levies.* IFRIC 21 sets out the accounting for an obligation to pay a government levy that is not within the scope of IAS 12, Income Taxes. The interpretation specifies that liabilities for levies should not be recognized prior to the occurrence of a specified triggering event, even when an entity has no realistic ability to avoid the triggering event. Adoption of the interpretation did not have a material impact on the Financial Statements.

Fair value measurements – funding valuation adjustments

In 2014, the Company incorporated funding valuation adjustments (FVA) into its fair value measurements.

FVA reflect the costs and benefits of funding associated with uncollateralized and partially collateralized derivative receivables and derivative payables and are also applied to collateralized derivative assets in cases where the collateral cannot be sold or repledged.

FVA were implemented in response to growing evidence that market participants incorporate FVA in the fair value measurement of uncollateralized and partially collateralized derivatives and was implemented on a prospective basis as a change in accounting estimate.

c) International Financial Reporting Standards and Interpretations to be adopted in 2015 and later

IFRS 9, Financial instruments

In November 2009, the IASB issued IFRS 9 Financial Instruments, which includes revised guidance on the classification and measurement of financial assets. In October 2010, the IASB updated IFRS 9 to include guidance on financial liabilities and derecognition of financial instruments. The publication of IFRS 9 represented the completion of the first part of a multi-stage project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The standard required all financial assets, except equity instruments, to be classified at fair value through profit or loss or amortized cost on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. If a financial asset meets the criteria to be measured at amortized cost, it can be designated at fair value through profit or loss under the fair value option if doing so would significantly reduce or eliminate an accounting mismatch. Equity instruments that are not held for trading may be accounted for at fair value through other comprehensive income (OCI).

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

In November 2013, the IASB issued IFRS 9 Financial Instruments (Hedge accounting and amendments to IFRS 9, IFRS 7 and IAS 39). This standard contains guidance on hedge accounting that will replace the existing requirements of IAS 39, introducing substantial changes to hedge effectiveness and eligibility requirements as well as new disclosures. The amendments also remove the previous mandatory effective date of 1 January 2015 for all of the IFRS 9 requirements. The standard further permits entities to early adopt the own credit presentation changes prospectively without having to apply any of the other requirements of IFRS 9.

In July 2014, the IASB published a final version of IFRS 9, Financial Instruments. IFRS 9 now fully reflects the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The final standard incorporates significant modifications to the previous version (as issued in 2010), including new classification and measurement requirements for financial assets; notably the introduction of a new fair value through other comprehensive income (OCI) classification, the addition of a single forward looking expected credit loss impairment model, replacing the incurred loss model of IAS 39, and the incorporation of a reformed approach to hedge accounting (as discussed above). The final standard includes the previously issued guidance under which any gain or loss arising on a financial liability designated at fair value through profit or loss that is attributable to changes in the credit risk of that liability (own credit) is to be presented in OCI and not recognized in profit or loss. There is no subsequent recycling of realized gains or losses on own credit from OCI to profit or loss. The mandatory effective date of the new standard will be 1 January 2018, with earlier adoption permitted.

The Company is currently assessing the impact of the new requirements on the Financial Statements, once permitted following EU endorsement.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which establishes principles for revenue recognition that apply to all contracts with customers. The standard requires an entity to recognize revenue as goods or services are transferred to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It also establishes a cohesive set of disclosure requirements regarding information about the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The standard is effective for the Company reporting periods beginning on 1 January 2017, with early adoption permitted subject to EU endorsement. Entities can choose to apply the standard retrospectively or use a modified approach in the year of adoption. UBS Limited is currently assessing the impact of the new standard on the Company's Financial Statements.

Annual Improvements to IFRSs 2010 – 2012 Cycle and Annual Improvements to IFRSs 2011 – 2013 Cycle
In December 2013, the IASB issued *Annual Improvements to IFRSs 2010 – 2012 Cycle* and *Annual Improvements to IFRSs 2011 – 2013 Cycle* that resulted in 12 amendments to nine IFRSs. Generally, the amendments are effective for the Company on 1 January 2015, with early adoption permitted. The Company expects that the adoption of these amendments will not have a material impact on the Financial Statements.

Annual Improvements to IFRSs 2012 – 2014 Cycle
In September 2014, the IASB issued *Annual Improvements to IFRSs 2012 – 2014 Cycle* that resulted in amendments to four IFRSs. Generally, the amendments are effective for the Company on 1 January 2016, with early adoption permitted. The Company is currently assessing the impact of the amendments on the Financial Statements.

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

Note 2 Net interest and trading income

GBP million	**31.12.14**	31.12.13
Net interest income	**43**	7
Net trading income	**(45)**	14
Total net interest and trading income	**(2)**	**21**

Interest income

GBP million	**31.12.14**	31.12.13
Interest and similar income		
Interest earned on loans and advances	**43**	82
Interest earned on securities borrowed and reverse repurchase agreements	**94**	156
Interest and dividend income from trading portfolio	**113**	32
Interest income on assets designated at fair value	**47**	48
Interest and dividend income from financial investments available-for-sale	**17**	13
Total	**313**	331

	31.12.14	31.12.13
Interest and similar expense		
Interest on amounts due to banks and customers	**(58)**	(83)
Interest expense on securities lent and repurchase agreements	**(100)**	(173)
Interest and dividend expense from trading portfolio	**(66)**	(20)
Interest expense on liabilities designated at fair value	**(47)**	(48)
Total	**(270)**	(325)
Net interest income	**43**	**7**

Net trading income

GBP million	**31.12.14**	31.12.13
Net trading income	**(45)**	14
of which: net gains/(losses) from financial assets designated at fair value	***101***	*(64)*
of which: net gains/(losses) from financial liabilities designated at fair value	***(101)***	*64*

Note 3 Net fee and commission income

GBP million	31.12.14	31.12.13
Equity underwriting fees	89	–
Debt underwriting fees	70	–
Total underwriting fees	**159**	–
Corporate finance fees	80	–
Brokerage fees earned	318	141
Total securities trading and investment activity fees	**398**	141
Credit-related fees and commissions	10	–
Commission income from other services	60	141
Total fee and commission income	**627**	141
Brokerage fees paid	(137)	(141)
Other	(51)	(8)
Total fee and commission expense	**(188)**	(150)
Net fee and commission income / (expense)	**439**	(8)
of which: brokerage fees	*181*	–

Note 4 Other income

GBP million	31.12.14	31.12.13
Financial investments available-for-sale		
Net gains from disposals	4	4
Other income other[1]	**43**	197
Total	**47**	201

1 *Other income other* primarily reflects payments relating to the risk transfer arrangement with UBS AG.

Note 5 Personnel expenses

GBP 000s	Note	31.12.14	31.12.13
Salaries		568	219
Compensation		97	231
Contractors		11	–
Social security		97	72
Pension plans	28	41	32
Other personnel expenses		115	–
Total expenses		**930**	555

The personnel expenses above relate to the employees in the representative offices, the Polish branch and the Dutch branch which are reported under 'Personnel expenses' in the income statement. There was an average of 4 employees during the year (2013: 2).

Note 6 General and administrative expenses

GBP million	31.12.14	31.12.13
Administration[1]	391	186
Travel and entertainment	1	–
Professional fees	1	1
Litigation	9	–
Total general and administrative expenses	**403**	187

1 Administration costs represent an expense to UBS AG for direct costs relating to employees made available to the Company of £198m (2013: £186m). 2014 also includes payment to UBS AG of operating costs post the business model changes described in the Strategic report.

Note 7 Directors' emoluments

GBP 000s	31.12.14	31.12.13
Remuneration charged in the Company	369	360

Additional Directors' remuneration in respect of qualifying services borne by UBS AG were as follows:

GBP 000s	31.12.14	31.12.13
Aggregate remuneration of the Directors' for the year	1,313	1,649
Total remuneration of the highest paid Director	249	216

The highest paid director accrued £0k, (2013: £4.5k) of pension at the year end under the UBS AG defined benefit pension scheme, and time apportioned Employer Defined Benefits Contribution under the UBS AG scheme of £0k (2013: £5.7k). The defined benefits plan ceased to exist as of July 2013. The table above is prepared based on compensation awarded for the performance year; no charge is borne by the Company.

Note 8 Taxation

GBP million	31.12.14	31.12.13
Current taxation		
UK corporation tax – current year	5	5
Total current tax charge for the year	5	5
Deferred taxation		
UK charge / (credit) for the year	(106)	–
Total tax charge	(101)	5

Factors affecting tax charge for year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 21.5% (2013: 23.25%). The differences are explained below:

GBP million	31.12.14	31.12.13
Profit on ordinary activities before tax	77	27
Current tax charge at 21.5%	17	6
Effects of:		
Utilisation of previously unrecognized tax losses	*(14)*	–
Recognition of previously unrecognized tax losses	*(106)*	–
Expenses not deductible for tax purposes	*2*	–
Profits on sale of financial investment (offset with Group capital losses without charge)	–	*(1)*
Total tax charge	(101)	5

Note 9 Deferred tax assets

GBP million	31.12.14	31.12.13
At 1 January 2013	–	–
Credit / (charge) to income statement for current year	106	–
As at 31 December 2014	**106**	–
Comprising		
Tax losses carried forward	106	–
Total deferred tax assets	**106**	–

The Company has recognized a deferred tax asset of £106 million (2013: Nil) in relation to UK tax losses carried forward from UBS AG, with the remaining balance relating to other temporary differences, and this is based on expected profitability using business plan assumptions as adjusted to take into account the recognition criteria of IAS 12, Income Taxes.

On 3 December 2014, the UK Government proposed a change in law which would limit the proportion of banks' annual taxable profits that can be offset by UK tax losses carried forward to 50%. To the extent that this change is enacted in 2015, we would expect to incur a reduction in recognized deferred tax assets in the region of £40 million in that year.

A deferred tax asset has not been recognised in respect of UK tax losses carried forward of approximately £1,550 million (2013: Nil). The total amount of UK tax losses carried forward is still subject to agreement by HM Revenue & Customs. These UK tax losses are not subject to expiry and can be carried forward indefinitely.

Note 10 Auditors remuneration

During the year, fees of £277k (2013: £121k) in connection with the audit of the Company's annual Financial Statements, £9k (2013: nil) in connection with audit related assurance services and £117k (2013: £257k) in respect of other assurance services, were paid by UBS AG on the Company's behalf. No recharge will be made to the Company.

Note 11 Bank levy

For the year ended 31 December 2014, the UK bank levy cost of £11.7m (2013: £21.1m) was incurred in connection with the Company's equity and liabilities. This was borne by UBS AG, which as the responsible member of the Group is liable for the bank levy arising in respect of the chargeable equity and liabilities of all Group companies. A recharge of £3.6m (2013: nil) has been made to the Company in relation to its business post the business model change.

Balance sheet notes: assets

Note 12 Due from banks and loans (held at amortized cost)

GBP million	31.12.14	31.12.13 (restated)
Due from banks gross[1]	784	1,601
Allowance for credit losses	–	(15)
Due from banks net	784	1,587
Loans and advances to customers, net[2,3]	323	277
Total due from banks and loans, net	**1,107**	**1,864**

1 For 2013, client money derecognition has resulted in a reduction in Due from banks of £3,819m. Refer to Note 1b: *Changes in accounting policy* for more information. 2 Loans and advances to customers have been restated due to the derecognition of a margin loan, decreasing by £543m. 3 Includes £214m (2013: £145m) relating to the Clearing and Execution business contributing to membership funds, that are required by various exchanges / central clearing counterparties to cover losses from any clearing member defaulting.

Note 13 Cash collateral on securities borrowed and lent, repurchase and reverse repurchase agreements and derivative instruments

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

GBP million	**Cash collateral on securities borrowed**	**Reverse repurchase agreements**	**Cash collateral receivable on derivative instruments**	Cash collateral on securities borrowed	Reverse repurchase agreements	Cash collateral receivable on derivative instruments[1]
	31.12.14	**31.12.14**	**31.12.14**	31.12.13	31.12.13	31.12.13 (restated)
By counterparty						
Banks	2,580	5,876	4,199	756	10,072	7,958
Customers	63	3,033	2,853	198	10,305	2,182
Public authorities	–	4	–	–	–	–
Total	**2,643**	**8,914**	**7,052**	954	20,377	10,139

GBP million	**Cash collateral on securities lent**	**Repurchase agreements**	**Cash collateral payable on derivative instruments**	Cash collateral on securities lent	Repurchase agreements	Cash collateral payable on derivative instruments[1]
	31.12.14	**31.12.14**	**31.12.14**	31.12.13	31.12.13	31.12.13 (restated)
By counterparty						
Banks	945	5,271	6,820	712	19,591	9,039
Customers	–	2,547	1,171	56	785	1,107
Total	**946**	**7,818**	**7,991**	768	20,377	10,144

1 For 2013 client money derecognition has resulted in a reduction in Cash collateral receivables on derivatives of £1,539m and Cash collateral payables on derivatives of £5,358m. Refer to *Note 1b: Changes in accounting policy* for more information.

Note 14 Allowances and provisions for credit losses

GBP million

By movement	Specific allowances	Collective allowances	Total allowances	31.12.13
Balance at the beginning of the year	–	15	15	–
Write-offs / usage of provisions	(3)	(15)	(18)	–
Increase / (decrease) recognized in the income statement	2	–	2	(15)
Foreign currency translation	–	1	1	–
Balance at the end of the year	–	–	–	(15)

By balance sheet line	Specific allowances	Collective allowances	Total allowances	31.12.13
Due from banks	–	–	–	(15)
Balance at the end of the year	–	–	–	(15)

Note 15 Trading portfolio

GBP million	31.12.14	31.12.13
Trading portfolio assets by issuer type		
Debt instruments		
Government and government agencies	1,412	73
of which: Germany	*388*	*–*
of which: France	*383*	*–*
of which: UK	*170*	*–*
of which: Italy	*129*	*–*
of which: other	*343*	*73*
Banks	452	–
Corporates and other	565	128
Total debt instruments	2,429	202
Equity instruments	1,508	819
Total trading portfolio assets	3,937	1,021
Trading portfolio liabilities by issuer type		
Debt instruments		
Government and government agencies	1,151	–
of which: Germany	*203*	*–*
of which: France	*252*	*–*
of which: UK	*145*	*–*
of which: Italy	*249*	*–*
of which: other	*301*	*–*
Banks	169	–
Corporates and other	381	194
Total debt instruments	1,701	194
Equity instruments	745	348
Total trading portfolio liabilities	2,447	543

GBP million	31.12.14	31.12.13
Trading portfolio assets by product type		
Debt instruments		
Government bills / bonds	1,263	–
Corporate bonds and municipal bonds, including bonds issued by financial institutions	1,060	8
Loans	27	194
Investment fund units	62	–
Asset-backed securities	16	–
of which: mortgage-backed securities	*8*	*–*
Total debt instruments	2,429	202
Equity instruments	1,508	819
Total trading portfolio assets	3,937	1,021
Trading portfolio liabilities by product type		
Debt instruments		
Government bills / bonds	1,095	–
Corporate bonds and municipal bonds, including bonds issued by financial institutions	532	1
Loans	11	194
Investment fund units	64	–
Total debt instruments	1,701	194
Equity instruments	745	348
Total trading portfolio liabilities	2,447	543

Note 16 Derivative instruments

Derivatives: overview

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

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

Over-the-counter (OTC) contracts are usually traded under a standardized International Swaps and Derivatives Association (ISDA) master trading agreement (MTA) between the Company and its counterparties. Terms are negotiated directly with counterparties and the contracts will have industry-standard settlement mechanisms prescribed by ISDA. The industry continues to promote the use of central counterparties (CCP) to clear OTC trades. The trend toward CCP clearing and settlement will generally facilitate the reduction of systemic credit exposures. Other derivative contracts are standardized in terms of their amounts and settlement dates, and are bought and sold on organized exchanges. These are commonly referred to as exchange-traded derivatives (ETD) contracts. Exchanges offer the benefits of pricing transparency, standardized daily settlement of changes in value, and consequently reduced credit risk.

Derivative instruments are measured at fair value and generally classified as *Positive replacement values* and *Negative replacement values* on the face of the balance sheet. However, derivative instruments that trade on an exchange or through a clearing house are generally classified as *Cash collateral receivable or payable on derivative instruments*. For presentation purposes, the Company is subject to the IFRS netting provisions for derivative contracts. Changes in the replacement values of derivatives are recorded in net trading income.

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

For presentation purposes the Company is subject to the IFRS netting provisions for derivative contracts. Derivatives embedded in other financial instruments are not included in the table "Derivative instruments" within this Note. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract. In cases where the Company applies the fair value option to hybrid instruments, bifurcation of an embedded derivative component is not required and as such, also not included in the table "Derivative instruments." Refer to Note 21 *Financial liabilities designated at fair value* and Note 24 *Fair value measurement* for more information.

Types of derivative instruments

The Company uses the following derivative financial instruments for trading purposes, through the use of the products listed below. Measurement techniques applied to determine the fair value of each product type are described in Note 24 *Fair value measurement*.

The main types of derivative instruments used by the Company are:

- Swaps: Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.
- Cross-currency swaps: Cross-currency swaps involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start or end of the contract. Most cross-currency swaps are traded in the OTC market.
- Forwards and futures: Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardized contracts transacted on regulated exchanges.
- Options: options are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option), or to sell (put option) at, or before, a set date, a specified quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded in the OTC market, or on a regulated exchange.
- Interest rate contracts: Interest rate products include interest rate swaps, forward rate agreements, swaptions and caps and floors.
- Credit derivative contracts: credit default swaps (CDS) are the most common form of a credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following the occurrence of a contractually defined credit event with respect to a specified third-party credit entity. Settlement following a credit event may be a net cash amount, or cash in return for physical delivery of one or more obligations of the credit entity, and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is generally terminated. More information on credit derivatives is included in a separate section below. Total return swaps (TRS) are structured with one party making payments based on a set rate, either fixed or variable, plus any negative changes in fair value of an underlying asset, and the other party making payments based on the return of the asset, which includes both income it generates and any positive changes in its fair value.

- Foreign exchange contracts: Foreign exchange contracts include spot, forward and cross-currency swaps and options. Forward purchase and sale currency contracts are typically executed to meet client needs and for trading and hedging purposes.
- Equity/index contracts: The Company uses equity derivatives linked to single names, indices and baskets of single names and indices. The indices used may be based on a standard market index, or may be defined by the Company. The product types traded include vanilla listed derivatives, both options and futures, total return swaps, forwards and exotic OTC contracts.
- Commodities contracts: The Company's commodity derivatives trading business includes the commodity index business, the structured business and the flow business. The index and structured business are client facilitation businesses trading exchange-traded funds, OTC swaps and options on commodity indices. The flow business is client-centric and incorporates both ETD and vanilla OTC products, for which the underlying covers the agriculture, base metals and energy sectors. All of the flow trading is cash-settled with no physical delivery of the underlying. The flow business is investor led and products include ETD, vanilla OTC and certain non-vanilla OTC. The vanilla OTC are in forwards, swaps and options.

Risk of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is predominantly managed and controlled as an integral part of the market risk of these portfolios. The Company's approach to market risk is described in Note 33: Risk, treasury and capital management.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Company's overall credit exposure to each counterparty. The Company's approach to credit risk is described in Note 33: Risk, treasury and capital management. It should be noted that, although the positive replacement values shown on the balance sheet can be an important component of the Company's credit exposure, the positive replacement values for a counterparty are rarely an adequate reflection of the Company's credit exposure in its derivatives business with that counterparty. This is, for example, because replacement values can increase over time ("potential future exposure"), or alternatively exposure may be mitigated by entering into master netting agreements and bilateral collateral arrangements with other counterparties. Both the exposure measures used internally by the Company to control credit risk and the capital requirements imposed by regulators reflect these additional factors.

The replacement values presented on UBS Limited's balance sheet include netting in accordance with IFRS requirements (refer to Note 1a: Basis of accounting).

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

Replacement values

	31.12.14					31.12.13	
GBP million	Total positive replacement values	Notional values related to positive replacement values[1]	Total negative replacement values	Notional values related to negative replacement values[1]	Other notional values[1,2]	Total positive replacement values	Total negative replacement values
Interest rate contracts							
Over-the-counter (OTC) contracts							
Forward contracts	22	13,201	19	11,794	–	57	57
Swaps	12,487	200,866	12,549	212,335	–	16,851	16,851
Options	5,411	128,959	5,406	126,178	–	6,245	6,245
Exchange-traded contracts							
Futures	–	–	–	–	870	–	–
Agency transactions[3]	23	–	23	–	–	25	25
Total	17,943	343,026	17,996	350,307	870	23,178	23,178
Credit derivative contracts							
Over-the-counter (OTC) contracts							
Credit default swaps	679	19,592	677	19,861	–	1,784	1,784
Total rate of return swaps	14	631	16	12	–	18	20
Total	693	20,222	694	19,873	–	1,802	1,804
Foreign exchange contracts							
Over-the-counter (OTC) contracts							
Forward contracts	252	7,383	252	7,221	–	200	200
Interest and currency swaps	6,530	114,521	6,514	110,919	–	8,521	8,521
Options	230	8,945	234	7,900	–	120	120
Exchange-traded contracts							
Agency transactions[3]	8	–	8	–	–	45	45
Total	7,020	130,849	7,007	126,040	–	8,886	8,886
Equity / index contracts							
Over-the-counter (OTC) contracts							
Forwards	64	5,063	54	3,812	–	–	–
Swaps	155	4,395	155	4,251	–	309	331
Options	1,451	13,645	1,306	14,008	–	1,865	1,864
Exchange-traded contracts							
Futures	–	–	–	–	26	–	–
Agency transactions[3]	1,980	–	1,980	–	–	1,760	1,760
Total	3,651	23,103	3,495	22,071	26	3,934	3,955
Precious metal contracts							
Over-the-counter (OTC) contracts							
Options	8	195	8	193	–	1	1
Exchange-traded contracts							
Agency transactions[3]	15	–	15	–	–	18	18
Total	22	195	22	193	–	19	19
Commodities contracts, excluding precious metals contracts							
Over-the-counter (OTC) contracts							
Swaps	19	486	19	486	–	–	–
Options	1	63	1	63	–	6	6
Exchange-traded contracts							
Agency transactions[3]	693	–	693	–	–	383	383
Total	714	549	714	549	–	389	389
Total replacement values	30,042	517,944	29,929	519,032	896	38,208	38,231

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 Other notional values relate to derivatives which are cleared through either a central clearing counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and were not material for the periods presented. 3 Notional values of exchange-traded agency transactions are not disclosed due to their significantly different risk profile.

Derivative notional values have been included for the 2014 disclosure due to changes in the business model. See the Strategic report for more information.

Note 17 Financial investments available-for-sale

Financial investments available-for-sale by issuer type

GBP million	31.12.14	31.12.13
Debt instruments		
Government and government agencies	3,684	3,409
of which: UK	*1,428*	*3,409*
of which: France	*568*	–
of which: Netherlands	*477*	–
of which: Sweden	*386*	
of which: other	*825*	–
Banks	1,826	–
Total debt instruments	**5,510**	3,409
Equity instruments	**2**	2
Total financial investments available-for-sale	**5,512**	3,411
Unrealized gains – before tax	10	1
Unrealized (losses) – before tax	(3)	(1)
Net unrealized gains before tax	**6**	–
Net unrealized gains after tax	**6**	–

Financial investments available-for-sale by product type

GBP million	31.12.14	31.12.13
Government bills / bonds	3,417	3,409
Corporate bonds and municipal bonds	2,093	–
Total debt instruments	**5,510**	3,409
Equity instrument	**2**	2
Shares	2	2
Total financial investments available-for-sale	**5,512**	3,411

Note 18 Financial assets designated at fair value

GBP million	31.12.14	31.12.13
Loans	9	301
Structured loans	210	139
Structured reverse repurchase agreements and securities borrowing arrangements	280	374
of which: banks	*270*	*285*
of which: customers	*8*	*2*
Equity instruments (including equity options)	28	42
Financial assets designated at fair value	**527**	857

Changes in fair value due to credit risk are immaterial and have been mitigated through the risk transfer arrangement with UBS AG.

Note 19 Other assets

GBP million	31.12.14	31.12.13
Accrued income	29	29
Settlement accounts	48	–
Other tax receivables	15	–
Other receivables	49	–
Total other assets	**141**	30

Balance sheet notes: liabilities

Note 20 Due to banks and customers

GBP million	31.12.14	31.12.13 (restated)
Due to banks[1]	5,150	1,584
Due to customers: demand deposits	4	12
Due to customers: time deposits	750	885
Total due to customers	754	897
Total due to banks and customers	5,904	2,481

1 Due to banks has been restated due to the derecognition of a margin loan, decreasing by £543m.

Due to banks include £997 million of subordinated loans against UBS AG. These comprise of EUR 798m and USD 589m, both are 10 year floating rate loans due to expire in May 2024.

Note 21 Financial liabilities designated at fair value

GBP million	31.12.14	31.12.13
Structured OTC debt instruments	477	769
Equity linked	28	42
Other	449	726
Repurchase agreements	82	88
Financial liabilities designated at fair value	559	857

The contractual redemption amount at maturity of financial liabilities designated at fair value through profit and loss is £50 million higher than the carrying value (2013: £32 million).

→ **Refer to Note 33 *Maturity analysis of assets and liabilities* for maturity information on an undiscounted cash flow basis.**

Note 22 Provisions

a) Provisions

GBP million	Litigation matters	Other[1]	Total 31.12.14	Total 31.12.13
Balance at the beginning of the year	16	1	17	17
Increase in provisions recognized in the income statement	1	1	2	–
Release in provisions recognized in the income statement	(15)	–	(15)	(1)
Foreign currency translation	(1)	–	(1)	–
Balance at the end of the year	1	2	3	17

1 Other includes personnel-related restructuring provisions and clearing and execution provisions for client invoices.

The Company operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings.

Such matters are subject to many uncertainties and the outcome is often difficult to predict, particularly in the earlier stages of a case. 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. UBS Limited 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 Company 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.

b) Litigation, regulatory and similar matters

Due to the nature of its current and historic activities, the Company is exposed in the ordinary course of its business to actual or potential claims, disputes and legal proceedings. The Company will only make provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Company and the amount can be reasonably estimated.

Parmalat claim by institutional investors
In February 2011, UBS Limited (together with UBS AG and five other Italian and international banks) was served with a civil damages claim brought in the Courts of Milan, Italy, on behalf of 16 institutional investors in Parmalat securities and a bank. The claimants sought recovery of alleged damages totalling EUR 128.8 million plus interest, revaluation and legal costs on a joint and several basis against all the banks. The basis of the allegations was that by entering into various transactions with Parmalat between 1998 and 2003, the banks contributed to the continued existence of Parmalat when it was insolvent, and that the banks must have known this but proceeded to execute trades in the pursuit of profits regardless. It is alleged that if Parmalat had not been able to raise further funds then investors in Parmalat securities in the 1998 – 2003 period would not have ultimately suffered the loss they did when Parmalat subsequently collapsed.

A non-appealable decision handed down by the Italian Court of Cassation in 2014 confirmed the jurisdiction of the Italian courts. In January 2015, the Tribunal of Milan issued judgment dismissing all of the claimants' claims against UBS Limited and UBS AG and the other defendant banks. The claimants can appeal the judgment either within 30 days from the date of service of the judgment on them by one of the defendants or within six months from the date of the judgment if none of the defendants formally serve the decision on the claimants.

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 AG and including bespoke management portfolio CDS known as single tranche CDO (STCDO). UBS Limited 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. The transaction with LBBW was subsequently novated from UBS Limited to UBS AG. UBS AG and the intermediating banks terminated the STCDO/CDS with KWL following non-payment by KWL. As a result of the KWL CDS transactions and the back-to-back CDS transactions with Depfa and LBBW, UBS AG claimed approximately USD 236.5 million, plus interest, from KWL and LBBW, and UBS Limited claimed USD 83.3 million plus interest from Depfa.

In 2010, UBS AG and UBS Global Asset Management (UK) Ltd (UBS Global AM). issued proceedings in the English High Court against KWL, UBS AG issued proceedings against LBBW, and UBS Limited issued proceedings against Depfa, in each case seeking declarations and/or to enforce the terms of the STCDO/CDS contracts, and each of KWL, LBBW and Depfa filed counterclaims. Judgment was given in November 2014, following a three-month trial. The Court ruled that the UBS parties cannot enforce the STCDO/CDS entered into with KWL, LBBW or Depfa, which have been rescinded, granted the fraudulent misrepresentation claims of LBBW against UBS AG and Depfa against UBS Limited, and ruled that UBS Global AM breached its duty in the management of the underlying portfolios. The Court dismissed KWL's monetary counterclaim against UBS AG. The majority of the premiums paid to KWL and the fees paid to LBBW and Depfa under the transactions have been returned to UBS AG and UBS Limited respectively and UBS Limited has returned monies received under the transaction from Depfa. The UBS parties have been ordered to pay part of the other parties' costs in the proceedings, to be assessed if not agreed, and UBS has made payments on account of these costs in the interim. LBBW and Depfa have also indicated that they intend to make further claims in respect of interest on collateral. The Court of Appeal denied the application of UBS AG, UBS Limited and UBS Global AM for permission to appeal the judgment on paper. At UBS's request, an oral hearing to reconsider the denial of UBS's application has been scheduled for October 2015.

In separate proceedings brought by KWL against LBBW in Leipzig, Germany, the court ruled in LBBW's favour in June 2013 and upheld the validity of the STCDO as between LBBW and KWL. KWL has appealed against that ruling and, in December 2014, the appeal court stayed the appeal proceedings following the judgment and UBS's request for permission to appeal in the proceedings in England. KWL and LBBW have been given permission by the English trial judge to make applications to recover their costs in the German proceedings as damages from UBS in the English proceedings after the German proceedings conclude.

In 2011 and 2013, the former managing director of KWL and two financial advisers were convicted in Germany on criminal charges related to certain KWL transactions, including swap transactions with UBS. All three have lodged appeals.

Since 2011, the SEC has been conducting an investigation focused on, among other things, the suitability of the KWL transactions, and information provided by UBS to KWL. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC. Any resulting charges are expected to be recoverable under an indemnity provided by UBS AG, as described in Note 33: Risk, treasury and capital management.

Note 23 Other liabilities

GBP million	31.12.14	31.12.13
Accrued expenses	95	34
Deferred income	9	1
Settlement accounts	4	1
Other tax payables	6	–
Other liabilities	8	–
Total other liabilities	**123**	**35**

Note 24 Fair value measurement

This note provides fair value measurement information for both financial and non-financial instruments and is structured as follows:

a) Valuation principles
b) Valuation governance
c) Valuation techniques
d) Valuation adjustments
e) Fair value measurements and classification within the fair value hierarchy
f) Transfers between Level 1 and Level 2 in the fair value hierarchy
g) Movements of Level 3 instruments
h) Valuation of assets and liabilities classified as Level 3
i) Sensitivity of fair value measurements to changes in unobservable input assumptions
j) Financial instruments not measured at fair value

a) Valuation principles

Fair value is defined as the price that would be received for the sale of an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market (or most advantageous market, in the absence of a principal market) as of the measurement date. In measuring fair value, the Company utilizes various valuation approaches and applies a hierarchy for prices and inputs that maximizes the use of observable market data, if available.

All financial and non-financial assets and liabilities measured or disclosed at fair value are categorized into one of three fair value hierarchy levels. In certain cases, the inputs used to measure fair value may fall within different levels of the fair value hierarchy. For disclosure purposes, the level in the hierarchy within which the instrument is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurement:

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

If available, fair values are determined using quoted prices in active markets for identical assets or liabilities. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing data on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price multiplied by the number of units of the instrument held.

Where the market for a financial instrument or non-financial asset or liability is not active, fair value is established using a valuation technique, including pricing models. Valuation techniques involve the use of estimates, the extent of which depends on the complexity of the instrument and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model, liquidity and credit risks, which are not explicitly captured within the valuation technique, but which would nevertheless be considered by market participants when forming a price. The limitations inherent in a particular valuation technique are considered in the determination of an asset or liability's classification within the fair value hierarchy.

Many cash instruments and over-the-counter (OTC) derivative contracts have bid and offer prices that can be observed in the marketplace. Bid prices reflect the highest price that a party is willing to pay for an asset. Offer prices represent the lowest price that a party is willing to accept for an asset. In general, long positions are measured at a bid price and short positions at an offer price, reflecting the prices at which the instruments could be transferred under normal market conditions. Offsetting positions in the same financial instrument are marked at the mid-price within the bid-offer spread.

Generally, the unit of account for a financial instrument is the individual instrument, and the Company applies valuation adjustments at an individual instrument level, consistent with that unit of account. However, if certain conditions are met, the Company may estimate the fair value of a portfolio of financial assets and liabilities with substantially similar and offsetting risk exposures on the basis of the net open risks.

b) Valuation governance

UBS Limited's fair value measurement and model governance framework includes numerous controls and other procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products and valuation techniques must be reviewed and approved by key stakeholders Risk and Finance control functions. Responsibility for the ongoing measurement of financial and non-financial instruments at fair value resides with the business divisions, but is validated by Risk and Finance control functions, which are independent of the business divisions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market data and to provide justification and rationale for their fair value estimates.

Independent price verification is performed by the Finance function to evaluate the business divisions' pricing input assumptions and modeling approaches. By benchmarking the business divisions' fair value estimates with observable market prices and other independent sources, the degree of valuation uncertainty embedded in these measurements is assessed and managed as required in the governance framework. Fair value measurement models are assessed for their ability to value specific products in the principal market of the product itself, as well as the principal market for the main valuation input parameters to the model.

An independent model review group evaluates UBS Limited's valuation models on a regular basis, or when established triggers occur, and approves them for valuation of specific products. As a result of the valuation controls employed, valuation adjustments may be made to the business divisions' estimates of fair value to align with independent market data and the relevant accounting standard. Refer to Note 24d for more information.

c) Valuation techniques

Valuation techniques are used to value positions for which a market price is not available from market sources. This includes certain less liquid debt and equity instruments, certain exchange-traded derivatives and all derivatives transacted in the OTC market. The Company uses widely recognized valuation techniques for determining the fair value of financial and non-financial instruments that are not actively traded and quoted. The most frequently applied valuation techniques include discounted value of expected cash flows, relative value and option pricing methodologies.

Discounted value of expected cash flows is a valuation technique that measures fair value using estimated expected future cash flows from assets or liabilities and then discounts these cash flows using a discount rate or discount margin that reflects the credit and/or funding spreads required by the market for instruments with similar risk and liquidity profiles to produce a present value. When using such valuation techniques, expected future cash flows are estimated using an observed or implied market price for the future cash flows or by using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models.

Relative value models measure fair value based on the market prices of equivalent or comparable assets or liabilities, making adjustments for differences between the characteristics of the observed instrument and the instrument being valued.

Option pricing models incorporate assumptions regarding the behaviour of future price movements of an underlying referenced asset or assets to generate a probability-weighted future expected payoff for the option. The resulting probability-weighted expected payoff is then discounted using discount factors generated from industry standard yield curve modeling techniques and models. The option pricing model may be implemented using a closed-form analytical formula or other mathematical techniques (e.g., binomial tree or Monte Carlo simulation).

Where available, valuation techniques use market-observable assumptions and inputs. If such data is not available, inputs may be derived by reference to similar assets in active markets, from recent prices for comparable transactions or from other observable market data. When measuring fair value, the Company selects the non-market-observable inputs to be used in its valuation techniques, based on a combination of historical experience, derivation of input levels based on similar products with observable price levels and knowledge of current market conditions and valuation approaches.

For more complex instruments and instruments not traded in an active market, fair values may be estimated using a combination of observed transaction prices, consensus pricing services and relevant quotes. Consideration is given to the nature of the quotes (e.g., indicative or firm) and the relationship of recently evidenced market activity to the prices provided by consensus pricing services. The Company also uses internally developed models, which are typically based on valuation methods and techniques recognized as standard within the industry.

Assumptions and inputs used in valuation techniques include benchmark interest rate curves, credit and funding spreads used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates, levels of market volatility and correlation. Refer to Note 24h for more information. The discount curves used by the Company incorporate the funding and credit characteristics of the instruments to which they are applied.

d) Valuation adjustments

The output of a valuation technique is always an estimate or approximation of a fair value that cannot be measured with complete certainty. As a result, valuations are adjusted, where appropriate, to reflect close-out costs, credit exposure, model-driven valuation uncertainty, funding costs and benefits, trading restrictions and other factors, when such factors would be considered by market participants in estimating fair value. Valuation adjustments are an important component of fair value for assets and liabilities that are measured using valuation techniques. Such adjustments are applied to reflect uncertainties within the fair value measurement process, to adjust for an identified model simplification or to incorporate an aspect of fair value that requires an overall portfolio assessment rather than an evaluation based on an individual instrument level characteristic.

The major classes of valuation adjustments are discussed in further detail below.

Credit valuation adjustments

In order to measure fair value of OTC derivative instruments, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in these instruments. This amount represents the estimated fair value of protection required to hedge the counterparty credit risk of such instruments. The CVA is determined for each counterparty, considering all exposures to that counterparty and is dependent on the expected future value of exposures, default probabilities and recovery rates, applicable collateral or netting arrangements, break clauses and other contractual factors.

Funding valuation adjustments

Funding valuation adjustments (FVA) reflect the costs and benefits of funding associated with uncollateralized and partially collateralized derivative receivables and payables and are calculated as the valuation impact from moving the discounting of the uncollateralized derivative cash flows from LIBOR to a funds transfer price (FTP) curve using the existing CVA infrastructure and framework. FVA are also applied to collateralized derivative assets in cases where the collateral cannot be sold or repledged.

Implementation of FVA had no impact on the fair value hierarchy classification of the associated uncollateralized derivatives given the FVA did not have a significant effect on valuations.

Debit valuation adjustments

The Company estimates debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives, effectively consistent with the CVA infrastructure and framework. DVA is determined for each counterparty, considering all exposures with that counterparty and taking into account collateral netting agreements, expected future mark-to-market movements and UBS's credit default spreads. Upon the implementation of FVA, DVA were reversed to the extent DVA overlapped with FVA.

The below table shows the Company's life to date valuation adjustments. However an amount of £79m, realized prior to the busines model changes, was borne in UBS AG.

Other valuation adjustments

Instruments that are measured as part of a portfolio of combined long and short positions are valued at mid-market levels to ensure consistent valuation of the long and short component risks. A bid-offer valuation adjustment is then made to the overall net long or short exposure to move the fair value to bid or offer as appropriate, reflecting current levels of market liquidity. The bid-offer spreads used in the calculation of this valuation adjustment are obtained from market transactions and other relevant sources and are updated periodically.

Uncertainties associated with the use of model-based valuations are incorporated into the measurement of fair value through the use of model reserves. These reserves reflect the amounts that the Company estimates should be deducted from valuations produced directly by models to incorporate uncertainties in the relevant modeling assumptions, in the model and market inputs used, or in the calibration of the model output to adjust for known model deficiencies. In arriving at these estimates, the Company considers a range of market practices, including how it believes market participants would assess these uncertainties. Model reserves are reassessed periodically in light of data from market transactions, consensus pricing services and other relevant sources.

Other valuation adjustments on financial instruments

Life-to-date gain/(loss), GBP million	**31.12.14**
Credit valuation adjustments	**(43)**
of which: other instruments	*(43)*
Funding valuation adjustments	**(33)**
Debit valuation adjustments	**2**
Other valuation adjustments	**2**
of which: bid-offer/liquidity adjustments	*2*

Own credit adjustments on financial liabilities designated at fair value

In addition to considering the valuation of the derivative risk component, the valuation of fair value option liabilities also requires consideration of the funded component and specifically the own credit component of fair value. Own credit risk is reflected if this component would be considered for valuation purposes by market participants. Consequently, own credit risk is not reflected for those contracts that are fully collateralized and for other contracts for which it is established market practice not to include an own credit component. The own credit component is estimated using a funds transfer price (FTP) curve to derive a single, market-based level of discounting for uncollateralized funded instruments. UBS senior debt curve spreads are discounted in order to arrive at the FTP curve, with the discount primarily reflecting the differences between the spreads in the senior unsecured debt market for UBS debt and the levels at which UBS medium-term notes are currently issued. The FTP curve is generally a Level 2 pricing input. However, certain long-dated exposures that are beyond the tenors that are actively traded are classified as Level 3.

Own credit on financial liabilities designated at fair value

GBP 000s	31.12.14
Gain for the year ended	321
Life-to-date gain	429

The effects of own credit adjustments related to financial liabilities designated at fair value are summarised in the table below, however as the risks associated with these trades are substantially transferred to UBS AG, own credit is reported within UBS AG.

Year-to-date amounts represent the change during the year, and life-to-date amounts reflect the cumulative change since initial recognition. The change in own credit for the period consists of changes in fair value that are attributable to the change in UBS's credit spreads as well as the effect of changes in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay and changes in interest and other market rates.

e) Fair value measurements and classification within the fair value hierarchy

The classification in the fair value hierarchy of the Company's financial and non-financial assets and liabilities measured at fair value is summarized in the table below. The narrative that follows describes the significant valuation inputs and assumptions for each class of assets and liabilities measured at fair value, the valuation techniques, where applicable, used in measuring their fair value, and the factors determining their classification within the fair value hierarchy.

Financial assets and liabilities held for trading, financial assets designated at fair value and financial investments available-for-sale

Government bills and bonds
Government bills and bonds include fixed-rate, floating-rate and inflation-linked bills and bonds issued by sovereign governments, as well as interest and principal strips based on these bonds. Such instruments are generally traded in active markets and prices can be obtained directly from these markets, resulting in classification as Level 1, while the remaining positions are classified as Level 2. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques that incorporate market data for similar government instruments converted into yield curves. These yield curves are used to project future index levels, and to discount expected future cash flows. The main inputs to valuation techniques for these instruments are bond prices and inputs to estimate the future index levels for floating or inflation index-linked instruments.

Corporate and municipal bonds
Corporate bonds include senior, junior and subordinated debt issued by corporate entities. Municipal bonds are issued by state and local governments. While most instruments are standard fixed or floating-rate securities, some may have more complex coupon or embedded option features. Corporate and municipal bonds are generally valued using prices obtained directly from the market. In cases where no directly comparable price is available, instruments may be valued using yields derived from other securities by the same issuer or benchmarked against similar securities, adjusted for seniority, maturity and liquidity. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques incorporating the credit spread of the issuer, which may be derived from other issuances or CDS data for the issuer, estimated with reference to other equivalent issuer price observations or from credit modeling techniques. Corporate bonds are typically classified as Level 2 because, although market data is readily available, there is often insufficient third-party trading transaction data to justify an active market and corresponding Level 1 classification. Municipal bonds are generally classified as Level 1 or Level 2 depending on the depth of trading activity behind price sources. Level 3 instruments have no suitable price available for the security held or by reference to other securities issued by the same issuer. Therefore, these instruments are measured based on price levels for similar issuers adjusted for relative tenor and issuer quality.

Convertible bonds are generally valued using prices obtained directly from market sources. In cases where no directly comparable price is available, issuances may be priced using a convertible bond model, which values the embedded equity option and debt components and discounts these amounts using a curve that incorporates the credit spread of the issuer. Although market data is readily available, convertible bonds are typically classified as Level 2 because there is insufficient third-party trading transaction data to justify a Level 1 classification.

Traded loans and loans designated at fair value
Traded loans and loans designated at fair value are valued directly using market prices that reflect recent transactions or quoted dealer prices where available. For illiquid loans where

no market price data is available, alternative valuation techniques are used, which include relative value benchmarking using pricing derived from debt instruments in comparable entities or different products in the same entity. The corporate lending portfolio is valued using either directly observed market prices typically from consensus providers or by using a credit default swap valuation technique, which requires inputs for credit spreads, credit recovery rates and interest rates. The market for these instruments is not actively traded and even though price data is available it may not be directly observable, and therefore corporate loans typically do not meet Level 1 classification. Instruments with suitably deep and liquid price data available will be classified as Level 2, while any positions requiring the use of valuation techniques or for which the price sources have insufficient trading depth are classified as Level 3.

Investment fund units
Investment fund units are predominantly exchange traded, with readily available quoted prices in liquid markets. Where market prices are not available, fair value may be measured using net asset values (NAV), taking into account any restrictions imposed upon redemption. Listed units are classified as Level 1, provided there is sufficient trading to justify active market classification, while other positions are classified as Level 2. Positions where NAV is not available or which are not redeemable at the measurement date or in the near future are classified as Level 3.

Asset-backed securities
Asset Backed Securities (ABS) are instruments generally issued through the process of securitisation of underlying interest-bearing assets. The market for these securities is not active, and therefore a variety of valuation techniques are used to measure fair value. For more liquid securities, trade data or quoted prices may be obtained periodically for the instrument held, and the valuation process will use this trade and price data, updated for movements in market levels between the time of trading and the time of valuation.

Equity instruments
The majority of equity securities are actively traded on public stock exchanges where quoted prices are readily and regularly available, resulting in their classification as Level 1. Units held in hedge funds are also classified as equity instruments. Fair value for these units is measured based on their published NAV, taking into account any restrictions imposed upon the redemption. These units are classified as Level 2, except for positions where published NAV is not available or which are not redeemable at the measurement date or in the near future, which are classified as Level 3.

Unlisted equity holdings, including private equity positions, are initially marked at their transaction price and are periodically revalued to the extent reliable evidence of price movements becomes available or the position is deemed to be impaired.

Structured repurchase agreements and structured reverse repurchase agreements
Structured repurchase agreements and structured reverse repurchase agreements designated at fair value are measured using discounted expected cash flow techniques. The discount rate applied is based on funding curves that are specific to the collateral eligibility terms for the contract in question. Collateral terms for these positions are not standard and therefore funding spread levels used for valuation purposes cannot be observed in the market. As a result, these positions are mostly classified as Level 3.

Replacement values

Collateralized and uncollateralized instruments
The curves used for discounting expected cash flows in the valuation of collateralized derivatives reflect the funding terms associated with the relevant collateral arrangement for the instrument being valued. These collateral arrangements differ across counterparties with respect to the eligible currency and interest terms of the collateral. The majority of collateralized derivatives are measured using a discount curve that is based on funding rates derived from overnight interest in the cheapest eligible currency for the respective counterparty collateral agreement.

Uncollateralized and partially collateralized derivatives are discounted using the LIBOR (or equivalent) curve for the currency of the instrument. As described in Note 24d, the fair value of uncollateralized and partially collateralized derivatives is then adjusted by CVA, DVA and FVA as applicable, to reflect an estimation of the impact of counterparty credit risk, UBS Limited's own credit risk and funding costs and benefits.

Interest rate contracts
Interest rate swap contracts include interest rate swaps, basis swaps, cross-currency swaps, inflation swaps and interest rate forwards, often referred to as forward rate agreements (FRA). These products are valued by estimating future interest cash flows and discounting those cash flows using a rate that reflects the appropriate funding rate for the position being measured. The yield curves used to estimate future index levels and discount rates are generated using market standard yield curve models using interest rates associated with current market activity. The key inputs to the models are interest rate swap rates, FRA rates, short-term interest rate futures prices, basis swap spreads and inflation swap rates. In most cases, the standard market contracts that form the inputs for yield curve models are traded in active and observable markets, resulting in the majority of these financial instruments being classified as Level 2.

Interest rate option contracts include caps and floors, swaptions, swaps with complex payoff profiles and other more complex interest rate options. These contracts are valued using various market standard option models, using inputs that include interest rate yield curves, inflation curves, volatilities and correlations. The volatility and correlation inputs within the models are implied from market data based on market observed prices for standard option instruments trading within the market. Option models used to value more exotic products have a number of model parameter inputs that require calibration to enable the exotic model to price standard option instruments to the price levels observed in the market. Although these inputs cannot be directly observed, they are generally treated as Level 2, as the calibration process enables the model output to be validated to active market levels. Models calibrated in this way are then used to revalue the portfolio of both standard options as well as more exotic products. In most cases, there are active and observable markets for the standard market instruments that form the inputs for yield curve models as well as the financial instruments from which volatility and correlation inputs are derived, resulting in the majority of these products being classified as Level 2. Within interest rate option contracts, exotic options for which appropriate volatility or correlation input levels cannot be implied from observable market data are classified as Level 3. These options are valued using volatility and correlation levels derived from non-market sources.

Interest rate swap and option contracts are classified as Level 3 when the maturity of the contract exceeds the term for which standard market quotes are observable for a significant input parameter. Such positions are valued by extrapolation from the last observable point using standard assumptions or by reference to another observable comparable input parameter to represent a suitable proxy for that portion of the term.

Credit derivative contracts

Credit derivative contracts based on a single credit name include credit default swaps (CDS) based on corporate and sovereign single names, CDS on loans and certain total return swaps (TRS). These contracts are valued by estimating future default probabilities using industry standard models based on market credit spreads, upfront pricing points and implied recovery rates. These default and recovery assumptions are used to generate future expected cash flows that are then discounted using market standard discounted cash flow models and a discount rate that reflects the appropriate funding rate for that portion of the portfolio. TRS and certain single-name CDS contracts for which a derivative-based credit spread is not directly available are valued using a credit spread derived from the price of the cash bond that is referenced in the credit derivative, adjusted for any funding differences between the cash and synthetic product. Loan CDS for which a credit spread cannot be observed directly may be valued, where possible, using the corporate debt curve for the entity, adjusted for differences between loan and debt default definitions and recovery rate assumptions. Inputs to the valuation models used to value single-name and loan CDS include single-name credit spreads and upfront pricing points, recovery rates and funding curves. In addition, corporate bond prices are used as inputs to the valuation model for TRS and certain single-name or loan CDS as described. Many single-name credit default swaps are classified as Level 2 because the credit spreads and recovery rates used to value these contracts are actively traded and observable market data is available. Where the underlying reference name is not actively traded, these contracts are classified as Level 3.

Credit derivative contracts based on a portfolio of credit names include credit default swaps on a credit index, credit default swaps based on a bespoke portfolio or first to default swaps (FTD). The valuation of these contracts is similar to that described above for single-name CDS and includes an estimation of future default probabilities using industry standard models based on market credit spreads, upfront pricing points and implied recovery rates. These default and recovery assumptions are used to generate future expected cash flows that are then discounted using market standard discounted cash flow models based on an estimation of the funding rate for that portion of the portfolio. Tranche products and FTD are valued using industry standard models that, in addition to default and recovery assumptions as above, incorporate implied correlations to be applied to the credits within the portfolio in order to apportion the expected credit loss at a portfolio level across the different tranches or names within the overall structure. These correlation assumptions are derived from prices of actively traded index tranches or other FTD baskets. Inputs to the valuation models used for all portfolio credit default swaps include single-name or index credit spreads and upfront pricing points, recovery rates and funding curves. In addition, models used for tranche and FTD products have implied credit correlations as inputs. Credit derivative contracts based on a portfolio of credit names are classified as Level 2 when credit spreads and recovery rates are determined from actively traded observable market data, and when the correlation data used to value bespoke and index tranches is based on actively traded index tranche instruments. This correlation data undergoes a mapping process that takes into account both the relative tranche attachment/detachment points in the overall capital structure of the portfolio and portfolio composition. Where the mapping process requires extrapolation beyond the range of available and active market data, the position is classified as Level 3. This relates to a small number of index and all bespoke tranche contracts. FTD are classified as Level 3, as the correlations between specific names in the FTD portfolio are not actively traded. Also classified as Level 3 are several older credit index positions, referred to as off the run indices, due to the lack of any active market for the index credit spread.

Foreign exchange (FX) contracts

Open spot FX contracts are valued using the FX spot rate observed in the market. Forward FX contracts are valued using the FX spot rate adjusted for forward pricing points observed from standard market-based sources. As the markets for both FX spot and FX forward pricing points are both actively traded and observable, FX contracts are generally classified as Level 2.

OTC FX option contracts include standard call and put options, options with multiple exercise dates, path-dependent options, options with averaging features, options with discontinuous pay-off characteristics and options on a number of underlying FX rates. OTC FX option contracts are valued using market standard option valuation models. The models used for shorter-dated options (i.e., maturities of five years or less) tend to be different than those used for longer-dated options because the models needed for longer-dated OTC FX contracts require additional consideration of interest rate and FX rate interdependency. Inputs to the option valuation models include spot FX rates, FX forward points, FX volatilities, interest rate yield curves, interest rate volatilities and correlations. The inputs for volatility and correlation are implied through the calibration of observed prices for standard option contracts trading within the market.

As inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of OTC FX option contracts are classified as Level 2. OTC FX option contracts classified as Level 3 include long-dated FX exotic option contracts for which there is no active market from which to derive volatility or correlation inputs. The inputs used to value these OTC FX option contracts are calculated using consensus pricing services without an underlying principal market, historical asset prices or by extrapolation.

Equity/index contracts

Equity/index contracts include equity forward contracts and equity option contracts. Equity forward contracts have a single stock or index underlying and are valued using market standard models. The key inputs to the models are stock prices, estimated dividend rates and equity funding rates (which are implied from prices of forward contracts observed in the market). Estimated cash flows are then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. As inputs are derived mostly from standard market contracts traded in active and observable markets, a significant proportion of equity forward contracts are classified as Level 2. Positions classified as Level 3 have no market data available for the instrument maturity and are valued by some form of extrapolation of available data, use of historical dividend data, or use of data for a related equity.

Equity option contracts include market standard single or basket stock or index call and put options as well as equity option contracts with more complex features including option contracts with multiple or continuous exercise dates, option contracts for which the payoff is based on the relative or average performance of components of a basket, option contracts with discontinuous payoff profiles, path-dependent options and option contracts with a payoff calculated directly upon equity features other than price (i.e., dividend rates, volatility or correlation). Equity option contracts are valued using market standard models that estimate the equity forward level as described above for equity forward contracts and incorporate inputs for stock volatility and for correlation between stocks within a basket. The probability-weighted expected option payoff generated is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. Positions for which inputs are derived from standard market contracts traded in active and observable markets are classified as Level 2. Level 3 positions are those for which volatility, forward or correlation inputs are not observable and are therefore valued using extrapolation of available data, historical dividend, correlation or volatility data, or the equivalent data for a related equity.

Commodity derivative contracts

Commodity derivative contracts include forward, swap and option contracts on individual commodities and on commodity indices. Commodity forward and swap contracts are measured using market standard models that use market forward levels on standard instruments. Commodity option contracts are measured using market standard option models that estimate the commodity forward level as described above for commodity forward and swap contracts, incorporating inputs for the volatility of the underlying index or commodity. The option model produces a probability-weighted expected option payoff that is then discounted using market standard discounted cash flow models using a rate that reflects the appropriate funding rate for that portion of the portfolio. For commodity options on baskets of commodities or bespoke commodity indices, the valuation technique also incorporates inputs for the correlation between different commodities or commodity indices. Individual commodity contracts are typically classified as Level 2 because active forward and volatility market data is available.

Determination of fair values from quoted market prices or valuation techniques

	31.12.14				31.12.13			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
GBP million	Quoted market price	Market observable inputs	Non-market observable inputs		Quoted market price	Market observable inputs	Non-market observable inputs	
Financial assets held for tading	2,603	1,329	5	3,937	824	177	20	1,021
of which:								
Government bills/bonds	*1,050*	*213*	*–*	*1,263*	*–*	*–*	*–*	*–*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*5*	*1,053*	*2*	*1,060*	*2*	*3*	*–*	*5*
Loans	*–*	*27*	*1*	*27*	*–*	*174*	*20*	*194*
Investment fund units	*47*	*16*	*–*	*62*	*3*	*–*	*–*	*3*
Asset-backed securities	*–*	*16*	*–*	*16*	*–*	*–*	*–*	*–*
Equity instruments	*1,501*	*5*	*2*	*1,508*	*819*	*–*	*–*	*819*
Positive replacement values	70	29,189	783	30,042	382	36,868	959	38,208
of which:								
Interest rate contracts	*–*	*17,781*	*154*	*17,935*	*6*	*23,111*	*61*	*23,178*
Credit derivative contracts	*–*	*583*	*110*	*693*	*–*	*1,592*	*210*	*1,802*
Foreign exchange contracts	*4*	*6,700*	*316*	*7,020*	*3*	*8,311*	*572*	*8,886*
Equity/Index contracts	*–*	*3,385*	*202*	*3,587*	*373*	*3,449*	*112*	*3,934*
Precious metal	*–*	*22*	*–*	*22*	*–*	*19*	*–*	*19*
Commodities contract	*–*	*713*	*1*	*714*	*–*	*386*	*3*	*389*
Unsettled purchases/sales of non-derivative financial assets	*67*	*5*	*–*	*71*	*–*	*–*	*–*	*–*
Financial assets designated at fair value	–	227	301	527	–	390	467	857
of which:								
Loans (including structured loans)	*–*	*215*	*14*	*229*	*–*	*386*	*96*	*482*
Structured reverse repurchase agreements and securities borrowing agreements	*–*	*–*	*279*	*280*	*–*	*4*	*371*	*374*
Equity instruments	*–*	*12*	*7*	*19*	*–*	*–*	*–*	*–*
Financial investments available-for-sale	3,175	2,335	2	5,512	3,409	–	2	3,411
of which:								
Government bills/bonds	*2,969*	*448*	*–*	*3,417*	*3,409*	*–*	*–*	*3,409*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*205*	*1,888*	*–*	*2,093*	*–*	*–*	*–*	*–*
Equity instruments	*–*	*–*	*2*	*2*	*–*	*–*	*2*	*2*
Total financial assets	**5,848**	**33,081**	**1,090**	**40,019**	**4,615**	**37,435**	**1,447**	**43,497**

Determination of fair values from quoted market prices or valuation techniques (continued)

	31.12.14				31.12.13			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
GBP million	Quoted market price	Market observable inputs	Non-market observable inputs		Quoted market price	Market observable inputs	Non-market observable inputs	
Trading portfolio liabilities	1,673	770	3	2,447	349	174	20	543
of which:								
Government bills/bonds	*904*	*192*	*–*	*1,095*	*–*	*–*	*–*	*–*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	*9*	*522*	*–*	*532*	*–*	*–*	*–*	*–*
Investment fund units	*19*	*44*	*–*	*64*	*–*	*–*	*–*	*–*
Loans	*–*	*10*	*1*	*11*	*1*	*174*	*20*	*194*
Equity instruments	*741*	*2*	*2*	*745*	*348*	*–*	*–*	*348*
Negative replacement values	59	29,088	782	29,929	402	36,870	959	38,231
of which:								
Interest rate contracts	*–*	*17,838*	*154*	*17,992*	*6*	*23,111*	*61*	*23,178*
Credit derivative contracts	*–*	*585*	*109*	*694*	*–*	*1,594*	*210*	*1,804*
Foreign exchange contracts	*4*	*6,688*	*316*	*7,007*	*3*	*8,311*	*572*	*8,886*
Equity/Index contracts	*–*	*3,240*	*202*	*3,441*	*394*	*3,449*	*112*	*3,955*
Precious metal	*–*	*22*	*–*	*22*	*–*	*19*	*–*	*19*
Commodities contract	*–*	*713*	*1*	*714*	*–*	*386*	*3*	*389*
Unsettled purchases/sales of non-derivative financial assets	*55*	*3*	*–*	*58*	*–*	*–*	*–*	*–*
Financial liabilities designated at fair value	–	229	330	559	–	390	467	857
of which:								
Structured over-the-counter debt instruments	*–*	*227*	*24*	*251*	*–*	*386*	*96*	*482*
Structured repurchase agreements	*–*	*2*	*306*	*308*	*–*	*4*	*371*	*374*
Total financial liabilities	**1,732**	**30,088**	**1,115**	**32,935**	**751**	**37,433**	**1,445**	**39,630**

f) Transfers between Level 1 and Level 2 in the fair value hierarchy

The amounts disclosed reflect transfers between Level 1 and Level 2 for instruments which were held for the entire reporting period. There have been no material movements between Level 1 and Level 2 during the year ended December 2014.

g) Movements of Level 3 instruments

Significant changes in Level 3 instruments
The table on the following pages presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis. Level 3 assets and liabilities may be hedged with instruments classified as Level 1 or Level 2 in the fair value hierarchy and, as a result, realized and unrealized gains and losses included in the table may not include the effect of related hedging activity. Further, the realized and unrealized gains and losses presented within the table are not limited solely to those arising from Level 3 inputs, as valuations are generally derived from both observable and unobservable parameters.

Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the year.

As of 31 December 2014, financial instruments measured with valuation techniques using significant non-market-observable inputs (Level 3) were mainly comprised of:
- foreign exchange contracts;
- structured reverse repurchase and securities borrowing agreements; and
- equity/index contracts.

Significant movements in Level 3 instruments during the year ended 31 December 2014 were as described below.

Financial assets held for trading
Financial assets held for trading decreased from £20m to £5m during the year. Issuances and purchases of £170m and £20m, respectively, were more than offset by sales of £172m and net losses included in comprehensive income totalling £30m, primarily comprised of traded loans.

Replacement values
Replacement values decreased from £959m to £783m during the year. Issuances of £198m mainly within equity/index contracts were more than offset by settlements of £516m, primarily comprised of equity/index contracts and interest rate contracts, and foreign currency translation losses of £162m on foreign exchange contracts. Transfers into Level 3 amounted to £175m, primarily comprised of equity/index contracts and credit derivative contracts, resulted from both changes in the availability of observable equity volatility inputs and observable inputs for respective credit spread, as well as changes in correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Financial assets designated at fair value
Financial assets designated at fair value decreased from £467m to £301m during the year. Settlements of £264m were partially offset by issuances of £158m mainly within structured reverse repurchase agreements. Transfers out of Level 3 during the period amounted to £68m mainly within loans.

Trading portfolio liabilities
Trading portfolio liabilities have decreased from £20m to £3m. Sales of £304m were partially offset by purchases of £269m primarily comprised of traded loans.

Financial liabilities held for trading
Financial liabilities at fair value have decreased from £467m to £331m during the year. Settlements of £310m were partially offset by issuances of £198m primarily comprised of structured repurchase agreements. Transfers out of Level 3 amounted to £68m primarily comprised of structured over-the-counter debt instruments.

Movements of level 3 instruments

		Total gains/losses included in the income statement of which: related to Level 3 instruments held at the end of the reporting period		
GBP million	Balance as at 31 December 2013	Net income	*of which: related to Level 3 instruments held at the end of the reporting period*	Purchases
Financial assets held for trading	**20**	**(30)**	**(30)**	**20**
of which:				
Government bills/bonds	–	–	–	*5*
Corporate bonds, municipal bonds, including bonds issued by financial institutions	–	–	–	*6*
Loans	*20*	*(30)*	*(30)*	*5*
Investment fund units	–	–	–	*4*
Equity instruments	–	–	–	*2*
Positive replacement values	**959**	**179**	**143**	**–**
of which:				
Interest rate contracts	*61*	*204*	*123*	–
Credit derivative contracts	*210*	*(10)*	*(2)*	–
Foreign exchange contracts	*572*	*(97)*	*(57)*	–
Equity/Index contracts	*112*	*84*	*81*	–
Commodities contract	*3*	*(2)*	*(2)*	–
Financial assets designated at fair value	**467**	**22**	**–**	**–**
of which:				
Loans (including structured loans)	*96*	*(1)*	–	–
Structured reverse repurchase agreements and securities borrowing agreements	*371*	*15*	*(1)*	–
Equity instruments	–	*7*	*1*	–
Financial investments available-for-sale	**2**	**–**	**–**	**–**
of which:				
Equity instruments	*2*	–	–	–
Total financial assets	**1,447**	**171**	**113**	**20**
Trading portfolio liabilities	**20**	**19**	**41**	**269**
of which:				
Corporate bonds, municipal bonds, including bonds issued by financial institutions	–	–	–	*1*
Loans	*20*	*19*	*41*	*266*
Equity instruments	–	*(1)*	*(1)*	*2*
Negative replacement values	**959**	**178**	**143**	**–**
of which:				
Interest rate contracts	*61*	*205*	*123*	–
Credit derivative contracts	*210*	*(10)*	*(2)*	–
Foreign exchange contracts	*573*	*(98)*	*(57)*	–
Equity/Index contracts	*112*	*84*	*81*	–
Commodities contract	*3*	*(2)*	*(2)*	–
Financial liabilities designated at fair value	**467**	**55**	**(4)**	**–**
of which:				
Structured over-the-counter debt instruments	*96*	*5*	–	–
Structured repurchase agreements	*371*	*50*	*(5)*	–
Total financial liabilities	**1,445**	**252**	**180**	**269**

	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation	Balance as at 31 December 2014
	(172)	170	–	2	(4)	(2)	5
	(5)	–	–	–	–	–	–
	(5)	–	–	1	–	–	2
	(159)	170	–	1	(4)	(2)	1
	(4)	–	–	–	–	–	–
	–	–	–	–	–	–	2
	–	198	(516)	175	(49)	(162)	783
	–	8	(139)	61	(9)	(33)	154
	–	2	(96)	30	(23)	(4)	110
	–	–	(16)	–	(18)	(125)	316
	–	187	(262)	83	–	(1)	202
	–	2	(3)	1	–	–	1
	–	158	(264)	–	(68)	(14)	301
	–	14	(29)	–	(68)	1	14
	–	85	(176)	–	–	(15)	279
	–	59	(58)	–	–	–	7
	–	–	–	–	–	–	2
	–	–	–	–	–	–	2
	(172)	526	(780)	177	(121)	(179)	1,090
	(304)	–	–	3	(4)	(1)	3
	(1)	–	–	–	–	–	–
	(301)	–	–	1	(4)	(1)	1
	(2)	–	–	3	–	–	2
	–	198	(516)	175	(49)	(162)	782
	–	8	(139)	61	(9)	(33)	154
	–	2	(96)	30	(23)	(4)	109
	–	–	(16)	–	(18)	(125)	316
	–	187	(262)	83	–	(1)	202
	–	2	(3)	1	–	–	1
	–	198	(310)	–	(68)	(11)	330
	–	72	(81)	–	(68)	–	24
	–	125	(229)	–	–	(11)	306
	(304)	396	(827)	178	(121)	(174)	1,115

h) Valuation of assets and liabilities classified as Level 3

The table on the following pages presents the Company's assets and liabilities recognized at fair value and classified as Level 3, together with the valuation techniques used to measure fair value, the significant inputs used in the valuation technique that are considered unobservable and a range of values for those unobservable inputs.

The range of values represents the highest and lowest level input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities. The ranges will therefore vary from period to period and parameter to parameter based on characteristics of the instruments held at each balance sheet date. Further, the ranges of unobservable inputs may differ across other financial institutions due to the diversity of the products in each firm's inventory.

Significant unobservable inputs in Level 3 positions
This section discusses the significant unobservable inputs identified in the table on the following pages and assesses the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown. Relationships between observable and unobservable inputs have not been included in the summary below.

Credit spread: Valuation models for many credit derivatives require an input for the credit spread, which is a reflection of the credit quality of the associated referenced underlying. The credit spread of a particular security is quoted in relation to the yield on a benchmark security or reference rate, typically either US Treasury or LIBOR, and is generally expressed in terms of basis points. An increase/(decrease) in credit spread will increase/(decrease) the value of credit protection offered by CDS and other credit derivative products. The impact on the results of the Company of such changes depends on the nature and direction of the positions held. Credit spreads may be negative where the asset is more creditworthy than the benchmark against which the spread is calculated. A wider credit spread represents decreasing creditworthiness. The credit derivatives range of 0–963 basis points represents a diverse set of underlyings, with the lower end of the range representing credits of the highest quality (e.g., approximating the risk of LIBOR) and the upper end of the range representing greater levels of credit risk.

Equity dividend yields: The derivation of a forward price for an individual stock or index is important both for measuring fair value for forward or swap contracts and for measuring fair value using option pricing models. The relationship between the current stock price and the forward price is based on a combination of expected future dividend levels and payment timings, and, to a lesser extent, the relevant funding rates applicable to the stock in question. Dividend yields are generally expressed as an annualized percentage of share price with the lowest limit of 0% representing a stock that is not expected to pay any dividend. The dividend yield and timing represents the most significant parameter in determining fair value for instruments that are sensitive to an equity forward price. The range of 0–10% reflects the expected range of dividend rates for the portfolio.

Volatility: Volatility measures the variability of future prices for a particular instrument and is generally expressed as a percentage, where a higher number reflects a more volatile instrument for which future price movements are more likely to occur. The minimum level of volatility is 0% and there is no theoretical maximum. Volatility is a key input into option models, where it is used to derive a probability-based distribution of future prices for the underlying instrument. The effect of volatility on individual positions within the portfolio is driven primarily by whether the option contract is a long or short position. In most cases, the fair value of an option increases as a result of an increase in volatility and is reduced by a decrease in volatility. Generally, volatility used in the measurement of fair value is derived from active market option prices (referred to as implied volatility). A key feature of implied volatility is the volatility "smile" or "skew," which represents the effect of pricing options of different option strikes at different implied volatility levels.

- Volatility of interest rates – the range of 19–82% reflects the range of unobservable volatilities across different currencies and related underlying interest rate levels. Volatilities of low interest rates tend to be much higher than volatilities of high interest rates. In addition, different currencies may have significantly different implied volatilities.
- Volatility of equity stocks, equity and other indices – the range of 1–106% is reflective of the range of underlying stock volatilities.

Correlation: Correlation measures the inter-relationship between the movements of two variables. It is expressed as a percentage between (100)% and +100%, where +100% are perfectly correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the same direction), and (100)% are inversely correlated variables (meaning a movement of one variable is associated with a movement of the other variable in the opposite direction). The effect of correlation on the measurement of fair value is dependent on the specific terms of the instruments being valued, due to the range of different payoff features within such instruments.

- Rate-to-rate correlation – the correlation between interest rates of two separate currencies. The range of 84–94% results from the different pairs of currency involved.
- Credit index correlation of 41–78% reflects the implied correlation derived from different indices across different parts of the benchmark index capital structure. The input is particularly important for bespoke and Level 3 index tranches.
- Credit pair correlation is particularly important for FTD credit structures. The range of 57–94% reflects the difference between credits with low correlation and similar highly correlated credits.
- Rate-to-FX correlation – captures the correlation between interest rates and FX rates. The range for the portfolio is

(57)–60%, which represents the relationship between interest rates and foreign exchange levels. The signage on such correlations is dependent on the quotation basis of the underlying FX rate (e.g., EUR/USD and USD/EUR correlations to the same interest rate will have opposite signs).

- FX-to-FX correlation is particularly important for complex options that incorporate different FX rates in the projected payoff. The range of (70)–80% reflects the underlying characteristics across the main FX pairs to which the Company has exposures.
- Equity-to-equity correlation is particularly important for complex options that incorporate, in some manner, different equities in the projected payoff. The closer the correlation is to 100%, the more related one equity is to another. For example, equities with a very high correlation could be from different parts of the same corporate structure. The range of 18–97% is reflective of this.
- Equity-to-FX correlation is important for equity options based on a currency different than the currency of the underlying stock. The range of (55)–84% represents the range of the relationship between underlying stock and foreign exchange volatilities.

Funding spread: Structured financing transactions are valued using synthetic funding curves that best represent the assets that are pledged as collateral to the transactions. They are not representative of where the Company can fund itself on an unsecured basis, but provide an estimate of where the Company can source and deploy secured funding with counterparties for a given type of collateral. The funding spreads are expressed in terms of basis points over or under LIBOR and if funding spreads widen this increases the impact of discounting. The range of 45–152 basis points for both structured repurchase agreements and structured reverse repurchase agreements represents the range of asset funding curves, where wider spreads are due to a reduction in liquidity of underlying collateral for funding purposes.

A small proportion of structured debt instruments within financial liabilities designated at fair value had an exposure to funding spreads that is longer in duration than the actively traded market. Such positions are within the range of 45–152 basis points reported above.

Valuation techniques and inputs used in the fair value measurement of Level 3 assets and liabilities

	Fair value as of 31.12.14				Range of inputs		
GBP million	Assets	Liabilities	Valuation technique(s)	Significant unobservable input(s)	low	high	units
Financial assets held for trading / Trading portfolio assets, Financial asses / liabilities designated at fair value and Financial investments available-for-sale							
Reverse repurchase and securities borrowing agreements	279.5	308.3	Discounted expected cash flows	Funding spread	45	152	basis points
Replacement values							
Interest rate derivative contracts, net	153.7	153.9	Option model	Volatility of interest rates	19	82	%
				Rate to rate correlation	84	94	%
Credit derivative contracts, net	109.6	108.9	Discounted expected cashflow based on modelled defaults and recoveries	Credit spread	0	963	basis points
				Credit index correlation	41	78	%
				Credit pair correlation	57	94	%
Foreign exchange contracts, net	316.3	316.3	Option model	Rate to FX correlation	(57)	60	%
				FX to FX correlation	(70)	80	%
Equity / index derivative contracts, net	202.1	201.9	Option model	Equity dividend yields	0	10	%
				Volatility of equity stocks, equity & other indices	1	106	%
				Equity – FX correlation	(55)	84	%
				Equity to equity correlation	18	97	%

i) Sensitivity of fair value measurements to changes in unobservable input assumption

The information below summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof. As of 31 December 2014, the total favorable and unfavorable effects of changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions for financial instruments classified as Level 3 were £338k and £210k of which equity instruments were £322k and £194k and corporate and municipal bonds were £16k and £16k.

The sensitivity data presented represents an estimation of valuation uncertainty based on reasonably possible alternative values for Level 3 inputs at the balance sheet date and does not represent the estimated effect of stress scenarios. Typically, these financial assets and liabilities are sensitive to a combination of inputs from Levels 1–3. Although well defined interdependencies may exist between Levels 1–2 and Level 3 parameters (e.g., between interest rates, which are generally Level 1 or Level 2, and prepayments, which are generally Level 3), these have not been incorporated in the table. Further, direct interrelationships between the Level 3 parameters discussed below are not a significant element of the valuation uncertainty.

Sensitivity data is estimated using a number of techniques including the estimation of price dispersion among different market participants, variation in modeling approaches and reasonably possible changes to assumptions used within the fair value measurement process. The sensitivity ranges are not always symmetrical around the fair values as the inputs used in valuations are not always precisely in the middle of the favorable and unfavorable range.

Sensitivity data is determined at a product or parameter level and then aggregated assuming no diversification benefit. The calculated sensitivity is applied to the risk bearing trades within the Company. The main interdependencies across different Level 3 products to a single unobservable input parameter have been included in the basis of netting exposures within the calculation. Aggregation without allowing for diversification involves the simple summation of individual results with the total sensitivity, therefore representing the impact of all unobservable inputs which, if moved to a reasonably possible favorable or unfavorable level at the same time, would result in a significant change in the valuation. Diversification would incorporate estimated correlations across different sensitivity results and, as such, would result in an overall sensitivity that would be less than the sum of the individual component sensitivities. The Company believes that, while there are diversification benefits within the portfolios representing these sensitivity numbers, they are not significant to this analysis.

j) Financial instruments not measured at fair value

The following table reflects the estimated fair values for UBS Limited's financial instruments not measured at fair value.

Financial instruments not measured at fair value

	31.12.14				
	Carrying value	Fair value			
GBP million	Total	Total	Level 1	Level 2	Level 3
Assets					
Cash and balances with central banks	9	9	9	–	–
Due from banks	784	784	–	784	–
Cash collateral on securities borrowed	2,643	2,643	–	2,643	–
Reverse repurchase agreements	8,914	8,914	–	8,914	
Cash collateral receivable on derivative instruments	7,052	7,052	–	7,052	–
Loans	323	323	–	278	44
Amounts due from group undertakings	74	74	–	74	–
Other assets	126	126	–	126	–
Liabilities					
Due to banks	5,150	5,339	–	4,104	1,235
Cash collateral on securities lent	946	946	–	946	–
Repurchase agreements	7,818	7,818	–	7,818	–
Cash collateral payables on derivative instruments	7,991	7,991	–	7,991	–
Due to customers	754	754	–	754	–
Amounts owed to Group undertakings	147	147	–	147	–
Other liabilities	84	84	–	84	–

The fair values included in the table above were calculated for disclosure purposes only. The fair value valuation techniques and assumptions described below relate only to the fair value of UBS Limited's financial instruments not measured at fair value. Other institutions may use different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another. UBS Limited applies significant judgments and assumptions to arrive at these fair values, which are more holistic and less sophisticated than the Company's established fair value and model governance policies and processes applied to financial instruments accounted for at fair value whose fair values impact the Company's balance sheet and net profit. The following principles were applied when determining fair value estimates for financial instruments not measured at fair value:

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, if available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS's own credit.
- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value.
- The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments have not been included in the valuation due to the short-term nature of these instruments.
- The estimated fair values of off-balance sheet financial instruments are based on market prices for similar facilities and guarantees. Where this information is not available, fair value is estimated using discounted cash flow analysis.

Note 25 Restricted and transferred financial assets

a) Restricted financial assets

Restricted financial assets consist of assets pledged as collateral against an existing liability or contingent liability and other assets which are otherwise explicitly restricted such that they cannot be used to secure funding.

Financial assets are mainly pledged as collateral in securities lending transactions and in repurchase transactions. The Company generally enters into repurchase and securities lending arrangements under standard market agreements, with a market based haircut applied to the collateral, which results in the associated liabilities having a carrying value below the carrying value of the assets.

Other restricted financial assets include assets protected under client asset segregation rules. The carrying value of the liabilities associated with these other restricted financial assets is generally equal to the carrying value of the assets.

The Company holds £1.5bn of client money under client segregation rules of which £0.8bn is included in cash and cash equivalents, (2013: £2.2bn, of which £0.5bn is included in cash and cash equivalents).

Restricted financial assets

GBP million	31.12.14	31.12.13 (restated)
Financial assets pledged as collateral		
Trading portfolio assets	1,417	–
of which: assets pledged as collateral which may be sold or repledged by counterparties	*1,402*	–
Total financial assets pledged as collateral	1,417	–
Other restricted financial assets		
Due from banks	85	819
Cash collateral receivables on derivative instruments[1]	1,376	1,397
Total other restricted financial assets	1,462	2,216
Total financial assets pledged and other restricted financial assets	2,879	2,216

1 For 2013 Client money derecognition has resulted in a reduction in Due from banks of £3,819m and Cash collateral receivables on derivatives of £1,519m. Refer to Note 1b: Changes in accounting policy for more information.

b) Transferred financial assets that are not derecognized in their entirety

The table below presents information for financial assets, which have been transferred but are subject to continued recognition in full, as well as recognized liabilities associated with those transferred assets.

Transferred financial assets subject to continued recognition in full

	31.12.14	
GBP million	Carrying value of transferred assets	Carrying value of associated liabilities recognized on balance sheet
Trading portfolio assets pledged transferred which may be sold or repledged by counterparties		
relating to securities lending and repurchase agreements in exchange for cash received	*1,061*	*1,035*
relating to securities lending agreements in exchange for securities received	*305*	–
relating to other financial asset transfers	*36*	–
Total financial assets transferred	1,402	1,035

Transactions whereby financial assets are transferred, but continue to be recognized in their entirety on the Company's balance sheet include securities lending and repurchase agreements as well as other financial asset transfers. Repurchase agreements and securities lending agreements are discussed in Note 1a: Basis of accounting. Repurchase and securities lending arrangements are, for the most part, conducted under standard market agreements, and are undertaken with counterparties subject to the Company's normal credit risk control processes. Other financial asset transfers include securities transferred to collateralize derivative transactions.

As of 31 December 2014, approximately 75% of the transferred financial assets were trading portfolio assets transferred in exchange for cash, in which case the associated recognized liability represents the amount to be repaid to counterparties. For securities lending and repurchase agreements, a haircut between 0% and 15% is generally applied to the collateral, which results in associated liabilities having a carrying value below the carrying value of the transferred assets. The counterparties to the associated liabilities presented in the table above have full recourse to the Company.

In securities lending arrangements entered into in exchange for the receipt of other securities as collateral, neither the securities received nor the obligation to return them are recognized on the Company's balance sheet as the risks and rewards of ownership are not transferred to the Company. In cases where such financial assets received are subsequently sold or repledged in another transaction, this is not considered to be a transfer of financial assets.

c) Off balance sheet assets received

The company obtains securities which are not recorded on the balance sheet with the right to sell or repledge them as shown in the table below.

Off balance sheet assets received

GBP million	31.12.14	31.12.13
Fair value of securities and gold received which can be sold or repledged[1]	27,499	66,743
Thereof sold or repledged:	23,599	53,216
In connection with financing activities	19,222	50,792
To satisfy commitments under short sale transactions	2,173	348
In connection with derivative transactions[1]	2,204	2,077

1 Includes securities received as initial margin from its clients that the Company is required to remit to central clearing counterparties, brokers and deposit banks through its exchange-traded derivative (ETD) clearing and execution services.

Note 26 Offsetting financial assets and liabilities

The Company enters into netting agreements with counterparties to manage the credit risks associated primarily with repurchase and reverse repurchase transactions, securities borrowing and lending and over-the-counter and exchange-traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to offset liabilities against available assets received in the ordinary course of business and/or in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The right to offset is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure. On 1 January 2014 the Company adopted *Offsetting Financial Assets and Financial Liabilities* (Amendments to IAS 32, *Financial Instruments: Presentation)*. Under the revised rules, the Company is no longer able to offset certain derivative arrangements.

From a balance sheet presentation perspective, the criteria for offsetting financial assets and financial liabilities are highly restrictive. UBS Limited offsets financial assets and financial liabilities on its balance sheet only when it has a currently enforceable legal right to offset the respective recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. In assessing the criteria for a relevant set of facts and circumstances, emphasis is placed on the effectiveness of the operational mechanics of net or simultaneous settlements in eliminating all credit and liquidity exposure between counterparties at the time of settlement. These criteria preclude offsetting on the balance sheet for substantial amounts of the Company's financial assets and liabilities, even if these amounts may be subject to enforceable netting arrangements. For derivative contracts, balance sheet offsetting is generally only permitted in circumstances in which a market settlement mechanism (e.g., an exchange or clearing house) exists which effectively accomplishes net settlement through a daily cash margining process. Bilateral OTC derivatives and exchange traded derivatives that are not margined on a daily basis are commonly precluded from offsetting on the balance sheet unless a mechanism exists to provide for net settlement of the cash flows arising from these contracts. For repurchase arrangements and securities financings, balance sheet offsetting may be permitted only to the extent that financial assets and liabilities with a counterparty have the same maturity date and are settled through a clearing process by which intra-day credit and liquidity exposures are substantially eliminated. Thus, repurchase and securities financing arrangements that are not cleared through a formal mechanism, such as a clearing house or exchange, are generally not offset on the balance sheet.

The Company engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangement. Therefore the net amounts presented in the tables on this page do not purport to represent the Company's actual credit exposure.

a) Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

The table below provides a summary of financial assets subject to offsetting, enforceable master netting arrangements and similar agreements, as well as financial collateral received to mitigate credit exposures for these financial assets. The gross financial assets of the Company that are subject to offsetting, enforceable netting arrangements and similar agreements are reconciled to the net amounts presented within the associated balance sheet line, after giving effect to financial liabilities with the same counterparties that have been offset on the balance sheet and other financial assets not subject to an enforceable netting arrangement or similar agreement. Further, related amounts for financial liabilities and collateral received that are not offset on the balance sheet are shown to arrive at financial assets after consideration of netting potential.

Offsetting financial assets

	31.12.14							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet				
GBP million	Gross Assets before balance sheet netting	Balance sheet netting with gross liabilities	**Assets recognized on the balance sheet, net**	Financial liabilities	Collateral received	Assets after consideration of netting potential	**Assets not subject to enforceable netting arrangements or similar agreements**	**Total assets recognized on the balance sheet**
Cash collateral on securities borrowed	2,455	–	**2,455**	(917)	(1,409)	129	**188**	**2,643**
Reverse repurchase agreements	13,626	(5,074)	**8,552**	(4,910)	(3,624)	18	**362**	**8,914**
Positive replacement values	30,409	(1,330)	**29,079**	(23,520)	(3,952)	1,607	**963**	**30,042**
Cash collateral receivables on derivative instruments	6,425	–	**6,425**	(3,038)	(2,495)	893	**627**	**7,052**
Financial assets designated at fair value	492	–	**492**	–	(232)	260	**35**	**527**
Total Assets	53,407	(6,404)	**47,003**	(32,385)	(11,712)	2,906	**2,174**	**49,177**

	31.12.13 (restated)							
	Assets subject to netting arrangements			Netting potential not recognized in the balance sheet				
GBP million	Gross Assets before balance sheet netting	Balance sheet netting with gross liabilities	**Assets recognized on the balance sheet, net**	Financial liabilities	Collateral received	Assets after consideration of netting potential	**Assets not subject to enforceable netting arrangements or similar agreements**	**Total assets recognized on the balance sheet**
Cash collateral on securities borrowed	954	–	**954**	(433)	(4)	517	**–**	**954**
Reverse repurchase agreements	28,715	(8,663)	**20,052**	(3,526)	(16,526)	–	**325**	**20,377**
Positive replacement values	40,164	(2,620)	**37,545**	(30,531)	(5,940)	1,074	**664**	**38,208**
Cash collateral receivables on derivative instruments[1]	9,452	–	**9,452**	(5,492)	(529)	3,431	**687**	**10,139**
Financial assets designated at fair value	533	–	**533**	–	(372)	160	**323**	**857**
Total assets	79,818	(11,282)	**68,536**	(39,982)	(23,371)	5,182	**1,999**	**70,535**

1 Client money derecognition restatement has resulted in a reduction in Cash collateral receivables on derivatives of £1,539m in 2013. Refer to *Note 1b: Changes in accounting policy* for more information.

b) Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

The table below provides a summary of financial liabilities subject to offsetting, enforceable master netting agreements and similar agreements, as well as financial collateral pledged to mitigate credit exposures for these financial liabilities. The gross financial liabilities of the Company that are subject to offsetting, enforceable netting arrangements and similar agreements are reconciled to the net amounts presented within the associated balance sheet line, after giving effect to financial assets with the same counterparties that have been offset on the balance sheet and other financial liabilities not subject to an enforceable netting arrangement or similar agreement. Further, related amounts for financial assets and collateral pledged that are not offset on the balance sheet are shown to arrive at financial liabilities after consideration of netting potential.

Offsetting financial liabilities

	31.12.14							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet				
GBP million	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	**Liabilities not subject to enforceable netting arrangements or similar agreements**	**Total liabilities recognized on the balance sheet**
Cash collateral on securities lent	946	–	**946**	(917)	(22)	7	**–**	**946**
Repurchase agreements	12,607	(5,074)	**7,533**	(4,910)	(2,375)	248	**285**	**7,818**
Negative replacement values	30,173	(1,330)	**28,843**	(23,520)	(3,038)	2,285	**1,086**	**29,929**
Cash collateral payables on derivative instruments	6,392	–	**6,392**	(3,952)	(2,440)	–	**1,599**	**7,991**
Financial liabilities designated at fair value	400	–	**400**	–	(261)	138	**160**	**559**
Total liabilities	50,517	(6,404)	**44,113**	(33,300)	(8,136)	2,678	**3,130**	**47,243**

	31.12.13 (restated)							
	Liabilities subject to netting arrangements			Netting potential not recognized in the balance sheet				
GBP million	Gross liabilities before balance sheet netting	Balance sheet netting with gross assets	**Liabilities recognized on the balance sheet, net**	Financial assets	Collateral pledged	Liabilities after consideration of netting potential	**Liabilities not subject to enforceable netting arrangements or similar agreements**	**Total liabilities recognized on the balance sheet**
Cash collateral on securities lent	768	–	**768**	(433)	(330)	5	**–**	**768**
Repurchase agreements	28,817	(8,663)	**20,154**	(3,526)	(16,629)	–	**222**	**20,377**
Negative replacement values	40,247	(2,620)	**37,628**	(30,531)	(5,690)	1,407	**603**	**38,231**
Cash collateral payables on derivative instruments[1]	7,984	–	**7,984**	(5,666)	(1,773)	545	**2,160**	**10,144**
Financial liabilities designated at fair value	509	–	**509**	–	(370)	139	**347**	**857**
Total liabilities	78,325	(11,282)	**67,043**	(40,156)	(24,792)	2,096	**3,332**	**70,378**

1 *Client money derecognition restatement has resulted in a reduction in Cash collateral payables on derivatives of £5,385m in 2013. Refer to Note 1b: Changes in accounting policy for more information.*

Note 27 Financial assets and liabilities – additional information

a) Measurement categories of financial assets and liabilities

The following table provides information about the carrying amounts of individual classes of financial instruments within the measurement categories of financial assets and liabilities as defined in IAS 39 *Financial Instruments: Recognition and Measurement.* Only those assets and liabilities which are financial instruments as defined in IAS 32 *Financial Instruments: Presentation* are included in the table below, which causes certain balances to differ from those presented on the balance sheet.

→ Refer to "Note 24 Fair value measurement" for more information on how fair value of financial instruments is determined

Measurement categories of financial assets and liabilities

GBP million	31.12.14	31.12.13
Financial assets		
Fair value through profit or loss, held for trading		
Trading portfolio assets	3,937	1,021
Positive replacement values	30,042	38,208
Total	33,979	39,229
Fair value through profit or loss, other		
Financial assets designated at fair value	527	857
Financial assets at amortized cost		
Cash and balances with central banks	9	3
Due from banks	784	1,587
Cash collateral on securities borrowed	2,643	954
Reverse repurchase agreements	8,914	20,377
Cash collateral receivables on derivative instruments	7,052	10,139
Loans	323	277
Other amounts due from group undertakings	74	101
Other assets	126	29
Total	19,924	33,467
Available-for-sale		
Financial investments available-for-sale	5,512	3,411
Total financial assets	59,942	76,964
Financial liabilities		
Fair value through profit or loss, held for trading		
Trading portfolio liabilities	2,447	543
Negative replacement values	29,929	38,231
Total	32,376	38,773
Fair value through profit or loss, other		
Financial liabilities designated at fair value	559	857
Financial liabilities at amortized cost		
Due to banks	5,150	1,584
Cash collateral on securities lent	946	768
Repurchase agreements	7,818	20,377
Cash collateral payables on derivative instruments	7,991	10,144
Due to customers	754	897
Other amounts owed to group undertakings	147	79
Other liabilities	84	51
Total	22,890	33,900
Total financial liabilities	55,825	73,530

b) Maturity analysis of financial liabilities

The contractual maturities of our non-derivative and non-trading financial liabilities as of 31 December 2014 are based on the earliest date on which we could be contractually required to pay. The total amounts that contractually mature in each time-band are also shown for 31 December 2013. Derivative positions and trading liabilities, predominantly made up of short sale transactions, are assigned to the column *Due within 1 month,* as this provides a conservative reflection of the nature of these trading activities. The contractual maturities may extend over significantly longer periods.

Only financial instruments are required to be disclosed in the maturity analysis therefore certain items including deferred income, deferred tax liabilities and provisions are excluded from the table above.

Trading and derivative positions are presented in the 'On demand' column. Management believes that such presentation most accurately reflects the short term nature of trading activities. The contractual maturity of the instruments may, extend over significantly longer periods.

The analysis for the current year is based on undiscounted cashflows and includes future interest payments.

Maturity analysis of financial liabilities

GBP million	On demand	Due within 1 month	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
				31.12.14			
Liabilities							
Due to banks	754	1,828	–	1,540	35	1,004	5,160
Cash collateral on securities lent	941	5	–	–	–	–	946
Repurchase agreements	3,997	3,597	77	149	–	–	7,819
Trading portfolio liabilities	2,447	–	–	–	–	–	2,447
Negative replacement values	29,929	–	–	–	–	–	29,929
Cash collateral payable on derivative instruments	7,991	–	–	–	–	–	7,991
Financial liabilities designated at fair value		19	–	42	289	176	526
Due to customers	628	111	–	–	17	–	756
Other amounts owed to group undertakings	–	147	–	–	–	–	147
Other liabilities	74	70	–	–	–	–	144
Total	**46,760**	**5,776**	**77**	**1,731**	**340**	**1,180**	**55,865**
Financial liabilities not recognized on the balance sheet							
Commitments							
Loan commitments	1,677	–	–	–	–	–	1,677
Underwriting	–	209	–	–	–	–	209
Guarantees	3	–	–	–	–	–	3
Forward starting transactions							–
Reverse repurchase agreements	–	3,425	–	–	–	–	3,425
Securities borrowing agreements	–	1	–	–	–	–	1
Total	**1,680**	**3,635**	**–**	**–**	**–**	**–**	**5,316**

GBP million	On demand	Due within 1 month	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
				31.12.13 (restated)			
Liabilities							
Due to banks[1]	1,252	–	8	261	53	26	1,599
Cash collateral on securities lent	587	91	91	–	–	–	768
Repurchase agreements	1,592	12,022	4,580	2,199	–	–	20,393
Trading portfolio liabilities	543	–	–	–	–	–	543
Negative replacement values	38,231	–	–	–	–	–	38,231
Cash collateral payable on derivative instruments[2]	8,998	1,147	–	–	–	–	10,144
Financial liabilities designated at fair value	–	20	–	107	624	110	861
Due to customers	659	100	106	1	41	–	906
Other amounts owed to group undertakings	–	78	–	–	–	–	78
Other liabilities	1	17	–	–	–	–	18
Total	**51,861**	**13,475**	**4,784**	**2,568**	**718**	**136**	**73,543**
Financial liabilities not recognized on the balance sheet							
Commitments							
Loan commitments	3,289	–	–	–	–	–	3,289
Underwriting	–	–	–	–	–	–	–
Guarantees	23	–	–	–	–	–	23
Forward starting transactions							
Reverse repurchase agreements	41	10,597	221	93	–	–	10,951
Securities borrowing agreements	–	–	–	–	–	–	–
Total	**3,353**	**10,597**	**221**	**93**	**–**	**–**	**14,263**

1 Loans and advances to customers and Due to banks have been restated due to the derecognition of a margin loan, both decreased by £543m. 2 For 2013 Client money derecognition has resulted in a reduction in Cash collateral payables on derivatives of £5,358m. Refer to *Note 1b: Changes in accounting policies* for more information.

The financial assets recorded on the balance sheet are expected to settle or mature within the next 12 months with the exception of the following amounts which are due after greater than 1 year; Financial Investments £2,781m, financial assets at fair value £461m, loans £34m and repurchase agreements of £22m.

Note 28 Retirement benefit plan

Defined contribution plan

A defined contribution plan is a pension plan under which the Company pays fixed contributions; there is no legal or constructive obligation to pay further contributions. The assets of the plan are held separately from those of the Company in a fund under the control of trustees. The total expense charged to income of £41k (2013: £32k) represents contributions payable to these plans by the Company at rates specified in the rules of the plan.

Note 29 Share capital

Regulated share capital

GBP million	**31.12.14**	31.12.13
Allotted, called up and fully paid[1]		
226,619,765 ordinary shares of £1 each	227	227

1 The Company removed the limit on its authorised share capital in accordance with the Companies Act 2006 with effect from 18 March 2011.

The primary objectives of the Company's capital management are to ensure that the Company has sufficient resources to support the Company's existing and planned business and in doing so complies with the PRA's capital requirements. The Company determines its capital requirements through a comprehensive planning approach that takes account of projected business activity and after performing stress and scenario testing in accordance with internal and PRA requirements. The mix of instruments comprising regulatory capital is periodically reviewed to ensure the efficient allocation of resources from a Company and broader group perspective.

From 1 January 2014 the Company has been subject to the Capital Requirements Directive 2013/48/EC and calculates minimum capital requirements under the Capital Requirements Regulation 575/2013, the supporting technical standards of the directive and the regulation and the relevant regulations of the PRA. These requirements set out the capital a firm has to hold to underpin the solvency requirements related to credit, market and operational risk . The Company has met its regulatory obligations throughout the year.

The regulatory capital of the Company comprises the following:

Basel III capital information UBS Limited[1]

GBP million, except where indicated	31.12.14	31.12.13
Tier 1 capital	4,004	3,409
of which: common equity tier 1 capital	*3,389*	*3,409*
Tier 2 capital	997	1
Total capital	5,001	3,410

1 Basel III-based requirements for UBS Limited came into effect on 1 January 2014.

The regulatory capital of UBS Limited is comprised of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital less any deductions specified under the Capital Requirements Regulation. Further details of the components of the regulatory capital of the Company and any relevant deductions made can be found in the UBS Limited Pillar 3 disclosures. Tier 1 capital includes a £615m subordinated loan, the loan has no fixed maturity and will not be repayable at any time at the option of UBS AG and therefore is treated as equity.

Note 30 Dividends

Dividends paid and proposed

GBP million	31.12.14	31.12.13
Declared and paid during the year:		
Dividends on ordinary shares:		
Final dividend for 2013: 9.3 pence per share (2012: 39.9 pence per share)	21	77
Total dividend declared and paid during the year	21	77
Proposed for approval at the annual general meeting (not recognized as a liability as at 31 December):		
Dividends on ordinary shares:		
Final dividend for 2014: 22.3 pence per share (2013: 9.3 pence per share)	51	21

Note 31 Related party transactions

The Company has significant related party balances and transactions with UBS AG and its subsidiaries. The Company enters into these transactions in the ordinary course of business on market terms. Transactions with related parties are made at arm's length.

The Company is a wholly owned subsidiary of UBS AG and is included in its group accounts. UBS AG, a Company incorporated with limited liability in Switzerland, is the immediate parent undertaking.

UBS AG has made, and continues to make, available a number of its employees to be engaged either on a full-time or part-time basis in the performance of certain functions or operations in connection with the Company's business and recharges those costs under administrative expenses.

The related party balances and transactions included under various captions within the Balance Sheet and Income Statement are as follows:

Balance sheet

	31.12.14		
GBP million	UBS AG	Other group companies	Total
Assets			
Due from banks	479	7	485
Cash collateral on securities borrowed	2,226	105	2,331
Trading portfolio assets	88	–	88
Reverse repurchase agreements	3,549	2,081	5,629
Positive replacement values	15,359	977	16,336
Cash collateral receivable on derivative instruments	1,682	1,155	2,837
Financial assets at fair value	219	–	219
Loans and advances to customers	–	–	–
Other amounts due from group undertakings	74	–	74
Other assets	1	–	1
Total	23,678	4,324	28,002
Liabilities			
Due to banks	5,036	–	5,036
Cash collateral for securities lent	850	21	871
Repurchase agreements	4,347	452	4,800
Trading portfolio liabilities	–	–	–
Negative replacement values	14,103	685	14,788
Cash collateral payable on derivative instruments	3,590	457	4,047
Financial liabilities at fair value	288	–	288
Due to customers	–	630	630
Other amounts owed to group undertakings	142	5	147
Other liabilities	3	8	11
Total	28,361	2,258	30,619

Balance sheet (continued)

	31.12.13 (restated)		
GBP million	UBS AG	Other group companies	Total
Assets			
Due from banks[1]	1,294	–	1,294
Cash collateral on securities borrowed	366	–	366
Reverse repurchase agreements	1,507	–	1,507
Positive replacement values	17,263	604	17,867
Cash collateral receivable on derivative instruments	5,862	1,216	7,078
Financial assets at fair value	247	–	247
Loans and advances to customers	–	–	–
Other amounts due from group undertakings	101	–	101
Other assets	2	–	2
Total	**26,643**	**1,821**	**28,463**
Liabilities			
Due to banks	1,610	1	1,611
Cash collateral for securities lent	493	–	493
Repurchase agreements	19,076	–	19,076
Trading portfolio liabilities	235	–	235
Negative replacement values	20,253	670	20,923
Cash collateral payable on derivative instruments[1]	3,565	283	3,848
Financial liabilities at fair value	623	–	623
Due to customers	–	646	646
Other amounts owed to group undertakings	77	2	79
Other liabilities	13	5	18
Total	**45,945**	**1,607**	**47,552**

Income statement

	31.12.14		
GBP million	**UBS AG**	**Other group companies**	**Total**
Interest and similar income	**102**	**2**	**104**
Interest and similar expense	**(139)**	**(13)**	**(153)**
Net fee and commission expense	**26**	**(58)**	**(32)**
Net trading income	**45**	**–**	**45**
Other operating income	**91**	**(32)**	**58**
Other administrative expenses	**(384)**	**(4)**	**(388)**
Total	**(260)**	**(106)**	**(365)**

	31.12.13		
GBP million	UBS AG	Other group companies	Total
Interest and similar income	140	3	143
Interest and similar expense	(230)	(16)	(246)
Net fee and commission expense	(28)	(41)	(69)
Net trading income	(179)	18	(161)
Other operating income	197	–	197
Other administrative expenses	(187)	–	(187)
Total	(286)	(37)	(323)

1 Client money derecognition restatement has resulted in a reduction in Due from banks of £437m and Cash collateral payables on derivatives of £2,561m in 2013. Refer to Note 1b: Changes in accounting policy for more information. 2 Due to banks has been restated due to the derecognition of a margin loan decreasing by £543m.

UBS AG has not granted any new loans or had any outstanding loans to the UBS Limited Board of Directors during the year.

Note 32: Interests in subsidiaries and other entities

a) Interests in subsidiaries, associates and joint ventures

As at December 2014 and December 2013, the Company did not hold any subsidiaries nor did it have any investments in associates or joint ventures.

b) Interests in unconsolidated structured entities

The table below presents the Company's interests in and maximum exposure to loss from unconsolidated structured entities as at 31 December 2014. In addition, the total assets held by the structured entity in which the Company had an interest as of 31 December 2014 are provided, except for investment funds sponsored by third parties, for which the carrying value of the Company's interest has been disclosed.

During the year UBS Limited did not provide support, financially or otherwise, to an unconsolidated structured entity, nor has UBS Limited an intention to do so in the future. The Company did not sponsor the creation of any structured entities during 2014. As at December 2013 the Company did not have any interests in unconsolidated structured entities, nor did it sponsor the creation of any structured entities.

Interest in unconsolidated structured entities

GBP million	Securitization vehicles	Client vehicles	Investment funds	Total	Maximum exposure to loss
Trading portfolio assets	2	23	59	84	84
Total assets	2	23	59	84	84
Assets held by the unconsolidated structured entities in which UBS Limited had an interest	2,996[3]	11,094[1]	59[2]		

1 Represents the market value of total assets. 2 Represents the carrying value of UBS Limited's interest in the investment funds not sponsored by the Company. These are all third party investments. 3 Represents principal amount outstanding.

Note 33: Risk, treasury and capital management

Risk management and control

Risk categories

The key financial and other significant risks faced by the Company are described below.

Credit risk is the risk of loss resulting from the failure of a client or counterparty to meet its contractual obligations. This includes settlement risk and loan underwriting risk. Settlement risk is the risk of loss resulting from transactions involving exchange of value where we must fulfill our obligation to deliver without first being able to determine with certainty that we will receive the counter value. Loan underwriting risk is the risk of loss arising during the holding period of financing transactions which are intended for further distribution.

Market risk is the risk of loss resulting from changes in general market risk factors (e.g., interest rates, equity index levels, exchange rates, commodity prices and general credit spreads) and changes in prices of debt and equity instruments which result from factors and events specific to individual companies or entities. Market risk includes issuer risk and investment risk. Issuer risk is the risk of loss from changes in fair value resulting from credit-related events affecting an issuer or group of related issuers, including sovereigns, to which we are exposed through tradable securities or derivatives referencing the issuer. Investment risk refers to the issuer risk associated with positions held as financial investments.

Country risk is the risk of losses resulting from country-specific events. It includes transfer risk, whereby a country's authorities prevent or restrict the payment of an obligation, as well as systemic risk events arising from country-specific political or macroeconomic developments.

Liquidity risk is the risk of being unable to generate sufficient funds from assets to meet payment obligations when they fall due, including in times of stress.

Funding risk is the risk of higher than expected funding costs due to higher than expected UBS credit spreads when existing funding positions mature and need to be rolled over, or replaced by other more expensive funding sources. If a shortage of available funding sources is expected in a stress event, funding risk also covers potential additional losses from forced asset sales.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes legal risk and compliance risk. Legal risk is the risk of (i) financial loss resulting from the non-enforceability of a contract, or (ii) loss due to UBS being held responsible for a contractual or legal claim, debt or legal action based on the breach or default of a contract, commitment of a tort, violation of law, infringement of trademarks or antitrust action. Compliance risk refers to the financial or reputational risk incurred by the Company by not adhering to the applicable laws, rules and regulations, local and international best practice (including ethical standards) and the Company's own internal standards.

Risk governance

The Company falls within the broader risk governance framework of the UBS Group, which operates along three lines of defence. Business management, as the first line of defence, own their risk exposures and are required to maintain effective processes and systems to manage their risks, including robust and comprehensive internal controls and documented procedures. Business management must also have in place appropriate supervisory controls and review processes to highlight control weaknesses, inadequate processes and unexpected events. Control functions act as the second line of defence, providing independent oversight of primary and consequential risks. This includes setting risk limits and protecting against non-compliance with applicable laws and regulations. Group Internal Audit (GIA) forms the third line of defence, evaluating the overall effectiveness of governance, risk management and the control environment, including consideration of how the first and second lines of defence meet their objectives.

The Board has established a Risk Committee of the Board. The Risk Committee is comprised only of Non-Executive Directors and is responsible for overseeing and supporting the Board in fulfilling its duty to supervise and set appropriate risk management and control principles. The CRO is responsible for the implementation and enforcement of the risk governance framework for the Company, including review and approval of any policies deemed necessary to supplement the UBS Group risk governance framework. The Committee met three times in 2014.

Risk appetite framework

The Company's risk appetite is defined as the aggregate level and types of risk that it is willing to accept or intends to avoid. It is established via a complementary set of qualitative and quantitative objectives.

The qualitative risk appetite statements have been established for the UBS Group as a whole, reflected in the Group's Risk Management and Control Principles, and various policies and initiatives, and these ensure the UBS Group maintains the desired risk culture. They apply at all levels of the UBS Group, including the Company.

The Board has established quantitative risk appetite objectives for the Company covering capital, liquidity and funding, and these are reviewed and approved at least annually by the Board. These objectives aim to ensure that the Company maintains sufficient capital, liquidity and funding such that it can continue to meet regulatory requirements and operate as a going concern following severe adverse economic or geopolitical events. The framework is comprehensive in aggregating all material risks across the Company.

The combination of the qualitative and quantitative risk appetite statements aims to protect the Company's business and reputation in both normal and stressed environments.

These objectives are complemented by operational risk appetite objectives, comprised of top-down financial thresholds which, if breached, require a senior management response to investigate the nature and underlying cause of the control failures and ensure that appropriate remediation is put in place.

The status of the Company's risk appetite objectives is evaluated each quarter, and reported to the Risk Committee and to the Audit Committee. The Company's risk appetite may change over time and, as a consequence, portfolio limits and risk authorities are subject to periodic reviews and changes, in particular in the context of the annual business planning process. In addition, primary day to day management and oversight of the liquidity and funding situation of the Company is delegated to the Company's Treasurer. This includes measuring the liquidity and funding position of the Company and monitoring regulatory and internal limits and targets to ensure compliance at all times.

Risk measurement

A variety of methodologies and measurements are employed to quantify the risks of the Company's portfolios and potential risk concentrations. Risks that are not fully reflected within standard measures are subject to additional controls, which may include pre-approval of specific transactions and the application of specific restrictions.

Stress testing

Stress testing is used to quantify the loss that could result from extreme yet plausible macroeconomic and geopolitical stress events, enabling identification, better understanding and management of potential vulnerabilities and risk concentrations. The stress testing framework incorporates three pillars: (i) combined stress tests, (ii) a comprehensive range of portfolio- and risk-type-specific stress tests and (iii) reverse stress testing.

The combined stress test (CST) framework is scenario-based and aims to quantify overall entity-wide losses which could result from a number of potential global systemic events. The framework captures all material primary and consequential risks, as well as business risks. Portfolio specific stress tests, which are tailored to the risks of specific portfolios, may be subject to limits to explicitly control risk taking, or may be monitored without limits to identify vulnerabilities. Reverse stress testing starts from a defined stress outcome and works backwards to identify the economic or financial scenarios that could result in such an outcome. As such, reverse stress testing is intended to complement forward stress tests by assuming "what if" outcomes that extend beyond the range normally considered, and thereby potentially challenge assumptions regarding severity and plausibility.

The identification, measurement, testing, limitation and reporting of stress risks for the Company is subject to the same process and governance as applied more broadly for the UBS Group, with regular review by the Risk Committee. The Risk

Committee may recommend new scenarios and changes to existing scenarios to address Company specific factors.

Portfolio and position limits

In addition to entity-wide risk appetite objectives, exposures are subject to entity-specific portfolio limits, which require Board approval, as well as other credit and market risk limits. The status of key risk limits are reported on a frequency appropriate for each individual metric, and utilization against portfolio limits is formally reported to the Risk Committee quarterly. The limits are reviewed at least annually by the Board and adjusted where necessary to be consistent with business plans and confirmed risk appetite.

The taking of risks that are not covered by an approved limit is not permitted, unless otherwise pre-approved by Risk Control within delegated authority levels. Limit excesses are monitored by Risk Control on a daily basis and escalated for action where appropriate to Risk Officers.

Further information on the measurement, monitoring and management of credit risk and market risk is provided in the sections below.

Risk concentrations

A risk concentration exists where (i) a position is affected by changes in a group of correlated factors, or a group of positions are affected by changes in the same risk factor or a group of correlated factors, and (ii) the exposure could, in the event of large but plausible adverse developments, result in significant losses. The categories in which risk concentrations may occur include counterparties, industries, legal entities, countries, products and businesses.

The identification of risk concentrations requires judgement, as potential future developments cannot be accurately predicted and may vary from period to period. In determining whether the Company has a risk concentration, a number of elements are considered, both individually and collectively. These elements include the shared characteristics of the positions and our counterparties, the size of the position or group of positions, the sensitivity of the position or group of positions to changes in risk factors and the volatility and correlations of those factors. Also important in our assessment is the liquidity of the markets where the positions are traded, and the availability and effectiveness of hedges or other potential risk-mitigating factors. The value of a hedge instrument may not always move in line with the position being hedged, and this mismatch is referred to as basis risk.

Risk concentrations are subject to increased monitoring by Risk Control and are assessed to determine whether they should be reduced or mitigated depending on the available means to do so. Risk concentrations are monitored and reported for all counterparties, including UBS affiliate companies in general, and UBS AG specifically, and across various dimensions, including single name /counterparty, industry /sector, country and region.

Credit risk

Main sources of credit risk

Credit risk arises primarily from traded products, including over-the-counter (OTC) derivative transactions and exchange-traded derivatives, as well as securities financing transactions such as repurchase agreements (repos and reverse repos), securities borrowing and lending transactions. Credit risk from banking products (such as loans, loan commitments and guarantees) is limited and relates primarily to unfunded loan commitments which are sub-participated to the Company's parent, UBS AG, or third parties, and amounts due from banks.

Overview of measurement, monitoring and management techniques

Credit risk framework

The Company applies the same framework for measuring, monitoring and managing credit risk as the UBS Group.

Credit risk arising from transactions with individual counterparties is measured according to internal estimates of probability of default, exposure at default and loss given default. Limits are established for individual counterparties and groups of counterparties covering banking and traded products as well as settlement amounts. Limits apply not only to the current outstanding amount, but also to contingent commitments and the potential future exposure of traded products. The Company also establishes portfolio level limits at these levels.

For the Investment Bank, the monitoring, measurement and limit framework distinguishes between exposures intended to be held to maturity (take-and-hold exposures) and those which are intended to be held for a short term, pending distribution or risk transfer (temporary exposures).

Within this framework, credit limits for the Company are approved in accordance with delegated credit authority, giving due consideration to the Company's risk capacity, risk appetite and large exposure requirements. Limits are monitored, and exposures relative to key limits are formally reported to the Risk Committee on a quarterly basis.

Credit risk concentrations can arise if clients are engaged in similar activities, are located in the same geographical region or have comparable economic characteristics, for example if their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. To avoid credit risk concentrations, the Company may, where appropriate, establish limits and/or operational controls to constrain risk concentrations at portfolio and sub-portfolio levels with regard to sector exposure, country risk and specific product exposures.

Credit risk models

Models are used to estimate future credit losses that may be implicit in our current portfolio.

Exposures to individual counterparties are measured based on three generally accepted parameters: probability of default (PD), loss given default (LGD) and exposure at default (EAD). For a given credit facility, the product of these three parameters results in the 12 months' expected loss. These parameters are the basis for the majority of our internal measures of credit risk. Models are also used to derive the portfolio credit risk measures of expected loss, statistical loss and stress loss.

Credit risk mitigation

Credit risk is actively managed by taking collateral against exposures, through the use of netting agreements, and through the utilisation of credit hedging.

Securities financing transactions are secured against the pledge of eligible market securities which primarily include transferable securities (such as bonds and equities), which are liquid and actively traded. Haircuts are applied to cover the possible change in market value of the collateral over a given close-out period.

OTC derivatives trading is conducted through central counterparties (CCP) where practicable. Where CCP are not used, the Company has clearly defined processes for entering into netting and collateral arrangements, including the requirement to have a legal opinion on the enforceability of contracts in relevant jurisdictions in the case of insolvency. Trading is generally conducted under bilateral International Swaps and Derivatives Association (ISDA) or ISDA-equivalent master netting agreements, which allow for the close-out and netting of all transactions in the event of default. For certain major market participant counterparties, the Company may in addition use two-way collateral agreements under which either party can be required to provide collateral in the form of cash or marketable securities, typically limited to well-rated government debt, when the exposure exceeds specified levels.

Single-name credit default swaps (CDS), credit index CDS, bespoke protection, and other instruments are used to actively manage credit risk in the Investment Bank. This is aimed at reducing concentrations of risk from specific counterparties, sectors or portfolios.

Strict guidelines are applied for taking credit hedges into account for credit risk mitigation purposes. For example, when monitoring exposures against limits, the Company does not usually recognize credit risk mitigants such as proxy hedges (credit protection on a correlated but different name) or credit index CDS. Buying credit protection also creates credit exposure against the protection provider. The Company monitors exposures to credit protection providers and the effectiveness of credit hedges as part of the overall credit exposures to the relevant counterparties. In addition, the Company identifies and monitors positions where it believes there is significant exposure and correlation between the counterparty and the hedge provider (so-called wrong-way risk). The policy is to discourage such activity, and in any event or as market correlations may change, not to recognize hedge benefits subject to wrong-way risk within counterparty limits and credit exposure-related calculations.

The Company also utilises sub-participation arrangements to transfer the risk of funded loans to its parent, UBS AG, or third parties. Collateral taken is generally in the form of cash or marketable securities, is subject to haircuts and monitored for concentration risks. The Company has a concentration of exposure against its parent, UBS AG, and its affiliates. This exposure is largely collateralized, with strict terms as to the quality of collateral that can be pledged. UBS Limited has Letters of Credit worth £2.6 million (2013: £23.2 million) which are covered by the guarantee.

Maximum exposure to credit risk

The table below represents the IFRS view of the Company's maximum exposure to credit risk by class of financial instrument and the respective collateral and other credit enhancements mitigating credit risk for these classes of financial instruments. The maximum exposure to credit risk includes the carrying amounts of financial instruments recognized on the balance sheet subject to credit risk and the notional amounts for off-balance sheet arrangements.

Collateral is presented at fair value and capped at the maximum exposure to credit risk for which it serves as security. Prior to the change in the Company's business operating model the Company substantially retained no credit risk, therefore no comparatives have been included for 2013.

Maximum exposure to credit risk

		Collateral[1]				Credit enhancements	
GBP million	Maximum exposure to credit risk	Cash collateral received	Collateralized by securities	Secured by real estate	Other collateral	Netting	Guarantees
Financial assets measured at amortized cost on the balance sheet							
Balances with central banks	9	–	–	–	–	–	–
Due from banks	784	–	–	–	–	–	–
Loans	323	–	–	–	50	–	–
Cash collateral on securities borrowed	2,643	–	2,643	–	–		–
Reverse repurchase agreements	8,914	–	8,914	–	–	–	–
Cash collateral receivables on derivative instruments	7,052	2,495	–	–	–	3,038	–
Other assets	141	–	2	–	–	–	–
Total financial assets measured at amortized cost	**19,865**	**2,495**	**11,559**	**–**	**50**	**3,038**	**–**
Financial assets measured at fair value on the balance sheet							
Positive replacement values	30,042	4,325	–	–	–	23,520	–
Trading portfolio assets – debt instruments	2,335	–	–	–	59	–	–
Financial assets designated at fair value – debt instruments	527	–	280	–	–	–	9
Financial investments available-for-sale – debt instruments	5,510	–	–	–	–	–	–
Total financial assets measured at fair value	**38,414**	**4,325**	**280**	**–**	**59**	**23,520**	**9**
Total maximum exposure to credit risk reflected on the balance sheet	**58,279**	**6,820**	**11,838**	**–**	**109**	**26,558**	**9**
Guarantees	3	–	–	–	2	–	–
Loan commitments	1,677	–	–	–	264	–	1,413
Forward starting transactions, reverse repurchase and securities borrowing agreements	3,427	–	3,427	–	–	–	–
Total maximum exposure to credit risk not reflected on the balance sheet	**5,106**	**–**	**3,427**	**–**	**266**	**–**	**1,413**
Total at the year-end	**63,386**	**6,820**	**15,265**	**–**	**375**	**26,558**	**1,422**

1 In addition, the Company holds £4,318m of securities to collateralize the exposure to UBS AG.

Credit risk exposures arising from traded products are predominantly investment grade and are concentrated with clearing houses and financial services counterparties, including banks. Banking products credit exposures are relatively well diversified across sectors. As of 31 December 2014 there were no financial assets past due but not impaired, or individually impaired (2013: none).

Financial assets subject to credit risk by internal UBS rating scale

GBP million	Rating 0–1	Rating 2–3	Rating 4–5	Rating 6–8	Rating 9–13	Defaulted	Total[1]
Balances with central banks	3	5	–	–	–	–	9
Due from banks	–	781	3	–	–	–	784
Loans	63	159	33	34	28	7	323
Cash collateral on securities borrowed	95	2,510	35	3	–	–	2,643
Reverse repurchase agreements	14	8,362	313	225	–	–	8,914
Cash collateral on receivables on derivative instruments	1,533	4,100	1,285	133	1	–	7,052
Accrued income and other assets	–	71	13	6	–	–	90
Financial instruments recognized at amortized cost on balance sheet	**1,709**	**15,987**	**1,681**	**401**	**29**	**7**	**19,814**
Positive replacement values	1,329	25,433	2,109	1,130	41	–	30,042
Trading portfolio assets – debt instruments[2]	691	997	412	155	112	–	2,367
Financial assets designated at fair value	–	219	284	24	–	–	527
Financial investment available-for-sale	3,399	2,111	–	–	–	–	5,510
Financial instruments recognized at fair value on balance sheet	**5,418**	**28,761**	**2,804**	**1,309**	**153**	**–**	**38,446**
Total at year-end	**7,127**	**44,748**	**4,485**	**1,710**	**183**	**7**	**58,260**

1 Internal UBS ratings 0–5 and 6–13 equate to investment grade and sub-investment grade ratings respectively, published by Moody's Investors Service, Standard and Poor's and Fitch. 2 Does not include investment fund units.

Market risk

Main sources of market risk

Market risk arising from the Company's trading activities relates primarily to equity and fixed income securities trading for client facilitation purposes within the Investment Bank. Non-trading interest rate risk which relates to treasury activities is not material.

Overview of measurement, monitoring and management techniques

The Company's exposure to market risk is managed under the same framework as applied for the UBS Group, with entity specific limits set by the Board for the two primary portfolio measures of market risk; liquidity adjusted stress (LAS) and value-at-risk (VaR). These portfolio measures are complemented by position limits on portfolios and risk factors. Limits are monitored, and exposures relative to limits are reported at a frequency and to a level of detail commensurate with the extent and variability of the risk and the needs of senior management. Exposures against key limits are formally reported to the Risk Committee on a quarterly basis.

Value-at-risk

VaR definition

The Company's exposure to market risk is managed under the same framework as applied for the UBS Group, with entity specific limits set by the Board for the two primary portfolio measures of market risk; liquidity adjusted stress (LAS) and value-at-risk (VaR). These portfolio measures are complemented by position limits on portfolios and risk factors. Limits are monitored, and exposures relative to limits are reported at a frequency and to a level of detail commensurate with the extent and variability of the risk and the needs of senior management. Exposures against key limits are formally reported to the Risk Committee on a quarterly basis.

VaR limitations

Actual realized market risk losses may differ from those implied by our VaR for a variety of reasons.

The VaR measure is calibrated to a specified level of confidence and may not indicate potential losses beyond this confidence level.

- The 1-day time horizon used may not fully capture the market risk of positions that cannot be closed out or hedged within the specified period;
- In certain cases, VaR calculations approximate the impact of changes in risk factors on the values of positions and portfolios. This may happen because the number of risk factors included in the VaR model is necessarily limited. For example, yield curve risk factors do not exist for all future dates;
- The effect of extreme market movements is subject to estimation errors, which may result from non-linear risk sensitivities, as well as the potential for actual volatility and correlation levels to differ from assumptions implicit in the VaR calculations;
- The use of a five-year window means that sudden increases in market volatility will tend not to increase VaR as quickly as the use of shorter historical observation periods, but the increase will impact our VaR for a longer period of time. Similarly, following a period of increased volatility, as markets stabilize, VaR predictions will remain more conservative for a period of time influenced by the length of the historical observation period.

No single measure may encompass the entirety of risks associated with a position or portfolio. Consequently, a suite of various metrics is employed with both overlapping and complementary characteristics in order to create a holistic framework which ensures material completeness of risk identification and measurement. As a statistical aggregate risk measure, VaR supplements the comprehensive stress testing framework.

Management VaR for the period

Prior to the change in the Company's business operating model, the Company was managed to be market risk flat and VaR was not calculated for the Company. The table below therefore shows minimum, maximum, average and year-end management VaR for the period from 19 May 2014, when the Company's business model changed, to 31 December 2014, and comparative information has not been provided.

Management VaR

GBP million	For the period ended 31.12.14			
	Min.	Max.	Average	Year end
Total management VaR	1.91	6.13	2.50	2.02
Investment Bank	1.49	6.04	2.19	1.63
Corporate Center – Core Functions	0.02	0.10	0.06	0.03
Corporate Center – Non-core and Legacy Portfolio	0.94	1.81	1.14	1.28

Country risk

Sources of country risk

Country risk includes all country-specific events that occur within a sovereign's jurisdiction and may lead to an impairment of the Company's exposures. Country risk can take the form of sovereign risk, which refers to the ability and willingness of a government to honor its financial commitments, transfer risk, which would arise if an issuer or counterparty could not acquire foreign currencies following a moratorium of a central bank on foreign exchange transfers; or "other" country risk. "Other" country risk may manifest itself through increased and multiple counterparty and issuer default risk (systemic risk) on the one hand, and by events that may affect the standing of a country (e.g., political stability, institutional and legal framework) on the other hand.

Country risk framework

The Company has a well-established risk control framework through which the risk profile of all countries where it has exposure is assessed.

Each country is attributed a sovereign rating, which expresses the probability of the sovereign defaulting on its own financial obligations in foreign currency. Ratings are expressed by statistically derived default probabilities. Based on this internal analysis, the probability of a transfer event occurring is also defined and rules are established as to how the aspects of "other" country risk should be incorporated into the analysis of the counterparty rating of incorporated entities that are domiciled in the respective country.

Exposure to all countries must be commensurate with the credit ratings assigned to them, and it must not be disproportionate to the respective country risk profile. A country risk ceiling applies to all exposures to counterparties or issuers of securities and financial investments in the respective country. The extension of credit, transactions in traded products or positions in securities based on a country ceiling, may be limited even if the exposure to a counterparty is otherwise acceptable.

For internal measurement and control of country risk, the financial impact of market disruptions arising prior to, during and following a country crisis is also considered. These may take the form of a severe deterioration in a country's debt, equity or other asset markets or of a sharp depreciation of the currency. Stress testing is used to assess the potential financial impact of a severe country and/or sovereign crisis. This involves the development of plausible stress scenarios for combined stress testing and the identification of countries that may potentially be subject to a crisis event, determining potential losses and making assumptions about recovery rates depending on the types of credit transactions involved and their economic importance to the affected countries.

Exposures to market risks are also subject to regular stress tests that cover major global scenarios, which are used for combined stress testing as well, whereby market shock factors are applied to equity indices, interest and currency rates in all relevant countries and the potential liquidity of the instruments is considered.

Operational risk

Sources of operational risk

Operational Risk (OR) is the risk resulting from inadequate or failed internal processes, people and systems, or from external causes (deliberate, accidental or natural). Events may be direct financial losses or indirect in the form of revenue forgone as a result of business suspension. They may also result in damage to our reputation and to our franchise, which have longer term financial consequences. Operational risk can arise as a result of the Company's past and current business activities.

Overview of measurement, monitoring and management techniques
The UBS Group has developed an operational risk framework, described further below, that supports the identification and assessment of material operational risks and their potential concentrations, in order to achieve an appropriate balance between risk and reward. This same operational risk framework is applied to the Company, for which individual operational risk appetite objectives have been established. Should a single operational risk event breach the operational risk appetite, the CEO and Operational Risk Control (ORC) must review the specific weaknesses in the control environment that led to the event and determine why the issue was not identified prior to the event materializing. Should aggregate operational risk events breach the operational risk appetite, these will be escalated to the Risk Committee, who should determine whether a broader review of the control environment is required.

Operational risk matters, including the risk profile and emerging risks, remediation and initiatives, and operational risk events are formally reported to the UK Operating Committee and the Risk Committee on a quarterly basis. Operational risk is also captured in the Company's combined stress test framework.

UBS Limited has been provided with two indemnities by its parent, UBS AG. The first indemnity indemnifies the Company against any operational risk loss that exceeds CHF 100,000 when the event giving rise to the loss occurred prior to the change in the Company's business model in May 2014 and which is claimed by the Company within the following 7 years, subject to an aggregate cap of GBP 2 billion. The second indemnity applies solely in the context of the Company's Non Core and Legacy Portfolio, and indemnifies the Company against any operational risk loss that exceeds CHF 100,000 when the event giving rise to the loss occurs and is claimed within 3 years of May 2014, subject to an aggregate cap of GBP 2 billion.

Operational risk framework
The business divisions and the heads of the Corporate Center function are ultimately accountable for the effectiveness of operational risk management and for the implementation of our operational risk framework. The business divisions are responsible for establishing and maintaining an effective front-to-back control environment, notwithstanding the delegation of those responsibilities to the business division Chief Operating Officers. All management functions (business, logistics and control functions) are responsible for establishing an appropriate operational risk management environment, including the establishment and maintenance of robust internal controls, effective supervision and a strong risk culture.

Operational Risk Control provides an independent and objective view of the adequacy of operational risk management across the UBS Group. It is governed by the UBS Group Compliance and Operational Risk Control (C&ORC) Management Committee, which is chaired by the Global Head of C&ORC, who reports to the UBS Group Chief Risk Officer.

The operational risk framework describes general requirements for managing and controlling operational risk at UBS. It is built on four main pillars:
1. Classification of inherent risks through the operational risk taxonomy;
2. Assessment of the design and operating effectiveness of controls through the internal control assessment process;
3. Assessment of residual risk through the operational and business risk assessment processes; and
4. Remediation to address identified deficiencies which are outside accepted levels of residual risk.

The operational risk taxonomy provides a clear and logical classification of our inherent operational risks, across all business divisions. Throughout the organizational hierarchy, a level of risk tolerance must be agreed for each of the taxonomy categories together with a minimum set of internal controls and associated performance thresholds considered necessary to keep risk exposure within the acceptable levels.

All functions are required to perform a semi-annual internal control assessment along a defined process, in which they assess and evidence the design and operating effectiveness of their key controls.

UBS employs a global harmonized framework to assess the aggregated impact of control deficiencies and the adequacy of remediation efforts. The integrated risk assessment approach covers all business activities and internal/external factors posing a threat to the UBS Group and aggregates the impact of weaknesses in the control environment to provide a transparent assessment of the current operational risk exposure against agreed risk tolerance levels. Significant control deficiencies that surface during the internal control and risk assessment processes must be reported in the operational risk inventory and sustainable remediation must be defined and delivered. All significant issues are assigned to owners at senior management level and must be reflected in the respective employees' annual performance measurement and management objectives. To assist with prioritization of all known operational risk issues, irrespective of origin, a common rating methodology is adopted by all internal control functions and both internal and external audit. Group Internal Audit applies an enhanced assurance process to risk issue closure to promote stronger management discipline for identifying, mitigating and sustainably remediating operational risk issues. As a further enabler of strong risk management, responsibility for the management of the front-to-back control environment, assumed by the Chief Operating Officers, has been re-emphasized and visibility of the front-to-back control environment further enhanced through advanced reporting processes.

Treasury management
Liquidity and funding management

Strategy and objectives

UBS Limited's exposure to liquidity and funding risk is monitored, efficiently structured and managed on an entity specific basis and as an integral part of the Group's liquidity and funding strategy.

The objective is to ensure that the Company always has sufficient funds available to meet payment obligations when they fall due without additional funding from Group entities. This must remain the case at all times including in an idiosyncratic liquidity event combined with a generally stressed market environment. UBS Limited uses the Group internal liquidity and funding models which are reviewed by the Board on an annual basis to ensure that they appropriately reflect local requirements.

The remainder of this section provides more detailed information on the liquidity and funding management including sources of funding and liquidity, contingency planning and stress testing, current and potential future regulatory requirements and governance structure.

Funding management

UBS Limited is funded on a secured and unsecured basis with external and internal counterparts. The Company is active in wholesale money markets where it accepts deposits from corporate and financial institutions. It also engages in repurchase and reverse repurchase transactions with approved counterparties subject to credit risk control limits in place for the entity and the Group. Furthermore the Company accesses intercompany loans from UBS AG on standard market terms.

Liquidity management, contingency funding and stress testing

UBS Limited measures and monitors liquidity risk using a set of models, tools and controls covering normal and stressed market conditions. The key models address both near term liquidity risk as well as longer term structural liquidity and funding risk. The models assess whether the Company has sufficient long term unsecured funding to withstand a stressed funding environment for 1 year without having to rely on asset sales within franchise business activity and a bank-specific event combined with general market stress for a time horizon 1 year.

UBS Limited Contingency Funding Plan (CFP) is maintained as a preparation to ensure sufficient liquidity and funding is available during stressed conditions on a standalone basis without reliance on additional funding within the prescribed survival horizon. The establishment, regular testing and annual updating of the UBS Limited CFP ensures a robust, reliable and cost effective response to potential liquidity events. Liquidity crisis scenario analysis and contingency funding planning support the liquidity management process, which ensures that immediate corrective measures to absorb potential sudden liquidity shortfalls can be put into effect.

Liquidity regulatory requirements

The Company is subject to prudential regulations to maintain appropriate liquidity metrics as required by the PRA. The Company has systems and processes to ensure compliance with these standards. Future changes in the regulatory regime will be adopted as the requirements evolve.

These liquidity metrics will include the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), which were adopted by the European Union in the Directives on Capital Requirements (CRD IV) and the Capital Requirement Regulation (CRR) in June 2013. The LCR assesses whether UBS Limited has sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario over a period of 30 days. The NSFR measures whether the Company has enough stable funding to cover funding requirements of its assets and off-balance sheet positions.

Governance

UBS Limited's liquidity and funding strategy is proposed by the entity's Treasurer, approved by the UBS Limited Board of Directors and overseen by the UBS Limited ALCO. Regional Treasury EMEA monitors and oversees the implementation and execution of the liquidity and funding strategy.

The strategy is supported through liquidity policies and a framework of liquidity and funding limits and targets.

These are proposed by the UBS Limited Treasurer, independently assessed by Treasury Risk Control and discussed at the UBS Limited ALCO before passing to the the Company Board of Directors for formal approval and adoption.

Maturity analysis of assets and liabilities

The table on the following page shows consolidated total assets, liabilities and off-balance sheet commitments by residual contractual maturity at the balance sheet date. The contractual maturity of liabilities is based on the earliest date the Company could be required to pay and the contractual maturity of assets is based on the latest date the asset will mature. This basis of presentation differs from Note 27 *Financial assets and liabilities* in the "Financial information" section of this report, which is presented on an undiscounted basis.

Derivative replacement values and trading portfolio assets and liabilities are assigned to the column *Due less than 1 month*, although the respective contractual maturities may extend over significantly longer periods.

Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the *Perpetual/not applicable* time bucket. Undated or perpetual instruments are classified based on contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the *Perpetual/not applicable* time bucket.

Non-financial assets and liabilities with no contractual maturity (such as current and deferred tax assets and liabilities and retirement benefit liabilities) are generally included in the *Perpetual* time bucket.

Loan commitments are classified on the basis of the earliest date they can be drawn down.

Maturity analysis of assets and liabilities

GBP million	Due less than 1 month	Due between 1 and 3 months	Due between 3 and 6 months	Due between 6 and 9 months	Due between 9 and 12 months	Due between 1 and 2 years	Due between 2 and 5 years	Due after 5 years	Perpetual/non applicable	Total
Assets										
Cash and balances with central banks	9	–	–	–	–	–	–	–	–	9
Due from banks	784	–	–	–	–	–	–	–	–	784
Cash collateral on securities borrowed	2,643	–	–	–	–	–	–	–	–	2,643
Reverse repurchase agreements	8,122	643	127	–	–	–	22	–	–	8,914
Trading portfolio assets	3,937	–	–	–	–	–	–	–	–	3,937
of which: pledged as collateral	*1,402*	–	–	–	–	–	–	–	–	*1,402*
Positive replacement values	30,042	–	–	–	–	–	–	–	–	30,042
Cash collateral receivable on derivative instruments	7,052	–	–	–	–	–	–	–	–	7,052
Financial assets designated at FV	23	–	1	–	42	59	226	176	–	527
Loans and advances to customers	274	–	–	–	15	–	29	5	–	323
Amounts due from Group undertakings	74	–	–	–	–	–	–	–	–	74
Financial investments	–	313	1,507	586	323	1,461	1,253	67	2	5,512
Other assets	141	–	–	–	–	–	–	–	–	141
Deferred tax assets	–	–	–	–	–	–	–	–	106	106
Total Assets	**53,099**	**956**	**1,634**	**586**	**381**	**1,520**	**1,530**	**248**	**108**	**60,063**
Liabilities										
Due to banks	2,581	–	1,521	–	15	–	30	1,003	–	5,150
Cash collateral on securities lent	946	–	–	–	–	–	–	–	–	946
Repurchase agreements	7,613	57	110		39	–	–	–	–	7,818
Trading portfolio liabilities	2,447	–	–	–	–	–	–	–	–	2,447
Negative replacement values	29,929	–	–	–	–	–	–	–	–	29,929
Cash collateral payables on derivative instruments	7,991	–	–	–	–	–	–	–	–	7,991
Financial liabilities designated at FV	69	–	–	–	42	53	218	176	–	559
Due to customers	739	–	–	–	–	–	15	–	–	754
Amounts owed to Group undertakings	147	–	–	–	–	–	–	–	–	147
Tax provisions	–	–	–	–	–	–	–	–	6	6
Other liabilities	123	–	–	–	–	–	–	–	–	123
Provisions	3	–	–	–	–	–	–	–	–	3
Total Liabilities	**52,587**	**57**	**1,630**	**–**	**96**	**53**	**264**	**1,179**	**6**	**55,872**
Financial liabilities not recognized on the balance sheet										
Loans commitments	1,677	–	–	–	–	–	–	–	–	1,677
Underwriting commitments	209	–	–	–	–	–	–	–	–	209
Credit & perf. guarantees, documentary credits & sim. instr.	3	–	–	–	–	–	–	–	–	3
Forward starting transactions										
Irrevocable forward starting reverse repos agreements	3,425	–	–	–	–	–	–	–	–	3,425
Irrevocable forward starting securities borrowing agreements	1	–	–	–	–	–	–	–	–	1
Total	**5,315**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**5,315**

Capital management

Capital management objectives

Adequate capital is a prerequisite to support our business activities, in accordance with both our own internal assessment and regulatory requirements. The aim is to maintain a strong capital position and sound capital ratios at all times and therefore consider not only the current situation but also projected business and regulatory developments. Furthermore we regularly stress test our capital position against potential adverse market scenarios

Annual strategic and ongoing capital planning process

The annual strategic planning process incorporates a capital planning component which is integrated with the Board of Directors' risk appetite and the business plan and strategy.

Market and credit risk limits are calibrated to risk appetite objectives which include maintaining appropriate capital levels in stress market conditions. Furthermore RWA limits and targets are set at both entity and business division level. Approval and monitoring of these limits and targets is through the Board of Directors, the ALCO and Risk Committee.

Group Treasury and Finance monitor RWA, LRD and capital developments. Monitoring activities may form the basis of adjustments to RWA and/or LRD limits, actions related to the issuance or redemption of capital instruments and other business-related decisions. In the event of limits being breached, remediating actions are required to return the exposures to a limit-compliant level. Monitoring activities also consider developments in capital regulations.

Note 34 Events occuring after the Balance Sheet date

There were no material events occurring after the Balance Sheet date that require adjustments to or disclosure within these Financial Statements.

Note 35: Parent undertakings

The ultimate parent undertaking and controlling party is UBS Group AG, a company incorporated in Switzerland. This is the largest group company preparing consolidated financial statements which include the Company's financial statements.

Copies of the financial statements of UBS Group AG can be obtained from the Company Secretary, UBS AG London Branch, 1 Finsbury Avenue, London EC2M 2PP.

Note 36: Country-by-country reporting

Article 89 of the Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU to disclose annually, specifying, by Member State and by third country in which they have an establishment, the following information on a standalone basis for the year ended 31 December 2014: name, nature of activities, geographical location, turnover, number of employees, profit or loss before tax, corporation tax paid and public subsidies received. Due to the change in regulations requiring this disclosure in the current year, prior year comparatives have not been presented.

Country split

GBP 000s	Turnover (standalone)	Profit before tax (standalone)	Consolidation eliminations	Profit before tax	Corporation tax paid	Employees
United Kingdom	481,341	76,772	(7,790)	84,562	2,425	–
Germany	14	8	–	8	–	–
Poland	1,474	94	–	94	24	2
Sweden	4,517	178	–	178	72	–
Holland	288	77	–	77	–	20
France	–	4	–	4	(24)	–
Switzerland	8,096	505	8,066	(7,560)	265	2
Total	495,730	77,638	276	77,363	2,762	24