April 2014

UBS Limited
Pillar 3 Disclosures

UBS Limited is a subsidiary of UBS AG

UBS Limited is a company limited by shares incorporated in the United Kingdom registered in England & Wales with number 2035362. Registered Office: 1 Finsbury Avenue, London EC2M 2PP

UBS Limited is authorised by the Prudential Regulatory Authority and regulated by the Prudential Regulatory Authority and the Financial Conduct Authority

Contents

Introduction

UBS Limited ("UBSL") is a credit institution incorporated in Great Britain and authorised as a bank in the United Kingdom by the Prudential Regulation Authority ("PRA") and regulated by both the Financial Conduct Authority ("FCA") and the Prudential Regulation Authority under the provisions of the Financial Services and Markets Act 2000, as amended.

UBSL is required to comply with the PRA's regulatory capital framework. The framework is comprised of three "Pillars":

Pillar1: which articulates the methodologies mandated to determine minimum capital requirements

Pillar 2: which deals with a firm's internal assessment of risks and how it ensures sufficient capital is held to meet those risks

Pillar 3: which details the qualitative and quantitative disclosures which a firm must provide to the market to provide visibility on risks, capital and risk management practices

This document contains the Pillar 3 disclosures for UBSL.

UBSL's accounting year end is 31 December and UBSL's Pillar 3 disclosures have been aligned with its financial reporting. This document contains both qualitative and quantitative disclosures for the year ended 31 December 2013.

The EU implemented new capital rules from 1 January 2014 "CRD IV". The disclosures in respect of own funds and capital requirements in this document are on the basis of the regulatory rules implemented by the PRA prior to this change to CRD IV.

UBSL is a wholly and directly owned subsidiary of UBS AG. UBSL has no subsidiary or associate undertakings. UBS AG is a credit institution incorporated in Switzerland which is principally regulated by the Swiss Financial Market Supervisory Authority ("FINMA") on both a parent bank and group basis. In this document references to UBS Group refers to UBS AG and its subsidiaries, including UBSL. UBS AG complies with prudential rules set down by its Swiss regulator, FINMA. Under this framework the UBS Group is required to make appropriate Pillar 3 disclosures.

Given the nature of the UBSL business model (described below in the section headed "Business Model and Risk Management Objectives and Policies") and the applicability to UBSL of UBS Group Risk Management policies and process, UBSL management has determined that the Pillar 3 disclosure requirements for UBSL are in many cases best met by reference to UBS Group disclosures. However additional supplemental information is provided to describe certain key aspects of the UBSL business model.

Readers should refer to the UBS Group disclosures for the year ended 31 December 2013 which can be found on the UBS Group website in the UBS AG annual report at the following link – see Part 3 "Risk, treasury and capital management":

➔ **UBS Group – 2013 Annual Report**

FINMA rules require that UBS Group make quantitative Pillar 3 disclosures twice in each calendar year for the reporting periods ending in June and December. The June reports can be found separately on the UBS Group website on a webpage entitled "UBS Pillar 3 disclosures" which is located under "Other filings and disclosures" which is accessible from the Investor Relations webpage.

➔ **UBS Group – Pillar 3 disclosures**

UBS Limited's Business

UBSL conducts business in a broad range of investment banking products and services including lending, securities trading, securities financing, executing and clearing exchange traded and OTC derivatives, money market and FX trading. UBSL also provides underwriting, advisory and other fee driven services. UBSL has branches in France, Germany, Sweden, Switzerland and Poland and two representative offices in Switzerland. UBSL operates under a business model which is designed to transfer all credit risk (other than that of its parent UBS AG) and substantially all market, funding and other risks to UBS AG. This is described further below in the section headed "Business Model and Risk Management Objectives and Policies". Counterparties of UBSL benefit from a guarantee of UBS AG. UBSL maintains certain exchange memberships in the United Kingdom and elsewhere in order to facilitate or support its business activities. In addition, UBSL's Equities business operates a Multilateral Trading Facility which is authorised by the PRA and regulated by both the FCA and the PRA.

Risk Governance and Policies

UBSL operates within an integrated risk management governance framework applying UBS Group wide policies for the measurement and management of risk.

Given the commonality of risk management practice and that counterparties effectively assume UBS AG credit risk as a consequence of the guarantee provided by UBS AG, the UBS Group Pillar 3 qualitative disclosures are the primary source of relevant Pillar 3 disclosures for UBSL.

Business Model and Risk Management Objectives and Policies

Sources, Strategies and Processes to Manage Risk

Under its operating model, the key risk UBSL faces is the default of its parent, UBS AG. This is because UBSL operates under a business model which is designed to transfer the risks inherent in its activities to UBS AG. This is achieved through various hedging transactions, including back to back trades, fully sub participating loans and a broad indemnity that UBS AG provides to UBSL in respect of losses. Where necessary to maintain PRA prudential ratios or otherwise for the purpose of credit risk management, exposure to UBS Group is mitigated by receipts of collateral from UBS AG. A control framework exists in respect of this collateral. The collateral meets the PRA eligible collateral criteria – gold, OECD government securities, cash, investment grade securities and major equity index constituents. Controls exist to ensure the collateral is liquid and that market values are observable. The framework also establishes "haircuts" which are applied to the collateral in determining the mitigating value attributed.

The risks potentially faced as a consequence of its activities but transferred through the mechanisms outlined above include:

Market risk: the risk of loss due to changes in value of positions arising from market prices, actual or implied, such as security prices, interest rates, FX rates and similar.

Credit risk: the risk of loss from a counterparty's failure to meet the terms of their contract or otherwise perform as agreed.

Operational risk: the risk of loss resulting as a consequence of failed or inadequate internal processes. These processes include transaction processing, compliance and legal risks.

Liquidity and funding risk: the risk that the firm is unable to meet its obligations as they fall due.

For ETD clearing business where clients elect to transact under FCA client money rules, the risk of default by intermediate clearing brokers, clearing houses, exchanges and client money banks is borne by the clients rather than by UBSL.

Future Developments

In response to regulatory developments and in consultation with the UK and Swiss regulators, UBSL's business operating model is currently being reviewed in conjunction with its parent, UBS AG. During the second quarter 2014, the Directors expect to commence the implementation of a modified business operating model, including changes to UBSL's risk profile, to the effect that it will bear and retain a greater degree of the risk and reward of its business activities. UBSL expects to significantly increase its capital during the second quarter to a level commensurate with the changed risk profile. These changes will not have any effect on the guarantee issued by UBS AG in favour of clients and counterparties of UBSL.

In view of these developments the Directors intend to publish a Pillar 3 disclosures document in 2014 that will reflect the changes to the business model.

UBS Limited Governance

The Board of Directors of UBSL is responsible for the prudential management of the entity. The Board utilises UBS AG staff, systems, policies and process in the execution of this duty. The terms of support provided to UBSL by the risk and control functions are documented in an outsourcing agreement between UBSL and UBS AG. UBSL business is risk managed in a manner consistent with the UBS Group approach.

In addition to policies and processes the Board of UBSL has delegated certain oversight roles to committees including to the UBS – Investment Bank ("UBS-IB"), UK and Europe Middle East and Africa ("EMEA") Management and Risk Committee ("UK and EMEA MRC") and the UBSL Capital and Collateral Committee.

The UBS-IB UK and EMEA Management and Risk Committee

The UK and EMEA MRC is a UBS-IB UK and EMEA regional committee and additionally is a formally constituted committee of the UBSL Board.

The Committee's responsibilities include:
- monitoring of the risks in the UK and EMEA undertaken by UBS-IB in pursuit of its agreed business strategy; and
- exercising oversight of the risk control environment for UBS-IB within the UK and EMEA

Also, and specifically in relation to UBSL, it is required to:
- review market developments and any major changes in UBSL's risk profile, including significant risk events and reputational and compliance issues;
- review or note proposals for new business activities pursuant to new business approval procedures; and
- consider any other matters which the UK and EMEA MRC considers necessary or desirable relating to UBSL's risk or internal control environment or prudent financial management

The Committee membership includes the following UBSL functions:
- Chief Executive Officer
- Chief Operating Officer
- Risk
- Finance

as well as senior UBS-IB EMEA regional business and logistics and control function representatives.

The UK and EMEA MRC reports to the UBSL Board in respect of UBSL matters.

The UBS Limited Capital and Collateral Committee

This committee's principal responsibilities include oversight of the execution of UBSL's regulatory capital and collateral requirements, reporting and management processes.

The Committee membership includes the following UBSL functions:
- Finance
- Treasury
- Risk
- Chief Operating Officer
- Collateral Management, Operations and Client Money

New Board approved committees

At the end of 2013 and the beginning of 2014, UBSL made several changes to its governance structure including the creation of new committees of the UBSL Board. On 5 December 2013 the UBSL Board approved the establishment of a new UBSL Risk Committee, to operate alongside the existing UBSL Audit Committee, and a UBSL Nomination Committee. On 15 January 2014 the Board approved the establishment of a UBSL Remuneration Committee. On 20 February 2014 the Board approved the establishment of a UBSL Asset and Liability Committee and on 10 March 2014 approved the establishment of a new Models (Valuation) Review and Approval Committee.

Capital Resources

Year end 2013

The table below summarises the composition of capital resources as at 31.12.2013.

Capital Resources

GBP 000s	31.12.13	31.12.12
Core tier one capital:		
Permanent share capital	226,620	193,554
Profit and loss account and other reserves	59,302	59,302
Share premium account	3,122,880	2,655,946
Total tier one capital before deductions	3,408,802	2,908,802
Deductions from tier one capital[1]	–	(316)
Total tier one capital after deductions	3,408,802	**2,908,486**
Upper tier two capital:		
Revaluation reserves	1,164	1,156
Total tier two capital before and after deductions	1,164	**1,156**
Total tier one capital plus tier two capital after deductions	3,409,966	**2,909,642**
Total tier three capital	–	–
Total capital resources after deductions	3,409,966	**2,909,642**

1 The tier one deduction in 2012 is in respect of an illiquid asset that was sold in 2013.

In 2013 UBS Limited increased its capital with the issuance on 20 December of 33,066,000 Ordinary shares. This has increased Tier 1 and Total Capital Resources after deductions by £500 million.

Capital Adequacy

Regulatory Measurement Methodologies

This section summarises the methodologies used by UBSL up to 31.12.2013 in measuring risk under the Capital Requirements Directive 3 regulatory rules. It is UBSL's practice to determine its capital requirements after the application of eligible collateral but without recognising the parental indemnity described above in the section headed "Business Model and Risk Management Objectives and Policies".

Credit Risk

UBSL applies the Standardised approach to measure credit risk. UBSL has approval from the PRA to use UBS Group's internal credit models to measure the exposure arising from certain OTC financial derivatives (under an effective expected positive exposure (EPE) model) and certain securities financing transactions (under a close out period (COP) model).

All other credit risk is quantified using non-modelled approaches.

Market Risk

UBSL calculates its market positions using non-modelled standard supervisory approaches. In light of the risk transfer mechanism provided by the business model little market risk remains in UBSL.

Operational Risk

UBSL has adopted the Basic Indicator Approach for determining its operational risk capital requirements.

Pillar 1 Capital Requirements

UBSL utilises external ratings that have either been issued by or endorsed by an ESMA authorised office of Standard and Poors, Moodys and Fitch established within the EU. These External Credit Assessment Institutions are recognised by the PRA as eligible providers of credit ratings for the purposes of calculating credit risk requirements under the standardised approach.

UBSL undertakes profit and loss and capital forecasting in the context of the anticipated business environment and any intended changes to business activities. The capital forecast takes into account the expected changes in the risk profile of UBSL pre and post credit risk mitigation. This forecast is subject to stress and scenario testing and this is used to determine the appropriate potential capital needs and credit risk mitigation required.

The following table sets out UBSL's Pillar 1 capital requirements as at 31 December 2013 in accordance with the PRA's rules.

Capital Requirements

GBP 000s	**31.12.13**	31.12.12
Credit risk capital component under the Standardised Approach by exposure class	**103,050**	98,743
of which:		
Central governments or central banks	–	–
Regional governments or local authoritites	–	–
Administrative bodies and non-commercial undertakings	–	–
Multilateral development banks	–	–
International organisations	–	–
Institutions	*2,259*	*3,189*
Corporates	*100,647*	*95,410*
Retail	–	–
Secured on real estate property	–	–
Past due items	–	–
Items belonging to regulatory high risk categories	–	–
Covered bonds	–	–
Securitisation positions	–	–
Short term claims on institutions and corporates	–	–
Collective investment undertakings	–	–
Other items	*144*	*144*
Operational risk capital component	**35,805**	33,532
Trading Book		
Market risk capital requirement	**36**	44
of which:		
Interest rate	–	–
Equity	–	–
Option	–	–
Collective investment undertakings	–	–
Commodity	–	–
Foreign currency	*36*	*44*
Counterparty risk capital component	**175,044**	*169,357*
Concentration risk capital component	–	–
Total Pillar 1 capital requirement	**313,935**	**301,676**

Credit Risk Mitigation

Further to the comprehensive risk transfer and exposure collateralisation arrangements described above, in the section headed "Business Model and Risk Management Objectives and Policies", the following is relevant to the management of credit risk.

Netting

UBSL employs both on- and off-balance sheet netting as a credit risk mitigant in order to effectively manage the credit risk it faces on the business it transacts. Agreements are subject to appropriate legal review to ensure enforceability in insolvency in the relevant jurisdictions.

Collateral

In addition to the collateral arrangements with UBS AG, under which it may call collateral to manage the exposure to UBS AG, UBSL has also entered into collateral agreements under which counterparties can be required to provide collateral in the form of cash or marketable securities when exposure exceeds a predefined level. Similarly, UBSL may be required to deliver collateral.

Where financial collateral in the form of cash, marketable securities or gold is taken, UBSL will apply discounts to the market value reflecting its quality, liquidity and volatility. Exposures and collateral positions are monitored in accordance with the governing documentation and margin calls are made (and, if necessary, subsequent close-out rights exercised) when the exposure and/or the market value of collateral changes to the extent that the contractual obligations are triggered.

Remuneration

Remuneration policy and compensation structure

Remuneration at UBS operates within the UBS Total Reward Principles. These principles and supporting processes provide a compensation structure for all employee remuneration at UBS, including those in the UK.

The principles are published as part of the Compensation Report in the UBS Group Annual Report, which can be accessed via the link embedded in the "Introduction" section of this document.

Remuneration awarded for 2013

The following tables show details of the awards made to UBS Code Staff under the UK Remuneration Code in respect of the 2013 financial year. All figures are shown in GBP 000s unless otherwise indicated. This includes Code Staff across all UBS UK entities (not just UBS Limited).

Number of beneficiaries and Total Remuneration, broken down by Business Area:

Remuneration

	Number of Beneficiaries		Total Remuneration (GBP 000s)	
	31.12.13	31.12.12	31.12.13	31.12.12
Corporate Centre	66	66	47,775	44,051
Investment Bank	67	92	127,220	84,729
Wealth Management	8	12	6,749	9,330
Global Asset Management	15	18	13,326	16,464
Total	156	188	195,070	154,574

Total Remuneration broken down by "Senior Manager" and "Other":

Total Remuneration

	Number of Beneficiaries		Fixed Remuneration (GBP 000s)		Variable Remuneration (GBP 000s)	
	31.12.13	31.12.12	31.12.13	31.12.12	31.12.13	31.12.12
Senior Managers[1]	22	18	11,128	9,539	37,809	24,069
Other	134	170	37,413	44,557	108,720	76,409
Total	**156**	**188**	**48,541**	**54,096**	**146,529**	**100,478**

1 Senior Managers categorised as UK Code Staff are Group Managing Directors or above.

Breakdown of variable remuneration awarded by type:

Variable remuneration awarded by type

GBP 000s	Number of Beneficiaries	Immediate Cash	Deferred Cash	Immediate Shares	Deferred Shares
31.12.13					
Senior Managers	18	5,103	10,634	2,915	19,156
Other[1]	111	18,308	29,006	15,080	46,326
Total	129	23,411	39,640	17,995	65,482
31.12.12					
Senior Managers	14	4,603	7,522	2,174	9,771
Other	124	16,729	20,934	11,802	26,944
Total	**138**	**21,332**	**28,456**	**13,976**	**36,715**

1 An additional 27 code staff received no variable remuneration (2012: 50 code staff)

There has been no reduction of deferred remuneration granted to Code Staff in respect of the 2013 performance year as yet, although those awards granted to Code Staff do continue to have a performance condition attached to them.

Awards granted to Investment Bank Code Staff in respect of 2011, which were granted in February 2012, were subject to a downwards adjustment on the first tier that vested 1st March 2013 based on the performance of the Investment Bank in 2012.

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

Summary of outstanding deferred remuneration

GBP 000s	Senior Managers	Other	Total
2013			
Deferred remuneration - granted during 2013[1]	16,210	59,423	75,633
Deferred remuneration - distributed during 2013[2]	13,914	54,529	68,443
Performance adjustments during 2013[3]	1,205	6,783	7,988
Outstanding deferred remuneration as at 31 December 2013[4]	58,060	176,889	234,949

1 For granted remuneration, price and FX as at grant date. 2 For distributions, price and FX as at distribution date. 3 Performance adjustments include performance plan reductions and forfeitures upon termination. Value based on transaction price and FX on transaction date. 4 Outstanding remuneration based on price and spot FX rate as at 31 December 2013

Summary of population split by band of total remuneration in accordance with Article 450 (1)(i) of the Capital Requirements Regulation

Summary of population by band of total remuneration

	Number of Beneficiaries		
	Senior Management	Other	Total
0 – 1,000,000	3	76	79
1,000,000 – 1,500,000	6	18	24
1,500,001 – 2,000,000	6	9	15
2,000,001 – 2,500,000	1	16	17
2,500,001 – 3,000,000	–	–	–
3,000,001 – 3,500,000	–	7	7
3,500,001 – 4,000,000	–	3	3
4,000,001 – 4,500,001	1	4	5
4,500,001 – 5,000,000	1	–	1
5,000,001 – 6,000,000	2	–	2
6,000,001 – 7,000,000	1	1	2
7,000,001 – 8,000,000	–	–	–
8,000,001 – 9,000,000	1	–	1
Total [1]	22	134	156

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

Summary of sign-on awards and guarantees paid to new hire employees and severance payments made:

Summary of guarantees paid to new hires

	Number of Beneficiaries		Amount (GBP 000s)	
	31.12.13	31.12.12	**31.12.13**	31.12.12
Senior Managers	–	1	–	892
Other	–	4	–	4,940
Total	–	5	–	5,832

Summary of severance payments made

	Number of Beneficiaries		Amount (GBP 000s)	
	31.12.13	31.12.12	**31.12.13**	31.12.12
Senior Managers	–	–	–	–
Other[1]	**3**	–	**1,330**	–
Total	**3**	**–**	**1,330**	**–**

1 Highest individual severance award was GBP 792,000

There were no sign-on awards granted during the financial years 2012 and 2013.

Contacts

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The information contained within this document has not been audited by the UBSL's external auditors.

Rounding | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Percentages and percent changes are calculated based on rounded figures displayed in the tables and text and may not precisely reflect the percentages and percent changes that would be derived based on figures that are not rounded.

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