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UBS Limited
Pillar 3 Disclosures

June 2012

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1. Introduction

UBS Limited ("UBSL") is a credit institution incorporated in Great Britain and authorised and regulated by the Financial Services Authority ("FSA").

UBSL is required to comply with the requirements of the FSA'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 December 2011.

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 is subject to the Basel 2.5 regulatory framework under the rules of the FINMA. Under this framework the UBS Group is required to make appropriate Pillar 3 disclosures.

Given the nature of the UBSL business model (described in section 4 below) 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 2011 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 - 2011 - 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 Pillar 3 disclosures

2. 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. 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 in section 4 below. 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.

3. 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.

4. Business Model and Risk Management Objectives and Policies

4.1 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 FSA 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 FSA 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 FSA 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.

As the banking and financial services industry globally continues to undergo a phase of significant regulatory change and development, the Directors review UBSL's operating model on a regular basis and may need to make changes to that model.

4.2 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") Europe Middle East and Africa ("EMEA") Risk Committee ("EMEA RC") and the UBSL Capital and Collateral Committee.

4.2.1 The UBS-IB EMEA Risk Committee

The EMEA RC is a UBS-IB 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 region undertaken by UBS-IB in pursuit of its agreed business strategy; and
- exercising oversight of the risk control environment for UBS-IB within the region

Also, and specifically in relation to UBSL, it is required to:

- monitor the funding risks and review UBSL's large exposures, liquidity limits and general compliance with the FSA's, or other regulatory bodies, financial regulatory requirements as relevant to UBSL;
- 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 EMEA RC considers necessary or desirable relating to UBSL's risk or internal control environment or prudent financial management

The Committee membership includes UBSL directors holding executive offices of UBSL:

- Chief Operating Officer
- Chief Risk Officer
- Finance Director

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

The EMEA RC reports to the UBSL Board in respect of UBSL matters.

4.2.2 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 UBSL directors holding executive office of UBSL for:

- Finance Director
- Group Treasury
- Chief Operating Officer

- Chief Risk Officer
- Collateral Management, Operations and Client Money

5. Capital Resources

Year end 2011

The table below summarises the composition of capital resources as at 31.12.2011.

Capital Resources

GBP thousand	Notes	31.12.2011	31.12.2010
Core tier one capital:			
Permanent share capital		153,663	153,663
Profit and loss account and other reserves		77,436	59,303
Share premium account		2,095,837	2,095,837
Total tier one capital before deductions		2,326,936	2,308,803
Deductions from tier one capital	1	(303)	(311)
Total tier one capital after deductions		2,326,633	2,308,492
Upper tier two capital:			
Revaluation reserves		23,086	2,450
Total tier two capital before and after deductions		23,086	2,450
Total tier one capital plus tier two capital after deductions		2,349,719	2,310,942
Total tier three capital		0	0
Total capital resources after deductions		2,349,719	2,310,942

Notes:

1. The tier one deduction is in respect of an illiquid asset

In 2012 UBS Limited increased its capital with the issuance on 24 January of 39,891,000 Ordinary shares of £1.00 each which were allotted and fully paid for cash at a price, including premium, of £15.04098668 per share to its parent, UBS AG. This has increased Tier 1 and Total Capital Resources after deductions by £600 million.

6. Capital Adequacy

6.1 Regulatory Measurement Methodologies

This section summarises the methodologies used by UBSL in measuring risk under the Basel II 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 in section 4.

6.1.1 Credit Risk

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

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

6.1.2 Market Risk

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

6.1.3 Operational Risk

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

6.2 Pillar 1 Capital Requirements

The following table sets out UBSL's Pillar 1 capital requirements as at 31 December 2011 in accordance with the FSA's rules.

Pillar 1 Capital Requirements

GBP thousand	31.12.2011	31.12.2010
Credit risk capital component under the Standardised Approach by exposure class	**61,845**	**46,000**
Central governments or central banks	0	0
Regional governments or local authoritites	0	171
Administrative bodies and non-commercial undertakings	0	0
Multilateral development banks	0	0
International organisations	0	0
Institutions	4,282	658
Corporates	55,551	44,783
Retail	0	0
Secured on real estate property	0	0
Past due items	0	0
Items belonging to regulatory high risk categories	0	0
Covered bonds	0	0
Securitisation positions	0	0
Short term claims on institutions and corporates	0	0
Collective investment undertakings	0	0
Other items	2,012	388
Operational risk capital component	**31,903**	**31,420**
Trading Book		
Market risk capital requirement	**117**	**76**
Interest rate	0	0
Equity	0	0
Option	0	0
Collective investment undertakings	0	0
Commodity	0	0
Foreign currency	117	76
Counterparty risk capital component	**223,915**	**147,180**
Concentration risk capital component	**0**	**0**
Total Pillar 1 capital requirement	**317,780**	**224,676**

UBSL utilises external ratings from Standard and Poors, Moodys and Fitch. These External Credit Assessment Institutions are recognised by the FSA as eligible providers of credit ratings for the purposes of calculating credit risk requirements under the standardised approach.

UBSL undertakes profit & 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.

7. Credit Risk Mitigation

Further to the comprehensive risk transfer and exposure collateralisation arrangements described in section 4 the following is relevant to the management of credit risk.

7.1 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.

7.2 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 two-way collateral agreements with market participants, under which either party can be required to provide collateral in the form of cash or marketable securities when exposure exceeds a pre-defined level. Generally, OTC derivatives business with lower rated counterparties and with hedge funds is conducted under one-way collateral agreements under which the counterparty provides collateral to UBSL.

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.

8. Remuneration

8.1 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 that can be found on the UBS group website accessed via the link below:

UBS - 2011 - Compensation Report

8.2 Remuneration awarded for 2011

Disclosures of amounts of remuneration awarded in 2011 in respect of the Remuneration Code will be separately published on UBS's corporate website, at the link below, at a later date together with disclosures of the amounts of remuneration awarded. When published, they should be deemed part of the Pillar 3 disclosures for UBS Limited.

Pillar 3 disclosures of UBS subsidiaries in the UK

Disclaimer

This document may contain statements that constitute "forward looking statements" including but not limited to statements relating to the anticipated effect of transactions described herein and other risks specific to UBS's business, strategic initiatives, future business development and economic performance. While these forward-looking statements represent UBS's judgements and expectations concerning the development of its business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations.

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

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