UBS

For the year ended
31 December 2013

UBS Limited
Annual Report and Financial Statements

Company Registration Number: 2035362

Contents

Directors and Officers

Board of Directors

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

Non-Executive[1,2,3,4]
Michael J Cassidy, CBE
Sally A James
John H Tattersall

Chief Executive Officer
J Mark Yallop

Finance Director[1]
Sean E Ryan

Treasurer
Anna M I Haemmerli

Chief Operating Officer
Wayne Lawson-Turnbull

James W Hartop
Duncan G Rodgers

Officers

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

The Directors present their Strategic Report prepared in accordance with the provisions of Sections 414C of the Companies Act 2006 for the year-ended 31 December 2013 ("in the year").

Introduction and Summary of Principal Activities

UBS Limited (the Company) is a wholly-owned and controlled subsidiary in the UBS AG Group, which includes UBS AG and its consolidated subsidiaries, also referred to as the Group. The Company is a wholly owned subsidiary of UBS AG (also 'the Parent') and is included in its Group accounts. UBS AG, a company incorporated with limited liability in Switzerland, is the immediate and ultimate parent undertaking.

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. In addition, the Company's Equities business operates a Multilateral Trading Facility. The Company also maintains a number of exchange and clearing house memberships in the United Kingdom and elsewhere in order to facilitate or support its business activities.

During the year, the Company conducted its business in a broad range of investment banking products and services under a business operating model designed to substantially transfer all credit, market, funding and other risks to UBS AG without recourse. The Company's operating profit for the year is determined in accordance with that business operating model.

As a consolidated part of the UBS AG Group, the Company and its performance has been, and continues to be, closely monitored and overseen by the Parent through Group and Divisional governance and business frameworks. Certain summary quarterly financial information is included in the published UBS AG Quarterly Results. The Company is also required to adhere to relevant Group and Divisional policies and codes.

The Company is headquartered in London and its reported results for the year include its branches in France, Germany, Poland, Sweden and Switzerland and its two Representative Offices in Carouge, Geneva, and Opfikon, Zurich.

On 24 January 2003 and within the terms of the business operating model, UBS AG issued a deed poll providing a form of guarantee to clients of the Company ('the Guarantee'). The Guarantee remains in place.

Business review for 2013

The profit on ordinary activities of the Company, before taxation, for the year amounted to £26,538,000 (2012: £83,418,000). After taxation the Company retained a profit of £21,105,000 for the year (2012: £77,194,000) which resulted in the Company having retained profits at 31 December 2013 to be carried forward, or distributed by way of dividend to shareholders, of £80,407,000 (2012: £136,496,000). The Company's state of affairs as at the year end was otherwise as shown in the accompanying Financial Statements.

During the year, the company made a profit, before taxation, of £4,035,000 as a result of the disposal of its interest in the ordinary share capital of LCH.Clearnet Group Ltd.

During 2012, the Company made a profit, before taxation, of £57,755,000 as a result of the disposal of its interests in the Ordinary share capital of LME Holdings Limited.

Risks and Uncertainties

Risks associated with the business are managed according to UBS AG guidelines. Details of the risk management principles adopted by the Directors are provided in Note 24 to the financial statements. The Company, as a wholly-owned subsidiary of UBS AG, operates in line with UBS AG Group policies, including environmental and ethical standards.

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 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 the Company's financial statements.

Key Performance Indicators

Given the scope of the business operating model, and that the Company is a wholly-owned subsidiary of UBS AG, the Directors are of the opinion that the use of key performance indicators or other forms of performance measurement is not necessary in providing an understanding of the development, performance or position of the Company and its business for the purposes of Section 417 of the Companies Act 2006.

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

Future Developments

In response to regulatory developments and in consultations with the UK and Swiss regulators, the Company's business operating model is currently being reviewed in conjunction with its Parent. During 2014, the Directors expect to commence the implementation of a modified business operating model, including changes to the Company's risk profile, to the effect that risk and reward in its business activities will be borne and retained by the Company to a greater degree.

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 by anyone 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 important factors could cause actual developments and results to differ materially from our expectations. No assurance can be given that any forward-looking statement will be realised.

Approved by the Board of Directors on 25 March 2014 and signed by:

J Mark Yallop
Chief Executive

Directors' Report

The Directors present their Report together with the audited Financial Statements of the Company for the year ended 31 December 2013 ("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.

Dividends

The Directors recommend the declaration of a final dividend amounting in aggregate to £21,105,000 in respect of the year (2012: £77,194,000).

There was no interim dividend paid during the year, during 2012, the Directors paid an interim dividend to, the holders of ordinary shares in the capital of the Company which amounted in aggregate to £18,133,000.

Share Capital

On 20 December 2013 the Directors issued and allotted 33,065,765 Ordinary shares of £1.00 each fully paid for cash at a price, including premium, of £15.12 per share.

Directors

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

During the year there were three appointments to, and six departures from, the Board. Mr J Mark Yallop was appointed a Director, and Chief Executive Officer, of the Company on 1 March 2013. Ms Vanessa A Bailey was appointed as a Director, and as the Chief Risk Officer (Credit), of the Company on 7 March 2013 and Mr Sean E Ryan was appointed as Finance Director, of the Company on 31 October 2013.

Mr Simon D Warshaw resigned as a Director of the Company on 28 January 2013 and Mr Carsten N Kengeter resigned as a Director of the Company on 13 February 2013. Mr C H Simon Courtis and Mr Rajeev Misra respectively resigned as Directors on 2 July 2013 and 19 August 2013. Mr Julian V Ozanne resigned as a Director on 31 October 2013 and on 2 December 2013 Ms Vanessa A Bailey resigned as a Director.

Since the year, on 25 March 2014, Mr Philip J Allison resigned as a Director of the Company.

Employees

The Company has three employees of its own: two are resident in Switzerland as the Managers of its newly established Representative Offices and one resident in Poland in the Poland Branch (2012: Nil). 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

Directors' Responsibilities

The Directors are responsible for preparing the 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.

Charitable Donations and Political Contributions

There were no charitable donations nor any contributions for political purposes made by the Company during the year (2011: 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 25 March 2014 and signed on their behalf by:

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

Independent Auditors' report to the members of UBS Limited

We have audited the financial statements of UBS Limited for the year ended 31 December 2013 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flow and the related notes 1 to 28. 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 report and financial statements to identify material inconsistencies with the audited financial statements. 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 2013 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 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.

Notes:

- The maintenance and integrity of the UBS 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.

Neville Gray (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
London, 26 March 2014

Income Statement for the year ended 31 December 2013

Income Statement

GBP 000s	Notes	2013	2012
Interest and similar income	2	**331,394**	577,637
Interest and similar expense	2	**(324,656)**	(585,159)
Net interest Income/(expense)		**6,738**	(7,522)
Net fee and commission expense	3	**(8,268)**	(5,820)
Net trading income		**14,359**	28,225
Net gain on sale of financial investments	13	**4,035**	57,755
Other operating income	20	**196,753**	225,149
Net operating income		**213,617**	297,787
Administrative expenses	20	**(187,079)**	(214,369)
Profit before tax		**26,538**	83,418
Taxation	8	**(5,432)**	(6,224)
Profit for the financial year		**21,105**	77,194

Note: All activities in current/prior year were continuing

The notes on pages 14 to 45 form an integral part of these financial statements.

Statement of Comprehensive Income for year ended 31 December 2013

Statement of Comprehensive Income

GBP 000s	Notes	31.12.13	31.12.12
Net profit		**21,105**	77,194
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		**(156)**	3,460
Disposal of financial investments	13	**(4,121)**	(23,056)
Exchange difference on translation		**7**	(2)
Tax on items relating to components of other comprehensive income	8	**80**	271
Total other comprehensive income that may be reclassified to the income statement		**(4,189)**	(19,327)
Total comprehensive income		**16,916**	57,867

The notes on pages 14 to 45 form an integral part of these financial statements.

Balance Sheet as at December 2013

Balance Sheet

GBP million	Notes	31.12.13	31.12.12
Assets			
Due from banks		5,409	10,873
Cash collateral on securities borrowed	10	954	1,465
Reverse repurchase agreements	10	20,377	25,367
Trading portfolio assets		1,021	1,131
Positive replacement values	11	38,208	85,181
Cash collateral receivable on derivative instruments	10	11,678	17,727
Financial assets designated at fair value	12	857	930
Loans and advances to customers		820	318
Other amounts due from Group undertakings	20	101	70
Financial investments available-for-sale	13	3,411	2,872
Other assets	14	30	57
Total assets		82,866	145,990
Liabilities			
Due to banks		2,127	6,195
Cash collateral on securities lent	10	768	1,177
Repurchase agreements	10	20,377	24,753
Trading portfolio liabilities		543	974
Negative replacement values	11	38,231	85,181
Cash collateral payable on derivative instruments	10	15,502	22,964
Financial liabilities designated at fair value	12	857	930
Due to customers		897	674
Other amounts owed to Group undertakings	20	79	67
Tax provision		4	7
Other liabilities	15	52	76
Total liabilities		79,435	142,999
Equity			
Share capital	18	227	194
Share premium		3,123	2,656
Revaluation reserve		0	5
Retained earnings		80	136
Total equity		3,430	2,991
Total liabilities and equity		82,866	145,990

These Financial Statements were approved by the Directors on 25 March 2014 and signed on their behalf by:

Sean E Ryan, Finance Director

26 March 2014

The notes on pages 14 to 45 form an integral part of these financial statements.

Statement of Changes in Equity for year ended 31 December 2013

Statement of Changes in Equity

GBP million	Share capital	Share premium	Revaluation reserve	Retained earnings	Total share-holders' funds
Balance as of 1 January 2012	**154**	**2096**	**24**	**77**	**2351**
Profits for the year	–	–	–	77	77
Other comprehensive income	–	–	(19)	–	(19)
Total comprehensive income	–	–	**(19)**	**77**	**58**
Increase in share capital	40	560	–	–	600
Dividends	–	–	–	(18)	(18)
Balance as of 31 December 2012	**194**	**2,656**	**5**	**136**	**2,991**
Profit 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**	**0**	**80**	**3,430**

The notes on pages 14 to 45 form an integral part of these financial statements.

Statement of Cash flows for the year ended 31 December 2013

Statement of Cash Flows

GBP million	31.12.13	31.12.12 (restated)
Profit before tax	27	83
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)	(58)
Net (increase) / decrease in operating assets and liabilities[1]		
Net due from / to banks	(2,653)	1,435
Reverse repurchase agreements and cash collateral on securities borrowed	5,501	18,730
Trading portfolio, net replacement values and financial assets designated at fair value	(299)	(216)
Loans / due to customers	(279)	417
Accrued income, prepaid expenses and other assets	(5)	58
Repurchase agreements and cash collateral on securities lent	(4,785)	(17,928)
Cash collateral on derivative instruments	(7,462)	1,806
Accrued expenses and other liabilities	(12)	(70)
Income taxes paid	(8)	(5)
Net cash flow from operating activities	(9,981)	4,253
Cash flow from / (used in) investing activities		
Net (investment in) / divestment of financial investments available-for-sale	(540)	(524)
Net cash flow from / (used in) investing activities	(540)	(524)
Cash flow from / (used in) financing activities		
Capital issuance	500	600
Dividends paid	(77)	(18)
Net cash flow from / (used in) financing activities	423	582
Net increase / (decrease) in cash and cash equivalents[1]	(10,097)	4,311
Cash and cash equivalents at the beginning of the year	23,174	18,864
Cash and cash equivalents at the end of the year[1]	13,077	23,174
Cash and cash equivalents comprise		
Due from banks with original maturity of less than three months[1, 2]	13,077	23,174
Total	13,077	23,174

1 We have restated the prior year Cash and Cash equivalents due from banks where the residual maturity was used in error. The value of Due from Banks with an original maturity of less than three months has fallen by GBP 584m as at 31 December 2012 with related changes to cash flow from operating activities. 2 Includes positions recognised in the balance sheet under due from banks (2013: 5,061m and 2012: 8,669m) and cash collateral receivables from derivative instruments from bank counterparties (2013: 8,016m and 2012: 14,506m, refer to Note 10).

The notes on pages 14 to 45 form an integral part of these financial statements.

Notes to the Financial Statements for the year ended 31 December 2013

Note 1 Accounting Policies

a) Significant accounting policies

The significant accounting policies applied in the preparation of the financial statements (the "Financial Statements") of UBS Limited 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 2013. 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.

The Financial Statements are presented in pound sterling (GBP), the currency of the United Kingdom where UBS Limited is incorporated.

Use of estimates in the preparation of Financial Statements

In preparing the Financial Statements, management is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates, and the differences may be material to the Financial Statements.

In the process of applying the Company's accounting policies, management has exercised judgment and estimates in determining the amounts recognised in the Financial Statements. The most significant use of judgment and estimate has been applied in determining the fair value of financial instruments in level 2 and level 3 as disclosed in note 22.

Recognition and derecognition of financial instruments

The Company recognises financial instruments on its Balance Sheet when the Company becomes party to the contractual provisions of the instrument.

If the Company enters into transactions where it transfers financial assets recognised on its Balance Sheet but retains either all risks and rewards of the transferred financial assets or a portion of them the transferred financial assets are not derecognised from the Balance Sheet. Transfers of financial assets with retention of all or substantially all their risks and rewards include securities lending and repurchase transactions, these are described in a separate policy below.

In transactions where substantially all of the risks and rewards of ownership of a financial assets are neither retained nor transferred, the Company derecognises the asset if control over the asset is lost.

The Company derecognises a financial liability from its Balance Sheet when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

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. Non-monetary items measured at historical cost are translated at the exchange rate on the date of the transaction.

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 22.

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 and balances with central and other banks.

The Company holds money on behalf of clients. This money is included within cash and cash equivalents on its balance sheet. The return received on managing client money is included within interest income.

Trading portfolio

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.

Trading portfolio assets include debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans); equity instruments, assets held under unit-linked contracts and precious metals and other commodities owned by 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 re-measuring 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.

Financial instruments designated at fair value

A financial instrument may only be designated at fair value through profit or loss at inception and this designation cannot be changed subsequently. Financial assets and financial liabilities (refer to Note 12) designated at fair value are presented on separate lines on the face of the balance sheet. There are restrictions as to when the fair value option can be applied. The conditions for applying the fair value option are met when:

- the financial instrument is a hybrid instrument which includes an embedded derivative; or
- 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 reduces or eliminates an accounting mismatch that would otherwise arise.

The Company has used the fair value option to designate most of its hybrid instruments as financial liabilities designated at fair value through profit or loss, on the basis that such financial instruments include embedded derivatives and/or are managed on a fair value basis.

The fair value option is applied to certain loans and loan commitments, otherwise accounted for at amortized cost, due to the hedging strategy applied.

In order to reduce an accounting mismatch, the Company has also 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 financial assets designated at fair value or Interest expense on financial liabilities designated at fair value, respectively (refer to Note 2).

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

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 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.

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.

Loans and Receivables

Loans include loans originated by the Company where money is provided directly to the borrower, participation in a loan from another lender and purchased loans that are not quoted in an active market and for which no intention of immediate or short term resale exists. Originated and purchased loans that are intended to be sold in the short term are recorded as trading portfolio assets. The fair value option is also applied to certain loans which are substantially hedged with credit derivatives within the group.

Loans are recognised when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate the loan, plus any transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Interest on loans is included in interest earned on loans and advances and is recognised on an accrual basis. Fees and direct costs relating to loan origination, refinancing or restructuring and to loan commitments are deferred and amortised to interest earned on loans and advances over the life of the loan using the straight-line method which approximates the effective interest rate method. Fees received for commitments that are not expected to result in a loan are included in credit-related fees and commissions over the commitment period.

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. 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.

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.

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.

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 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.

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.

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. Please see Note 17.

Derivative financial instruments

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and are re-measured subsequently to fair value. The method of recognizing fair value gains or losses depends on whether derivatives are held for trading or are designated and effective as hedging instruments.

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 receivables on derivative instruments or Cash collateral payables 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, 100% daily margined exchange traded options, interest rate swaps transacted with the London Clearing House and certain credit derivative contracts. Changes in the fair values of derivatives are recorded in Net trading income.

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 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 Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated.

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 realised and unrealised, on financial assets, arrived at after taking into account attributable dividends and directly related interest, together with commission income receivable.

Interest income is recognised 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 recognised when the shareholders' rights to receive payment has been established.

Other operating income

Other operating income relates to charges for the provision of investment banking services to Group companies (refer to note 20).

Taxation

Taxation payable on profits is recognised as an expense based on the applicable tax laws in the period to which the profits arise. The tax effects of income tax losses available for carry forward are recognised as a deferred tax asset if it is probable that future taxable profit will be available against which those losses can be utilised.

Deferred taxation is recognised in respect of all temporary differences, at the rates of taxation anticipated to apply when these differences crystallise, arising from the inclusion of items of income and expenditure in taxation computations in periods different from those for which they are included in the Financial Statements.

Deferred tax assets are recognised only to the extent that the Directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the Balance Sheet date.

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. The Company'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 reduction in future payments is available.

Netting

The Company nets financial assets and liabilities on its balance sheet if it has a currently enforceable legal right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Netted positions include, for example, OTC interest rate swaps transacted with the London Clearing House, netted by currency and across maturity dates, repurchase and reverse repurchase transactions entered into with the both the London Clearing House and the Fixed Income Clearing Corporation, netted by counterparty, currency, central securities depository and maturity, as well as transactions with various other counterparties, exchanges and clearinghouses.

b) Changes in accounting policies, comparability and other adjustments

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations:

IFRS 7 Financial Instruments Disclosures

In December 2011, the IASB issued revised IFRS 7 Financial Instruments: Disclosures, requiring the disclosure of the new information in respect of an entity's use of enforceable netting arrangements. The amendments to IFRS 7 are intended to enable users of financial statements to better evaluate the effect or potential effect of netting arrangements on the entity's financial position. The amendments require entities to disclose both gross and net amounts of recognised financials assets and financials liabilities associated with master netting agreements and similar arrangements, including the effect of financial collateral, whether or not presented net on the face of the balance sheet.

The Company adopted the revisions to IFRS 7 as of 1 January 2013 in accordance with the transitional provisions set out in the standard and the resultant disclosures are reflected in "Note 17 Offsetting financial assets and financial liabilities" of these Financial Statements.

IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 Fair Value Measurement, which establishes a single source of guidance for all fair value measurements under IFRS. It defines fair value as 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; i.e., an exit price. The standard emphasizes that fair value is a market-based measurement, not an entity specific measurement. It clarifies that the unit of measurement is generally a particular asset or liability unless an entity manages and reports its net risk exposures on a portfolio basis, in which case it may elect to apply portfolio-level price adjustments under limited circumstances. It also introduces new disclosure requirements and enhancements to existing disclosure, which are reflected in "Note 22 Fair value measurement" of these Financial Statements.

IFRS 13 became effective for the Company on 1 January 2013 and has been applied prospectively from that date.

IAS 1 Presentation of Financial Instruments

In June 2011, the IASB issued the revised IAS 1 Presentation of Financial Statements. The revised standard requires the grouping together for presentation purposes of items within other comprehensive income (OCI) into those that may be reclassified to profit or loss in subsequent periods and those that may not be. The revised standard reaffirms existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. UBS Limited adopted the revised standard on its mandatory effective date of 1 January 2013, resulting in revised presentation in the statement of comprehensive income.

Accrued income and prepaid expenses, Accrued expenses and deferred income

Accrued income and prepaid expenes as well as Accrued expenses and defered income are no longer presented as separate line items in the balance sheet but under Other assets and Other liabilities, respectively. The presentation in the notes to these Financial Statements, including the comparative information, has been adjusted accordingly. Refer to "Note 14 Other Assets" and "Note 15 Other liabilities". This change in presentation did not impact net profit, total assets or total liabilities.

c) International Financial Reporting Standards and Interpretations to be adopted in 2014 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 requires 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 other comprehensive income 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, with a final effective date to be decided upon when the project is closer to completion. The standard further amends IFRS 9 to permit entities to early adopt the own credit presentational changes without having to apply any of the other requirements of IFRS 9.

The Company is currently assessing the impact of the new requirements on the Financial Statements.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

In December 2011, the IASB issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32, Financial Instruments: Presentation). The amendments to IAS 32 only allow offsetting on the balance sheet if a right of set-off exists that is unconditional and legally enforceable, both in the normal course of business and in the event of default, bankruptcy or insolvency of the entity and all of the counterparties. The amendments also provide incremental guidance for determining when gross settlement systems result in the functional equivalent of net settlement. The Company is currently assessing the impact of the new requirements on the Financial Statements.

IFRIC Interpretation 21, Levies

In May 2013, the IASB issued 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, regardless of whether an entity has no realistic ability to avoid the triggering event. The interpretation is applicable retrospectively and is effective on 1 January 2014, with early adoption permitted. Adoption of the interpretation is not expected to have a material impact 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. UBS Limited is currently assessing the impact of the amendments on the Financial Statements.

Note 2 Net Interest Income / Expense

GBP 000s	**31.12.13**	31.12.12
Interest and similar income		
Interest income on loans and advances	**82,261**	148,192
Interest income on securities borrowed and reverse repurchase agreements	**156,301**	322,286
Interest and dividend income from trading portfolio	**32,006**	28,411
Interest income on assets designated at fair value	**48,031**	64,518
Interest and dividend income from financial investments held as available-for-sale	**12,795**	14,229
Total	**331,394**	577,637

	31.12.13	31.12.12
Interest and similar expense		
Interest on amounts due to banks and customers	**(83,319)**	(148,631)
Interest expense on securities lent and repurchase agreements	**(173,158)**	(343,295)
Interest and dividend expense from trading portfolio	**(20,147)**	(28,716)
Interest expense on liabilities designated at fair value	**(48,031)**	(64,517)
Total	**(324,656)**	(585,159)
Net interest income / (expense)	**6,738**	(7,522)

Note 3 Net Fee and Commission Expense

GBP 000s	**31.12.13**	31.12.12 (restated)
Brokerage fees earned[1]	**141,481**	137,129
Brokerage fees paid[1]	**(141,481)**	(137,129)
Other fees and commission expense	**(8,268)**	(5,820)
Net fee and commission expense	**(8,268)**	(5,820)

1 Certain brokerage fees were erroneously grossed out in the 2012 financial statements. In addition the Company has derecognised the gross treatment of give-in fees, in line with recent clarification on the legal documentation for this business. The 2012 comparative has been restated, resulting in a 90m reduction in brokerage fees earned and paid.

Note 4 Personnel Expenses

GBP 000s	Note	**31.12.13**	31.12.12
Salaries		**219**	0
Compensation		**231**	0
Social security		**72**	0
Pension plans	23	**32**	0
Total expenses		**555**	0

The personnel expenses above relate to the employees in the Representative Offices and the Polish Branch which are reported under 'other operating expenses' in the income statement. There was an average of 2 employees during the year (2012: 0).

Note 5 Auditors Remuneration

During the year, fees of £121,279 (2012: £114,934) in connection with the audit of the Company's annual Financial Statements and £257,277 (2012: £nil) in connection with other assurance services were paid by UBS AG on the Company's behalf. In accordance with their normal practice no recharge will be made to the Company.

Note 6 Bank Levy

For the year ended 31 December 2013, the UK bank levy cost of £21.1m (2012: £21.2m) 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. No recharge will be made to the Company.

Note 7 Directors' Remuneration

GBP 000s	**31.12.13**	31.12.12
Remuneration charged in the Company	**360**	360

Additional Directors' remuneration in respect of qualifying services borne by the Parent Company were as follows:

GBP 000s	**31.12.13**	31.12.12
Aggregate remuneration of the Directors for the year	**1,649**	642
Total remuneration of the highest paid Director	**216**	135

The highest paid director accrued £4.5k of pension at the year end under the UBS AG Group defined benefit pension scheme, and time apportioned employer defined benefits contribution under the UBS AG Group scheme of £5.7k. The table above is prepared based on compensation awarded for the performance year; no charge is borne by the Company.

Note 8 Taxation

GBP 000s	31.12.13	31.12.12
Current taxation		
UK corporation tax – current year	4,935	5,992
UK corporation tax – prior year	55	(45)
Overseas tax	421	266
Total current tax charge for the year	5,411	6,213
Deferred taxation		
UK charge / (credit) for the year (Note 9)	56	11
UK charge / (credit) for the prior year (Note 9)	(35)	0
Total tax charge	5,432	6,224

Factors affecting tax charge for year

The tax assessed for the year differs from the standard rate of corporation tax in the UK of 23.25% (2012: 24.5%). The differences are explained below:

GBP 000s	31.12.13	31.12.12
Profit on ordinary activities before tax	26,538	83,418
Current tax charge at 23.25%	6,170	20,437
Effects of:		
Profits on sale of financial investments (offset with Group capital losses without charge)	*(938)*	*(14,150)*
Movement in valuation of deferred compensation awards	*(26)*	*0*
Differences in overseas taxation rates	*174*	*(40)*
Change in UK taxation rates	*32*	*22*
Adjustments in respect of prior periods	*20*	*(45)*
Total tax charge	5,432	6,224

Tax included in the statement of other comprehensive income

Current tax	(80)	(271)
Total	(80)	(271)
This comprises: Available-for-sale financial investments	(80)	(271)

The Finance Act 2013 enacted reductions in the rate of UK corporation tax to 21% with effect from 1 April 2014, and 20% with effect from 1 April 2015. The deferred tax has been measured at the rate that is expected to apply in the periods when the temporary differences reverse and therefore UBS Limited's deferred tax asset has been calculated using a rate of 20% (2012: 23%).

Note 9 Deferred Taxation

GBP 000s	31.12.13	31.12.12
At 1 January 2013	273	284
Credit / (Charge) to income statement for current year (note 8)	(56)	(11)
Credit / (Charge) to income statement for prior year (note 8)	35	–
At 31 December 2013	**252**	273
Comprising		
Compensation and benefits	97	59
Capital allowances	155	214
Total deferred taxation	**252**	273

Note 10 Cash collateral on securities borrowed and lent, reverse repurchase and repurchase agreements, and derivative instruments

	31.12.13			31.12.12		
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
By counterparty						
Banks	756	10,072	8,016	1,248	13,252	14,506
Customers	198	10,305	3,662	217	12,115	3,221
Total	954	20,377	11,678	1,465	25,367	17,727

	31.12.13			31.12.12		
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
By counterparty						
Banks	712	19,591	12,070	1,126	22,150	19,536
Customers	56	785	3,432	50	2,603	3,428
Total	768	20,377	15,502	1,177	24,753	22,964

Note 11 Replacement Values

	31.12.13		31.12.12	
GBP million	**Positive replacement values**	**Negative replacement values**	Positive replacement values	Negative replacement values
Interest rate contracts	**23,178**	**23,178**	61,344	61,344
of which:				
Forward contracts	***57***	***57***	*348*	*348*
Swaps	***16,851***	***16,851***	*50,052*	*50,052*
Options	***6,270***	***6,270***	*10,944*	*10,944*
Credit derivative contracts	**1,802**	**1,804**	5,401	5,401
of which:				
Credit default swaps	***1,784***	***1,784***	*5,400*	*5,400*
Total rate of return swaps	***18***	***20***	*1*	*1*
Foreign exchange contracts	**8,886**	**8,886**	13,415	13,415
of which:				
Forward contracts	***200***	***200***	*200*	*200*
Swaps	***8,521***	***8,521***	*13,132*	*13,132*
Options	***165***	***165***	*83*	*83*
Equity / index contracts	**3,934**	**3,955**	4,432	4,432
of which:				
Forward contracts	***309***	***331***	*281*	*281*
Options	***3,625***	***3,624***	*4,151*	*4,151*
Precious metal contracts	**19**	**19**	22	22
of which:				
Options	***19***	***19***	*22*	*22*
Commodities contracts, excluding precious metals contracts	**389**	**389**	567	567
of which:				
Forward contracts	**–**	**–**	*13*	*13*
Options	***389***	***389***	*554*	*554*
Total replacement values	**38,208**	**38,231**	85,181	85,181

Note 12 Financial Assets and Liabilities at Fair Value

GBP million	**31.12.13**	31.12.12
Financial assets at fair value		
Loans	**301**	196
Structured loans	**139**	234
Structured reverse repos and securities borrowing arrangements	**374**	444
of which: banks	***285***	*307*
of which: customers	***2***	*67*
Equity instruments (including equity options)	**42**	56
Financial assets designated at fair value	**857**	930
Financial liabilities at fair value	**31.12.13**	31.12.12
Structured OTC debt instruments	**(769)**	(861)
Equity linked	**(42)**	(56)
Other	**(726)**	(804)
Repurchase agreements	**(88)**	(70)
Financial liabilities designated at fair value	**(857)**	(930)

The contractual redemption amount at maturity of financial liabilities designated at fair value through profit and loss is £32 million higher than the carrying value (2012: £28 million).

Note 13 Financial Investments available-for-sale

GBP million	**31.12.13**	31.12.12
UK gilt-edged securities	**3,409**	2,865
Exchanges and clearing houses	**2**	6
Total financial investments available-for-sale	**3,411**	2,872

The Company sold all of its 362,903 shares in LCH.Clearnet Group Ltd during 2013 for £4.35m, the original cost of the shares was £316k generating a profit of £4,035k (2012: valued at £4.4m). During 2012, UBS Limited sold its 550,000 shares in London Metal Exchange for £59.2m, the original cost of the shares was £1.4m generating a profit of £57.8m.

Note 14 Other Assets

GBP 000s	**31.12.13**	31.12.12
Accrued income[1]	**29,172**	52,960
Settlement accounts	**6**	209
Other tax receivables[2]	**308**	402
Other	**121**	3,301
Total other assets	**29,606**	56,872

1 In 2013, presentational changes were made to this Note. Accrued income and prepaid expenses are no longer presented as a separate line item on the balance sheet but under Other assets as this is viewed as a more appropriate presentation. Prior periods have been restated. As a result, Other assets as of December 2012 increased by £53m. Refer to "Note 1 Basis of Accounting" for further information. 2 Included within Other tax receivables are deferred tax assets of £252k (2012: £273k) as shown in "Note 9: Deferred Taxation".

Note 15 Other Liabilities

GBP 000s	**31.12.13**	31.12.12
Accrued expenses[1]	**33,751**	58,580
Deferred income[1]	**784**	294
Settlement accounts	**631**	790
Other tax payables	**79**	(73)
Provisions	**16,745**	16,820
Other liabilities	**162**	(229)
Total other liabilities	**52,151**	76,183

1 In 2013, presentational changes were made to this Note. Accrued expenses and deferred income are no longer presented as a separate line item on the balance sheet but under Other liabilities as this is viewed as a more appropriate presentation. Prior periods have been restated. As a result, Other liabilities as of December 2012 increased by £59m. Refer to "Note 1 Basis of Accounting" for further information.

Note 16 Provisions

GBP 000s	Litigation matters	Operational risks	Other	**Total 31.12.13**	Total 31.12.12
Balance at the beginning of the year	15,714	150	955	**16,820**	3,174
Increase in provisions recognized in the income statement	0	143	72	**215**	15,956
Release in provisions recognized in the income statement	0	(297)	(344)	**(641)**	(1,980)
Provisions used	0	0	0	**0**	(628)
Foreign currency translation	348	4	(1)	**351**	298
Balance at the end of the year	16,063	(0)	682	**16,745**	16,820

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 all matters with respect to which provisions have been established. The Company makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required, and the amount can be reliably estimated. Further information on litigation matters can be found in note 27.

Note 17 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.

From a balance sheet presentation perspective, the criteria for offsetting financial assets and financial liabilities are highly restrictive. The Company 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 financing, 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 arrangements, as set out in Note 24. Therefore, the net amounts presented below 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

	31.12.13							
	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 recognised 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 recognised 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**
Financial assets designated at fair value	533	–	**533**	–	(372)	160	**324**	**857**
Positive replacement values	40,164	(2,620)	**37,545**	(30,531)	(5,940)	1,074	**664**	**38,208**
Cash collateral receivables on derivative instruments	10,050	–	**10,050**	(5,492)	(529)	4,029	**1,628**	**11,678**
Total assets	80,415	(11,282)	**69,133**	(39,982)	(23,371)	5,780	**2,940**	**72,073**

	31.12.12							
	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 recognised 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 recognised on the balance sheet**
Cash collateral on securities borrowed	1,465	–	**1,465**	(365)	(748)	352	**–**	**1,465**
Reverse repurchase agreements	48,966	(23,821)	**25,145**	(7,100)	(18,045)	–	**222**	**25,367**
Financial assets designated at fair value	664	–	**664**	–	(428)	236	**266**	**930**
Positive replacement values	89,436	(5,841)	**83,595**	(69,030)	(11,709)	2,856	**1,586**	**85,181**
Cash collateral receivables on derivative instruments	15,955	–	**15,955**	(11,289)	(51)	4,614	**1,772**	**17,727**
Total assets	156,486	(29,662)	**126,825**	(87,785)	(30,981)	7,823	**3,845**	**130,670**

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

Offsetting Financial Liabilities

	31.12.13							
	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 recognised 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 recognised 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**
Financial liabilities designated at fair value	509	–	**509**	–	(370)	139	**348**	**857**
Negative replacement values	40,247	(2,620)	**37,628**	(30,531)	(5,690)	1,407	**603**	**38,231**
Cash collateral payables on derivative instruments	12,098	–	**12,098**	(5,666)	(1,773)	4,659	**3,404**	**15,502**
Total liabilities	82,440	(11,282)	**71,157**	(40,156)	(24,792)	6,209	**4,576**	**75,734**

	31.12.12							
	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 recognised 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 recognised on the balance sheet**
Cash collateral on securities lent	1,177	–	**1,177**	(365)	(802)	9	–	**1,177**
Repurchase agreements	47,368	(23,821)	**23,547**	(7,100)	(16,447)	–	**1,206**	**24,753**
Financial liabilities designated at fair value	607	–	**607**	–	(434)	173	**323**	**930**
Negative replacement values	89,977	(5,841)	**84,137**	(69,030)	(11,359)	3,747	**1,045**	**85,181**
Cash collateral payables on derivative instruments	18,546	–	**18,546**	(11,641)	(127)	6,778	**2,928**	**22,964**
Total liabilities	157,675	(29,662)	**128,013**	(88,136)	(29,169)	10,708	**5,502**	**135,005**

Note 18 Share Capital

GBP million	31.12.13	31.12.12
Allotted, called up and fully paid[1]		
226,619,765 ordinary shares of £1 each	227	194

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

Capital Management

The primary objectives of the Company's capital management are to ensure that the Company has sufficient resources to support 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.

The Company is subject to capital supervision via the UK PRA Prudential Sourcebook for Banks, Building Societies and Investment Firms. This requires a firm to hold sufficient capital 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:

Share Capital

	Actual	Actual
GBP million	31.12.13	31.12.12
Tier 1 capital	3,409	2,909
Tier 2 capital	1	1
Total regulatory capital	3,410	2,910

Total regulatory capital is comprised of Tier 1 capital, made up of share capital, share premium and audited retained earnings less specified deductions. Tier 2 capital is made up of revaluation reserves less specified deductions.

Pillar 3 disclosures

The Pillar 3 Disclosures for the Company can be found on the UBS AG website under the 'Pillar 3 disclosures of subsidiaries in the UK' pages accessible through the Investor Relations pages on the UBS AG homepage, or by using the following link;

➔ **http://www.ubs.com/global/en/about_ubs/investor_relations/other_filings/pillar_3.html**

Note 19 Dividends Paid and Proposed

GBP million	31.12.13	31.12.12
Declared and paid on ordinary shares during the year:		
Final dividend for 2012: 39.9 pence per share (2011: 0.00 pence per share)	77	–
Interim dividend for 2013: 0.00 pence per share (2012: 9.4 pence per share)[1]	–	18
Total dividend declared and paid during the year	77	18
Proposed dividend on ordinary shares for approval at the annual general meeting (not recognised as a liability as at 31 December):		
Final dividend for 2013: 9.3 pence per share (2012: 39.9 pence per share)[1]	21	77

1 These amounts differ to those reported in 2012 Financial Statements due to the correction of the pence per share of the dividend.

Note 20 Related party transactions

The Company has significant related party balances and transactions with UBS AG and its subsidiaries ("Other Group companies"). 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 consolidated financial statements. UBS AG, a Company incorporated with limited liability in Switzerland, is the immediate and ultimate 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.

These expenses (along with a mark up) form the basis of the other operating income charged by the Company back to UBS AG.

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

Related Party Transactions

	31.12.13		
GBP million	Ultimate parent	Other Group companies	Total
Assets			
Due from banks	1,731	–	1,731
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	27,080	1,821	28,901
Liabilities			
Due to banks	2,153	1	2,154
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	5,119	1,290	6,409
Financial liabilities at fair value	623	–	623
Due to customers	–	646	646
Other amounts due to Group undertakings	77	2	79
Other liabilities	13	5	18
Total	48,042	2,614	50,656

Related Party Transactions (continued)

Balance sheet

GBP million	31.12.12 Ultimate parent	Other Group companies	Total
Assets			
Due from banks	4,036	–	4,036
Cash collateral on securities borrowed	814	–	814
Reverse repurchase agreements	4,583	–	4,583
Positive replacement values	38,580	557	39,137
Cash collateral receivable on derivative instruments	12,046	1,529	13,575
Financial assets at fair value	250	–	250
Loans and advances to customers	–	–	–
Other amounts due from Group undertakings	70	–	70
Other assets	13	–	13
Total	**60,392**	**2,086**	62,478
Liabilities			
Due to banks	6,220	–	6,220
Cash collateral for securities lent	1,071	–	1,071
Repurchase agreements	19,758	–	19,758
Trading portfolio liabilities	624	–	624
Negative replacement values	46,970	482	47,452
Cash collateral payable on derivative instruments	6,696	1,204	7,900
Financial liabilities at fair value	692	–	692
Due to customers	–	462	462
Other amounts due to group undertakings	61	6	67
Other liabilities	16	3	19
Total	82,108	2,157	84,265

Income statement

GBP 000s	**31.12.13** **Ultimate parent**	**Other Group companies**	**Total**
Interest and similar income	**140,054**	**2,570**	**142,624**
Interest and similar expense	**(229,549)**	**(16,487)**	**(246,036)**
Net fee and commission expense	**(27,893)**	**(40,911)**	**(68,804)**
Net trading income	**(178,940)**	**18,231**	**(160,709)**
Other operating income	**196,753**	**–**	**196,753**
Other administrative expense	**(186,719)**	**–**	**(186,719)**
Total	**(286,296)**	**(36,597)**	**(322,893)**

GBP 000s	31.12.12 Ultimate parent	Other Group companies	Total
Interest and similar income	211,342	12,386	223,728
Interest and similar expense	(404,673)	(19,522)	(424,195)
Net fee and commission expense[1]	(30,100)	(23,637)	(53,736)
Net trading income	(140,197)	14,437	(125,760)
Other operating income	225,149	–	225,149
Other administrative expense	(214,009)	–	(214,009)
Total	(352,487)	(16,336)	(368,823)

1 These amounts differ to those reported in the 2012 Financial Statements due to a correction in net fee and commission expense facing the Parent.

UBS AG granted a loan to a member of the UBS Limited Board of Directors totalling GBP 89.2k in December 2012; this was repaid in full during 2013.

Note 21 Liquidity Analysis

The following table illustrates the maturity profile of financial liabilities:

	31.12.13						
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
Liabilities							
Due to banks	1,252	–	8	261	596	26	2,142
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	14,355	1,147	–	–	–	–	15,502
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	**57,219**	**13,475**	**4,784**	**2,568**	**1,261**	**136**	**79,443**
Financial liabilities not recognised on the balance sheet							
Commitments							
Loan Commitments	3,289	–	–	–	–	–	3,289
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**	**–**	**–**	**–**	**14,263**

	31.12.12						
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
Liabilities							
Due to banks	3,896	218	453	1,558	104	6	6,235
Cash collateral on securities lent	468	708	–	–	–	–	1,177
Repurchase agreements	2,582	14,509	4,906	2,777	–	–	24,773
Trading portfolio liabilities	974	–	–	–	–	–	974
Negative replacement values	85,181	–	–	–	–	–	85,181
Cash collateral payable on derivative instruments	22,964	–	–	–	–	–	22,964
Financial liabilities designated at fair value	–	46	67	31	678	190	1,012
Due to customers	527	52	–	13	76	16	684
Other amounts owed to Group undertakings	–	67	–	–	–	–	67
Other liabilities	19	19	–	–	–	–	38
Total	**116,611**	**15,619**	**5,426**	**4,379**	**858**	**212**	**143,106**
Financial liabilities not recognised on the balance sheet							
Commitments							
Loan commitments	4,123	–	–	–	–	–	4,123
Guarantees	26	–	–	–	–	–	26
Forward starting transactions							
Reverse repurchase agreements[1]	207	14,808	50	14	–	–	15,079
Securities borrowing agreements	–	–	–	–	–	–	–
Total	**4,356**	**14,808**	**50**	**14**	**–**	**–**	**19,229**

1 Amounts previously reported differ from those originally reported in the prior year financial statements as the forward starting transactions have now been split by residual maturity.

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. In addition, Loan Commitments and guarantees are also presented in the 'On demand' column given the draw down facility granted.

The analysis is based on undiscounted cashflows and includes future interest payments.

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; amounts, loans £640m and financial assets at fair value £734m.

Note 22 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 assumption
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 or most advantageous 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 information, 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 information on an ongoing basis. Assets and liabilities that are quoted and traded in an active market are valued at the currently quoted price times 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 in an instrument 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 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.

For transactions where the valuation technique used to measure fair value requires significant inputs that are not based on observable market data, the financial instrument is initially recognized at the transaction price. This initial recognition amount may differ from the fair value obtained using the valuation technique.

b) Valuation governance

The Company's fair value measurement and model governance framework includes numerous controls and other procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products and valuation techniques must be reviewed and approved by key stakeholders from risk and finance control functions. Responsibility for the ongoing measurement of financial and non-financial instruments at fair value resides with the business divisions, 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 information 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's 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 markets 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 the Companies valuation models on a regular basis, or if established triggers occur, and approves them for valuing specific products. As a result of the valuation controls employed, valuation adjustments may be made to the business's estimate of fair value to align with independent market information and accounting standards (refer to Note 12d Valuation adjustments 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, investment property for which available price information requires some degree of modification from directly available prices 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 flow, 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 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 estimating the expected future cash flows using industry standard cash flow projection models. The discount factors within the calculation are generated using industry standard yield curve modeling techniques and models.

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

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

Where available, valuation techniques use market-observable assumptions and inputs. If such information 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 22h Valuation of assets and liabilities classified as Level 3). The discount curves used by the Group 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, trading restrictions and other factors, when such factors would be considered by market participants in measuring 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.

Reflection of market bid-offer levels

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 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 the valuation adjustment are obtained from market transactions and other relevant sources and are updated periodically.

Reflection of model uncertainty

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 information from market transactions, consensus pricing services and other relevant sources.

Counterparty credit risk

Third party counterparty credit risk is reflected in the ultimate Parent, as mentioned in Note 24.

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 majority of the remaining positions are classified as Level 2. Instruments that cannot be priced directly using active market data are valued using discounted cash flow valuation techniques that incorporate market data for similar government instruments converted into yield curves. These yield curves are used to project future index levels, and to discount expected future cash flows. The main inputs to valuation techniques for these instruments are bond prices and inputs to estimate the future index levels for floating or inflation index-linked instruments. Instruments classified as Level 3 are limited and are generally classified as such due to the requirement to extrapolate yield curve inputs outside the range of active market trading.

Corporate bonds

Corporate 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 information 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. 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

Determination of fair values from quoted market prices or valuation techniques

	31.12.13				31.12.12			
	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	**824**	**177**	**20**	**1,021**	507	420	204	1,131
of which:								
Corporate bonds, municipal bonds, including bonds issued by financial institutions	***2***	***3***	***–***	***5***	–	–	–	–
Loans	***–***	***174***	***20***	***194***	–	*420*	*204*	*624*
Investment fund units	***3***	***–***	***–***	***3***	–	–	–	–
Equity instruments	***819***	***–***	***–***	***819***	*507*	–	–	*507*
Positive replacement values	**382**	**36,868**	**959**	**38,208**	816	82,909	1,456	85,181
of which:								
Interest rate contracts	***6***	***23,111***	***61***	***23,178***	*3*	*61,207*	*135*	*61,345*
Credit derivative contracts	***–***	***1,592***	***210***	***1,802***	–	*5,116*	*284*	*5,400*
Foreign exchange contracts	***3***	***8,311***	***572***	***8,886***	*3*	*12,417*	*996*	*13,415*
Equity/Index contracts	***373***	***3,449***	***112***	***3,934***	*811*	*3,592*	*29*	*4,431*
Precious metal	***–***	***19***	***–***	***19***	–	*21*	–	*22*
Commodities contracts	***–***	***386***	***3***	***389***	–	*555*	*12*	*567*
Financial assets designated at fair value	**–**	**390**	**467**	**857**	–	460	470	930
of which:					–	–	–	
Loans (including structured loans)	***–***	***386***	***96***	***482***	–	*460*	*29*	*489*
Structured reverse repurchase agreements and securities borrowing agreements	***–***	***4***	***371***	***374***	–	–	*441*	*441*
Other	***–***	***–***	***–***	***–***	–	–	–	–
Financial investments available-for-sale	**3,409**	**–**	**2**	**3,411**	2,865	–	6	2,872
of which:					–	–	–	
Government bills/bonds	***3,409***	***–***	***–***	***3,409***	*2,865*	–	–	*2,865*
Equity instruments	***–***	***–***	***2***	***2***	–	–	*6*	*6*
Total financial assets	**4,615**	**37,435**	**1,447**	**43,497**	**4,189**	**83,790**	**2,136**	**90,115**
Trading portfolio liabilities	**349**	**174**	**20**	**543**	350	420	204	974
of which:								
Loans	***1***	***174***	***20***	***194***		*420*	*204*	*624*
Equity instruments	***348***	***–***	***–***	***348***	*350*			*350*
Negative replacement values	**402**	**36,870**	**959**	**38,231**	816	82,909	1,456	85,181
of which:								
Interest rate contracts	***6***	***23,111***	***61***	***23,178***	*3*	*61,207*	*135*	*61,345*
Credit derivative contracts	***–***	***1,594***	***210***	***1,804***	–	*5,116*	*284*	*5,400*
Foreign exchange contracts	***3***	***8,311***	***572***	***8,886***	*3*	*12,417*	*996*	*13,415*
Equity/Index contracts	***394***	***3,449***	***112***	***3,955***	*811*	*3,592*	*29*	*4,433*
Precious metal	***–***	***19***	***–***	***19***	–	*21*	–	*22*
Commodities contracts	***–***	***386***	***3***	***389***	–	*555*	*12*	*567*
Financial liabilities designated at fair value	**–**	**390**	**467**	**857**	–	460	470	930
of which:								
Loans (including structured loans)	***–***	***386***	***96***	***482***	–	*460*	*29*	*489*
Structured reverse repurchase agreements and securities borrowing agreements	***–***	***4***	***371***	***374***	–	–	*441*	*441*
Other	***–***	***–***	***–***	***–***	–	–	–	–
Total financial liabilities	**751**	**37,433**	**1,445**	**39,630**	**1,166**	**83,790**	**2,129**	**87,085**

quoted dealer prices where available. For illiquid loans where no market price information 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 information 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 information 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 quoted prices in liquid markets readily available. 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 and which are not redeemable at the measurement date or in the near future are classified as Level 3.

Equity instruments

The majority of equity securities are actively traded on public stock exchanges where quoted prices are readily and regularly available, resulting in their classification as Level 1.

Structured repurchase agreements

Structured 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 cannot be observed in the market. As a result, these positions are mostly classified as Level 3.

Replacement values

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 correlation. 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 information, 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, historic 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 information available for the instrument maturity and are valued by some form of extrapolation of available data, use of historic dividend information, 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, historic dividend, correlation or volatility information, 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.

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

There have been no material movements between level 1 and level 2 for the period ending December 2013.

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 are fully back to back under the current Risk model described in Note 24. 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 reporting period.

As of 31 December 2013, financial instruments measured with valuation techniques using significant non-market-observable inputs (Level 3) mainly comprised the following:

– foreign exchange contracts
– structured reverse repurchase and securities borrowing agreements;
– Significant movements in Level 3 instruments during the year ended 31 December 2013 were as follows:

Financial assets and liabilities held for trading

Level three financial assets held for trading decreased from £204 million to £20 million. The movement related to traded loans where the transfers in of £86m were offset by sales of £241m.

Financial assets and liabilities designated at fair value

Financial assets designated at fair value decreased from £470m to £467m, with sales of £359m offset by purchases of £308m and transfers into level 3 of £266m.

Positive/negative replacement values

Replacement values decreased from £1,456 million to £959 million gross. Purchases and sales amounted to £108 million and £1.1 billion, respectively, and were primarily comprised of credit derivative contracts and foreign exchange contracts. Transfers into Level 3 amounted to £1 billion and resulted from both changes in the availability of observable inputs for credit spread and changes in correlation between the portfolio held and the representative market portfolio used to independently verify market data.

Financial Investments

Financial investments decreased from £6 million to £2 million as a result of the sale of LCH shares during the year.

h) Valuation of assets and liabilities classified as Level 3

The valuation techniques the Company uses are described fully in Note 22c: Valuation techniques, specifically the level 3 valuation techniques per product classification are described under Note 22e: Fair value measurements and classification within the fair value hierarchy.

Due to the Company's current risk model, where the risk on all positions, including those at level 3 are transferred to UBS AG, all valuation input information is determined by UBS AG, on a Group-wide basis. Accordingly, this information is not held for UBS Limited, and no disclosure is therefore made within these financial statements.

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

For financial instruments classified as Level 3 a change in one or more unobservable inputs to reflect reasonably possible alternative assumptions could change the fair value significantly. However, as the sensitivity of fair values to changes in unobservable inputs is determined at a net risk level, there is no valuation uncertainty for Level 3 financial instruments due to the risk management model disclosed in Note 24.

Determination of fair values from quoted market prices or valuation techniques

		Total gains / (losses) included in the income statement		
GBP million	Balance as at 31 December 2012	Net trading income	*of which: related to Level 3 instruments held at the end of the reporting period*	Purchases
Financial assets held for tading	**204**	**(77)**	**(83)**	**72**
of which:				
Loans	*204*	*(82)*	*(83)*	*66*
Equity instruments	*–*	*5*	*–*	*6*
Positive replacement values	**1,456**	**(394)**	**(342)**	**108**
of which:				
Interest rate contracts	*135*	*(273)*	*(266)*	*220*
Credit derivative contracts	*284*	*(46)*	*(77)*	*48*
Foreign exchange contracts	*996*	*(106)*	*(13)*	*33*
Equity / Index contracts	*29*	*33*	*14*	*(193)*
Commodities contracts	*12*	*(2)*	*(0)*	*(0)*
Financial assets designated at fair value	**470**	**(219)**	**(59)**	**308**
of which:				
Loans (including structured loans)	*28*	*(26)*	*(14)*	*34*
Structured reverse repurchase agreements and securities borrowing agreements	*441*	*(193)*	*(45)*	*274*
Financial investments available-for-sale	**6**	**–**	**–**	**–**
of which:				
Equity instruments	*6*	*–*	*–*	*–*
Total financial assets	**2,136**	**(690)**	**(484)**	**488**
Trading portfolio liabilities	**204**	**(77)**	**(83)**	**72**
of which:				
Loans	*204*	*(82)*	*(83)*	*66*
Negative replacement values	**1,456**	**(394)**	**(342)**	**108**
of which:				
Interest rate contracts	*135*	*(273)*	*(266)*	*220*
Credit derivative contracts	*284*	*(46)*	*(77)*	*48*
Foreign exchange contracts	*996*	*(106)*	*(13)*	*33*
Equity / Index contracts	*29*	*33*	*14*	*(193)*
Commodities contracts	*12*	*(2)*	*–*	*–*
Financial liabilities designated at fair value	**470**	**(219)**	**(59)**	**308**
of which:				
Loans (including structured loans)	*29*	*(26)*	*(14)*	*34*
Structured reverse repurchase agreements and securities borrowing agreements	*441*	*(193)*	*(45)*	*274*
Total financial liabilities	**2,130**	***(690)***	***(484)***	**488**

	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation	Balance as at 31 December 2013
	(252)	**(4)**	**–**	**86**	**(16)**	**8**	**20**
	(241)	*(4)*	*–*	*86*	*(16)*	*8*	***20***
	(11)	*–*	*–*	*–*	*–*	*–*	***–***
	(772)	**–**	**–**	**694**	**(68)**	**(65)**	**959**
	(144)	*–*	*–*	*170*	*(63)*	*16*	***61***
	(368)	*–*	*–*	*306*	*(19)*	*5*	***210***
	(266)	*–*	*–*	*1*	*(1)*	*(85)*	***572***
	6	*–*	*–*	*216*	*21*	*(2)*	***112***
	–	*–*	*–*	*–*	*(7)*	*–*	***3***
	(359)	**–**	**–**	**266**	**–**	**2**	**467**
	(84)	*–*	*–*	*143*	*–*	*1*	***96***
	(275)	*–*	*–*	*122*	*–*	*1*	***371***
	(4)	**–**	**–**	**–**	**–**	**0**	**2**
	(4)	*–*	*–*	*–*	*–*	*–*	***2***
	(1,387)	**(4)**	**–**	**1,047**	**(84)**	**(56)**	**1,448**
	(252)	**–**	**–**	**86**	**(16)**	**8**	**20**
	(241)	*–*	*–*	*86*	*(16)*	*8*	***20***
	(772)	**–**	**–**	**694**	**(68)**	**(65)**	**959**
	(144)	*–*	*–*	*170*	*(63)*	*16*	***61***
	(368)	*–*	*–*	*306*	*(19)*	*4*	***210***
	(266)	*–*	*–*	*1*	*(1)*	*(85)*	***572***
	6	*–*	*–*	*216*	*21*	*(2)*	***112***
	0	*–*	*–*	*–*	*(7)*	*–*	***3***
	(359)	**–**	**–**	**266**	**–**	**2**	**467**
	(84)	*–*	*–*	*143*	*–*	*1*	***96***
	(275)	*–*	*–*	*122*	*–*	*1*	***371***
	(1,382)	**–**	**–**	**1,047**	**(84)**	**(56)**	**1,446**

j) Financial instruments not measured at fair value

The following table reflects the estimated fair values and the fair value hierarchy for the Company's financial instruments not measured at fair value.

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 the Company's financial instruments not recorded 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 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.
- 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.

Financial instruments not measured at fair value

	31.12.13				
	Carrying value	Fair value			
GBP million	Total	Total	Level 1	Level 2	Level 3
Assets					
Due from banks	332	332	–	332	–
Reverse repurchase agreements	2,194	2,196	–	2,196	–
Loans	640	637	–	10	627
Other assets	30	30	–	30	–
Liabilities					
Due to banks	939	936	–	309	627
Repurchase agreements	2,194	2,196	–	2,196	–
Due to customers	33	33	–	33	–
Other liabilities	32	32	–	32	–

Note 23 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 £32k (2012: 0) represents contributions payable to these plans by the Company at rates specified in the rules of the plan.

Note 24 Financial Instruments and Risk position

Risk Management

Derivatives entered into by the Company include interest rate and currency swaps, options and forwards, credit default and total rate of return swaps, and equity swaps and options.

All core risks of the business contracted by the Company are transferred to UBS AG under a business operating model which:

- transfers positions from the Company under back-to-back arrangements together with a broad indemnity that together transfer all of the credit and market risk back to UBS AG, and
- is designed to transfer all other risks from its activities (eg operational risk) to UBS AG.

The Company does not take on any unhedged market exposures in the trading book. The trading arrangements between the Company and UBS AG transfer the risk arising from:

- movements in market variables such as interest rates, exchange rates and equity markets (market risk)
- changes in interest rates (interest rate risk) and differences caused by:
  - timing between contractual maturity or repricing of financial instruments and derivatives
  - the repricing characteristics of floating rate indices
- changes in exchange rates (currency risk)
- a client or counterparty failing to meet its contractual obligations (credit risk)
- an inability to mobilise sufficient resources to satisfy liabilities as and when they fall due (liquidity risk).

The risk transfer model is modified with respect to the Taiwanese FINI business. Instead of back-to-back trades, market risk is transferred to UBS AG via dynamic portfolio total rate of return swaps, while credit risk is transferred through the indemnity arrangement referred to above. The effect, in common with the back-to-back arrangements, is the effective transfer to UBS AG of all credit and market risk associated with this business.

The Company holds an investment in short dated treasury gilts. These gilts are held as an available for sale asset. These assets are not covered by the risk transfer arrangements set out above and the Company remains the sole legal and beneficial owner of the gilts, and will bear the market risk associated with the purchase and subsequent holding of those securities.

UBS Limited has Letters of Credit worth 23.2m (2012: 26.5 m) which are covered by the guarantee mentioned in this note.

In the case of the exchange traded derivatives business, every contract entered into with a counterpart, will be matched by an appropriate transaction with the relevant futures exchange or clearing house. Accordingly, the market risk of the trade is removed from the Company via the exchange or clearing house rather than to UBS AG. Credit and other risks arising from this business are covered by the indemnity arrangement referred to above.

As a result of reliance on its trading and indemnity arrangements with UBS AG, the Company is not exposed to market, interest rate, or liquidity risk. Any perceived concentration of credit risk to UBS AG is covered by 'as required' draw downs of collateral from UBS AG which are required to maintain PRA prudential ratios.

Fair value

The Company enters into financial instruments and derivatives as part of its financing and trading activities. There are no material differences between the fair value and the carrying value of financial instruments on the Balance Sheet at year end (please refer to Note 22j for further information).
There is no net profit and loss impact from changes in fair value for any type of financial instrument due to the back-to-back model.

Note 25 Restricted Assets

a) Restricted financial assets

Restricted financial assets consist of other assets which are otherwise explicitly restricted such that they cannot be used to secure funding. The Company holds £7.6bn, of which 5.6bn is included in cash and cash equivalents, (2012: £8.3bn, of which 7.7bn is included in cash and cash equivalents) of assets under client asset segregation rules. The carrying value of the liabilities associated with these restricted financial assets is generally equal to the carrying value of the assets.

b) Off-balance sheet assets received

The following table presents the amount of securities that can be sold or repledged, that are not recognised on the balance sheet, but are held as collateral, including amounts that have been sold or repledged.

GBP million	31.12.13	31.12.12
Fair value of securities and gold received which can be sold or repledged	66,743	79,753
Thereof sold or repledged:	53,216	65,598
In connection with financing activities	50,792	63,385
To satisfy commitments under short sale transactions	348	350
In connection with derivative transactions	2,077	1,863

Note 26 Events occuring after the Balance Sheet date

Since January 1 2014, the Company has been subject to Capital Requirements Directive (CRD IV) 2013/48/EC and calculates minimum capital requirements under the Capital Requirements Regulation 575/2013 and the relevant parts of the PRA rulebook.

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

Note 27 Legal 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.

Transactions with Italian public sector entities

A number of transactions that UBS Limited and UBS AG respectively entered into with public sector entity counterparties in Italy have been called into question or become the subject of legal proceedings and claims for damages and other awards. In Milan, in 2012, civil claims brought by the City of Milan against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with Milan between 2005 and 2007 were settled without admission of liability. In 2012, the criminal court in Milan issued a judgment convicting two current UBS employees and one former employee, together with employees from the three other banks, of fraud against a public entity in relation to the same bond issue and the execution, and subsequent restructuring, of the related derivative transactions. In the same proceedings, the Milan criminal court also found UBS Limited and three other banks liable for the administrative offense of failing to have in place a business organizational model capable of preventing the criminal offenses of which its employees were convicted. The sanctions against UBS Limited, which are not effective until appeals are exhausted, are confiscation of the alleged level of profit flowing from the criminal findings (EUR 16.6 million), a fine in respect of the finding of the administrative offense (EUR 1 million) and payment of legal fees. UBS Limited has previously provided for this potential exposure in the amount of EUR 18.5 million. UBS Limited and the individuals appealed that judgement, and in March 2014, the Milan Court of Appeal handed down its judgment in short form. It overturned all findings of liability against UBS Limited and the convictions of the UBS individuals and acquitted them, stating that the conduct did not occur. The court indicated that it would issue a full judgement within 90 days, at which point the reserve will be reviewed. The appellate prosecutor has a further 45 days to decide whether to pursue an appeal to the Court of Cassation in Rome.

Derivative transactions with the Regions of Calabria, Tuscany, Lombardy, Lazio and Campania, and the City of Florence have also been called into question or become the subject of legal proceedings and claims for damages and other awards. In 2012, UBS AG and UBS Limited settled all civil disputes with the Regions of Tuscany, Lombardy and Lazio without any admission of liability. In August 2013, a settlement of all civil and administrative disputes was reached with the City of Florence.

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 seek 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 is 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. The decision is not expected before December 2014/First quarter 2015. In advance of the decision, a non-appealable decision on the jurisdiction of the Milan Court is expected to be handed down by the Italian Court of Cassation by the end of 2014.

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. 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. As a result of the KWL CDS transactions and the back-to-back CDS transactions with Depfa and LBBW, UBS AG is owed approximately USD 236.5 million, plus interest, and UBS Limited is owed USD 83.3 million, which amounts remain unpaid. Specifically, under the CDS contracts between KWL and UBS AG, the last of which were terminated by UBS AG in 2010, a net sum of approximately USD 137.6 million, plus interest, has fallen due from KWL but not been paid. Earlier in 2010, UBS AG issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS AG is valid, binding and enforceable as against KWL. The English court ruled in 2010 that it has jurisdiction and will hear the proceedings and UBS AG issued a further claim seeking declarations concerning the validity of its early termination of the remaining CDS transactions with KWL. KWL withdrew its appeal from that decision and the civil dispute is now proceeding before the English court. UBS AG has added its monetary claim to the proceedings. KWL is defending against UBS AG's claims and has served a counterclaim which also joins UBS Limited and Depfa to the proceedings. As part of its assertions, KWL claims damages of at least USD 68 million in respect of UBS AG's termination of some of the CDS contracts, whilst disputing that any monies are owed to UBS AG pursuant to another CDS contract. UBS AG, UBS Limited and Depfa are defending against KWL's counterclaims, and Depfa has asserted additional claims against UBS AG and UBS Limited. Both KWL and Depfa have mutually exclusive claims for payment of USD 32.6 million which has previously been paid by Depfa to UBS Limited. The trial is due to start in April 2014.

In 2010, KWL issued proceedings in Leipzig, Germany against UBS AG, Depfa and LBBW, claiming that the swap transactions are void and not binding on the basis of KWL's allegation that KWL did not have the capacity or the necessary internal authorization to enter into the transactions and that the banks knew this. Upon and as a consequence of KWL withdrawing its appeal on jurisdiction in England, KWL also withdrew its civil claims against UBS AG and Depfa in the German courts, and no civil claim will proceed against either of them in Germany. The proceedings brought by KWL against LBBW have continued in Leipzig, and in June 2013 the court in Leipzig ruled in LBBW's favor. KWL has filed an appeal against that ruling. A hearing is fixed for late March 2014. The Leipzig court has also ruled that it is for the London court and not the Leipzig court to determine the validity and effect of a third party notice served by LBBW on UBS AG in the Leipzig proceedings.

The back-to-back CDS transactions were terminated in 2010. In 2010, UBS AG and UBS Limited issued separate proceedings in the English High Court against Depfa and LBBW seeking declarations as to the parties' obligations under the back-to-back CDS transactions and monetary claims. UBS Limited contends that it is owed USD 83.3 million, plus interest, by Depfa. UBS AG contends that it is owed EUR 75.5 million, plus interest, by LBBW. Depfa and LBBW are defending against the claims and have also issued counterclaims. Additionally Depfa added a claim against KWL to the proceedings against it and KWL served a defense.

In 2011, the former managing director of KWL and two financial advisers were convicted on criminal charges related to certain KWL transactions, including swap transactions with UBS AG and other banks. Following further criminal proceedings brought against them in Dresden relating to the same transactions, they were each convicted of embezzlement in December 2013 and given longer sentences. They have indicated that they will appeal.

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.

Note 28 Parent undertakings

The immediate and ultimate parent undertaking and controlling party is UBS AG, a company incorporated in Switzerland. This is the largest group company preparing consolidated financial statements which include the Company's results. Copies of the financial statements of UBS AG can be obtained from the Company Secretary, UBS AG London Branch, 1 Finsbury Avenue, London EC2M 2PP.

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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