

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 20-F/A

Amendment No. 1

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2010

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

Commission file number: 1-15060

UBS AG

(Exact Name of Registrant as Specified in Its Charter)

Switzerland

(Jurisdiction of Incorporation or Organization)

Bahnhofstrasse 45

CH-8001 Zurich, Switzerland

and

Aeschenvorstadt 1

CH-4051 Basel, Switzerland

(Address of Principal Executive Offices)

Sarah M. Starkweather

UBS AG

677 Washington Boulevard

Stamford, CT 06901

Telephone: (203) 719-3000

Fax: (203) 719-0680

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:
Please see page 3.

Securities registered or to be registered pursuant to Section 12(g) of the Act:
Please see page 4.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
Please see page 4.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of 31 December 2010:

Ordinary shares, par value CHF 0.10 per share: 3,830,840,513 ordinary shares (including 38,892,031 treasury shares)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934.

Yes No

Note — Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 205 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

(Check One):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Ordinary Shares (par value of CHF 0.10 each)	New York Stock Exchange
\$300,000,000 Floating Rate Noncumulative Trust Preferred Securities	New York Stock Exchange
\$300,000,000 Floating Rate Noncumulative Company Preferred Securities	New York Stock Exchange*
\$1,000,000,000 6.243% Noncumulative Trust Preferred Securities	New York Stock Exchange
\$1,000,000,000 6.243% Noncumulative Company Preferred Securities	New York Stock Exchange*
Subordinated Guarantee of UBS AG with respect to each of the Noncumulative Company Preferred Securities above	New York Stock Exchange*
\$100,000,000 E-TRACS UBS Bloomberg CMCI Food ETN due April 2038	NYSE Arca
\$50,000,000 E-TRACS UBS Bloomberg CMCI Agriculture ETN due April 2038	NYSE Arca
\$50,000,000 E-TRACS UBS Bloomberg CMCI Energy ETN due April 2038	NYSE Arca
\$100,000,000 E-TRACS UBS Bloomberg CMCI Total Return ETN due April 2038	NYSE Arca
\$100,000,000 E-TRACS UBS Bloomberg Gold ETN due April 2038	NYSE Arca
\$50,000,000 E-TRACS UBS Bloomberg CMCI Industrial Metals due April 2038	NYSE Arca
\$50,000,000 E-TRACS UBS Bloomberg CMCI Livestock ETN due April 2038	NYSE Arca
\$50,000,000 E-TRACS UBS Bloomberg CMCI Silver ETN due April 2038	NYSE Arca
\$50,000,000 E-TRACS UBS Long Platinum ETN due May 2018	NYSE Arca
\$50,000,000 E-TRACS UBS Short Platinum ETN due May 2018	NYSE Arca
\$100,000,000 E-TRACS UBS S&P 500 Gold Hedged Index ETN due January 2040	NYSE Arca
\$100,000,000 E-TRACS Dow Jones-UBS Commodity Index Total Return ETN due October 2039	NYSE Arca
\$100,000,000 E-TRACS Linked to the Alerian MLP Infrastructure Index due April 2, 2040	NYSE Arca
\$100,000,000 1xMonthly Short E-TRACS Linked to the Alerian MLP Infrastructure Total Return Index due October 1, 2040	NYSE Arca
\$100,000,000 2xMonthly Leveraged Long E-TRACS Linked to the Alerian MLP Infrastructure Index due July 9, 2040	NYSE Arca
\$100,000,000 E-TRACS Linked to the Alerian Natural Gas MLP Index due July 9, 2040	NYSE Arca
\$100,000,000 E-TRACS Linked to the Wells Fargo® MLP Index due October 29, 2040	NYSE Arca

Title of each class	Name of each exchange on which registered
\$100,000,000 E-TRACS Daily Long-Short VIX ETN due November 30, 2040	NYSE Arca
\$100,000,000 E-TRACS Linked to the Wells Fargo Business Development Company Index due April 26, 2041	NYSE Arca
\$100,000,000 2xLeveraged Long E-TRACS Linked to the Wells Fargo® Business Development Company Index due May 24, 2041	NYSE Arca
\$100,000,000 E-TRACS Oil Futures Contango ETN due June 14, 2041	NYSE Arca
\$100,000,000 E-TRACS Natural Gas Futures Contango ETN due June 14, 2041	NYSE Arca
\$100,000,000 E-TRACS Internet IPO ETN due July 19, 2041	NYSE Arca
\$100,000,000 Monthly 2xLeveraged E-TRACS Internet IPO ETN due July 19, 2041	NYSE Arca
\$100,000,000 E-TRACS Daily Short 1-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS Daily Short 2-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS Daily Short 3-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS Daily Short 4-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS Daily Short 5-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS Daily Short 6-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS 1-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS 2-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS 3-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS 4-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS 5-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS 6-Month S&P 500 VIX Futures ETN due September 6, 2041	NYSE Arca
\$100,000,000 E-TRACS ISE Solid State Drive Index ETN due September 13, 2041	NYSE Arca
\$100,000,000 E-TRACS Monthly 2xLeveraged ISE Solid State Drive Index ETN due September 13, 2041	NYSE Arca
\$100,000,000 E-TRACS Monthly 2xLeveraged ISE Cloud Computing TR Index ETN due October 4, 2041	NYSE Arca

* Not for trading, but solely in connection with the registration of the corresponding Trust Preferred Securities.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

Auction Rate Securities Rights Series A-1, A-2, B-1, B-2, C-1, C-2 and G (non-transferable)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

EXPLANATORY NOTE

This Amendment on Form 20-F/A is being filed by UBS AG (UBS) as Amendment No. 1 to our annual report on Form 20-F for the fiscal year ended December 31, 2010 (referred to herein as the 2010 Annual Report on Form 20-F), as filed with the Securities and Exchange Commission (“SEC”) on March 15, 2011. The sole purpose of this Amendment No. 1 is to amend our disclosure in Items 8, 15 and 18 and to refile Exhibits 12, 13 and 15. Items 8, 15 and 18 and Exhibits 12, 13 and 15 in this Amendment No. 1 replace the corresponding Items and exhibits originally filed with our 2010 Annual Report on Form 20-F.

The financial statements and other financial information included pursuant to Items 8 and 18 of this Amendment No. 1 have not changed since we filed our 2010 Annual Report on Form 20-F on March 15, 2011. A paragraph of the *Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements* has been amended as set forth in Item 8.

Except with regard to the Items and exhibits specified above, we have made no changes to our 2010 Annual Report on Form 20-F and the disclosure in the report has not been updated to reflect events that have occurred since March 15, 2011, the date on which we originally filed the report. Accordingly, other than the Items and exhibits specified above, which are amended hereby, our 2010 Annual Report on Form 20-F continues to speak only as of March 15, 2011. In particular, the financial statements and other financial information included pursuant to Items 8 and 18 continue to speak as of their respective dates and do not reflect any events after March 15, 2011, except for the report as specified above. On April 26, 2011, we submitted to the SEC our first quarter 2011 report on Form 6-K. On July 26, 2011, we submitted to the SEC our second quarter 2011 report on Form 6-K. On October 25, 2011, we submitted to the SEC our third quarter 2011 report on Form 6-K. Please refer to our first, second and third quarter 2011 reports for further information about developments since March 15, 2011.

AMENDMENTS TO PART II

Item 8. Financial Information.

Item 8 on pages 9-10 of the 2010 Annual Report on Form 20-F is hereby deleted and replaced with the following:

A. Consolidated Statements and Other Financial Information.

1, 2, 4, 5, 6

Please see Item 18 of this Amendment.

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Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements referenced in Item 18 of this Amendment:

Ernst & Young Ltd

Aeschengraben 9

CH-4002 Basel

Phone +41 58 286 86 86

Fax +41 58 286 86 00

www.ey.com/ch

To the General Meeting of

UBS AG, Zurich and Basel

Report of the statutory auditor and the independent registered public accounting firm on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of UBS AG and its subsidiaries which are comprised of the consolidated balance sheets as of 31 December 2010 and 2009, and the related consolidated income statements and consolidated statements of comprehensive income, changes in equity and cash flows, and notes thereto, for each of the three years in the period ended 31 December 2010.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board, and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law, Swiss Auditing Standards, International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of UBS AG and its subsidiaries at 31 December 2010 and 2009, and the consolidated results of operations and the cash flows for each of the three years in the period ended 31 December 2010 in accordance with IFRS, as issued by the International Accounting Standards Board, and comply with Swiss law.

Report on other legal and regulatory requirements

We confirm that we meet the Swiss legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 Code of Obligations (CO) and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements in accordance with the instructions of the Board of Directors.

In accordance with Swiss law, we recommend that the consolidated financial statements submitted to you be approved.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the internal control over financial reporting of UBS AG and its subsidiaries as of 31 December 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated 3 March 2011, except as to the material weakness described in the sixth paragraph therein as to which the date is 10 November 2011, expressed an adverse opinion thereon.

Ernst & Young Ltd

Jonathan Bourne
Licensed Audit Expert
(Auditor in Charge)

Andreas Loetscher
Licensed Audit Expert

Basel, Switzerland

3 March 2011, except for the matter described in the seventh paragraph of our report on the effectiveness of internal control over financial reporting as of 31 December 2010, as to which the date is 10 November 2011

Information on material legal and regulatory proceedings is in Note 21 to the Financial Statements, *Provisions and contingent liabilities*, on pages 314 to 319 of the financial statements referenced in Item 18 of this Amendment. For developments during the 2010 year, please see also the Financial Information section in each of our quarterly reports: First Quarter 2010 Report, filed on Form 6-K dated May 4, 2010 (Note 15, *Litigation*); Second Quarter 2010 Report, filed on Form 6-K dated July 27, 2010 (Note 15, *Litigation*); Third Quarter 2010 Report, filed on Form 6-K dated October 26, 2010 (Note 15, *Litigation and regulatory matters*); and Fourth Quarter 2010 Report, filed on Form 6-K dated February 8, 2011 (Note 14, *Litigation and regulatory matters*, and Note 15, *Other contingent liabilities*). The Notes in each such Quarterly Report speak only as of their respective dates.

Distributions to shareholders. The decision whether to pay a dividend, and the level of the dividend, are dependent on our targeted capital ratios and cash flow generation. The decision on dividend payments is proposed by the Board of Directors to the shareholders and is subject to their approval at the Annual General Meeting. The Board of Directors has decided to further bolster capital and has therefore not proposed any dividend for the financial year 2010.

B. Significant Changes.

UBS is not aware of any significant change that has occurred since the date of the annual financial statements included in the 2010 Annual Report on Form 20-F and on or before March 15, 2011, the date the 2010 Annual Report on Form 20-F was filed with the SEC. In addition to the disclosure provided below, please see Note 33 to the Financial Statements, *Events after the reporting period*, on page 362 of the financial statements referenced in Item 18 and attached to this Amendment.

Key factors affecting our financial position and results of operations in 2010

- In 2010, we generated a net profit attributable to UBS shareholders of CHF 7.5 billion, a significant improvement over the net loss of CHF 2.7 billion in 2009. This increase was primarily due to a significant improvement in fixed income, currencies and commodities revenues from a loss in 2009. In addition, a reduction in credit loss expense, as well as significantly lower own credit losses on financial liabilities designated at fair value supported the result. Operating expenses were slightly lower than in 2009, when we recorded higher restructuring costs and a goodwill impairment charge related to the sale of UBS Pactual. Further, we reduced fixed costs excluding bonus and significant non-recurring items to CHF 19.9 billion in 2010, in line with our communicated target of below CHF 20 billion, despite increased costs for litigation provisions compared with 2009. Diluted earnings per share were CHF 1.96 in 2010, compared with negative CHF 0.75 in 2009.
- We recognized a net income tax benefit of CHF 381 million for 2010. This mainly reflects the recognition of additional deferred tax assets in respect of losses and temporary differences in a number of foreign locations, taking into account updated forecast taxable profit assumptions over the five-year horizon used for recognition purposes. This was partly offset by a Swiss net deferred tax expense as Swiss tax losses for which deferred tax assets have previously been recognized were used against profits for the year, which was itself partly offset by an upward revaluation of Swiss deferred tax assets taking into account revised forecast profit assumptions. In 2009, the net income tax benefit was CHF 443 million.
 → Refer to “Note 22 Income taxes” in the financial statements attached to this Amendment No. 1 for more information
- As our credit spreads continued to tighten in 2010, the Investment Bank incurred an own credit charge on financial liabilities designated at fair value of CHF 548 million compared with a charge of CHF 2,023 million recognized in 2009.
 → Refer to “Note 27 Fair value of financial instruments” in the financial statements attached to this Amendment No. 1 for more information
- In 2010, we recorded a gain on our option to acquire the equity of the SNB StabFund of CHF 745 million compared with CHF 117 million in 2009, following higher asset valuations supporting a higher valuation of the SNB StabFund.
- In January 2010, UBS closed the sale of its investments in several associated entities owning office space in New York. A significant portion of the office space is leased by the Group until 2018. The sales price was CHF 187 million with a resulting gain on sale of CHF 180 million recorded in the first quarter. In the fourth quarter, we recognized a gain of CHF 158 million from the sale of a property in Zurich.
- In 2010, we incurred a credit loss expense of CHF 66 million, of which CHF 64 million occurred in Wealth Management & Swiss Bank. The net credit loss expense in the Investment Bank was nil. In 2009, we recorded an overall credit loss expense of CHF 1,832 million, mainly in the Investment Bank.
 → Refer to the “Risk and treasury management” section of the 2010 Annual Report on Form 20-F for more information
- During 2010, we incurred net restructuring charges of CHF 113 million compared with CHF 791 million in 2009.
 → Refer to “Note 38 Reorganizations and disposals” in the financial statements attached to this Amendment No. 1 for more information
- Charges related to the UK Bank Payroll Tax in 2010 amounted to CHF 200 million.
- Other comprehensive income attributable to UBS shareholders was negative CHF 1,659 million in 2010 due to: (1) losses in the currency translation account of CHF 909 million (net of tax) mainly related to the Swiss franc carrying value of investments in US, Eurozone and British subsidiaries; (2) fair value losses on financial investments available-for-sale of CHF 607 million (net of tax) predominantly relating to our fixed-interest bearing long-term bond portfolio, which consists of US and UK government bonds; and (3) changes in the replacement values of interest rate swaps designated as hedging instruments of negative CHF 143 million (net of tax).
 → Refer to the “Statement of comprehensive income” in the financial statements attached to this Amendment No. 1 for more information

- At the end of 2010, our invested asset base was CHF 2,152 billion, down from CHF 2,233 billion at year-end 2009. This decline was mainly due to unfavorable currency effects, as both the US dollar and the euro fell sharply in value against the Swiss franc. In local currencies, the overall market performance was positive. During 2010, net new money stabilized, and over the last two quarters we achieved net inflows for the overall Group. Wealth Management & Swiss Bank recorded net new money outflows of CHF 10.0 billion in full-year 2010, compared with net outflows of CHF 89.8 billion in 2009; Wealth Management Americas’ net new money outflows declined to CHF 6.1 billion in 2010 from CHF 11.6 billion in 2009; Global Asset Management full year net new money flows turned positive to CHF 1.8 billion, compared with net outflows of CHF 45.8 billion in 2009.
- We ended 2010 with an industry-leading Basel II tier 1 capital ratio of 17.8%, up from 15.4% at the end of 2009. Our BIS tier 1 capital increased by CHF 3.5 billion during 2010 to CHF 35.3 billion, due to the CHF 7.5 billion net profit attributable to UBS shareholders and the reversals of own credit losses of CHF 0.5 billion. These effects were partially offset by a redemption of hybrid tier 1 capital of CHF 1.5 billion, increased tier 1 deductions of CHF 1.0 billion, negative effects relating to share-based compensation net of tax of CHF 0.9 billion, as well as currency effects of CHF 0.6 billion and other effects of CHF 0.5 billion. Risk-weighted assets decreased by CHF 7.7 billion during 2010 to CHF 198.9 billion as of 31 December 2010.
- Our total balance sheet assets stood at CHF 1,317 billion on 31 December 2010, down CHF 23 billion compared with year-end 2009. Our funded asset volume, which excludes positive replacement values, remained relatively unchanged, declining by CHF 3 billion in 2010.
→Refer to the “Risk and treasury management” section of the 2010 Annual Report on Form 20-F for more information
- On 5 March 2010, the mandatory convertible notes with a notional value of CHF 13 billion issued in March 2008 to the Government of Singapore Investment Corporation Pte. Ltd. and an investor from the Middle East were converted into UBS shares. The notes were converted at a price of CHF 47.68 per share. As a result, UBS issued 272,651,005 new shares with a nominal value of CHF 0.10 each from existing conditional capital.
→Refer to “Note 26 Capital increase and mandatory convertible notes” in the financial statements attached to this Amendment No. 1 for more information

Item 15. Controls and Procedures.

Item 15 on page 20 of the 2010 Annual Report on Form 20-F is hereby deleted and replaced with the following:

(a) Disclosure Controls and Procedures.

As a “foreign private issuer”, we must file reports and other information, including certain financial reports, with the US Securities and Exchange Commission (SEC) under the US federal securities laws. We file an annual report on Form 20-F, and submit our quarterly financial reports and other material information, including materials sent to shareholders in connection with AGMs and EGMs, under cover of Form 6-K to the SEC. These reports are all available at www.ubs.com/investors and also on the SEC’s website at www.sec.gov.

An evaluation was carried out under the supervision of management, including the Group CEO and Group CFO, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) under the US Securities Exchange Act of 1934. Based upon that evaluation, management, including the Group CEO and Group CFO, has concluded that our disclosure controls and procedures were ineffective as of 31 December 2010 solely because of the deficiencies described in Item 15(b) below.

(b) Management’s Report on Internal Control over Financial Reporting.

The Board of Directors and management of UBS are responsible for establishing and maintaining adequate internal control over financial reporting. UBS’s internal control over financial reporting is designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

UBS’s internal control over financial reporting includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation and fair presentation of financial statements, and that receipts and expenditures of the company are being made only in accordance with authorizations of UBS management; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Following the discovery in September 2011 of unauthorized and fictitious trading by an employee in our Global Synthetic Equity business unit in London, and on the basis of information now available to management concerning the circumstances surrounding the trading and the related controls, we have determined that certain controls designed to prevent or detect the use of unauthorized and fictitious transactions on a timely basis were not operating effectively. We have further determined that the control deficiencies that led to the failure to prevent or detect unauthorized and fictitious trading on a timely basis also existed at the end of 2010.

A material weakness is a deficiency or combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a registrant's financial statements will not be prevented or detected on a timely basis. Management has re-assessed whether our internal control over financial reporting was effective on 31 December 2010, and has determined that there is a reasonable possibility that the control deficiencies that existed on that date could have been sufficient to result in a material misstatement of our consolidated financial statements as of and for the year ended 31 December 2010.

On this basis, management, including our Group CEO and Group CFO, has concluded that there was a material weakness in our internal control over financial reporting on 31 December 2010. Specifically, and on the basis of the available information to date, management has concluded that (i) the control requiring bilateral confirmation with counterparties of trades within our Investment Bank's equities business with settlement dates of greater than 15 days after trade date was not operating, and when such trades were cancelled, re-booked or amended, the related monitoring control to ensure the validity of these changes had ceased to operate effectively, and (ii) the controls in the inter-desk reconciliation process within the Investment Bank's equities and fixed income, currencies and commodities businesses to ensure that internal transactions are valid and accurately recorded in our books and records, including controls over cancellations and amendments of internal trades that require supervisor review, intervention and resolution, did not operate effectively.

UBS management assessed the effectiveness of UBS's internal control over financial reporting as of 31 December 2010 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on this assessment, management has concluded that, as of 31 December 2010, UBS's internal control over financial reporting was ineffective due to the material weakness described above.

The effectiveness of UBS's internal control over financial reporting as of 31 December 2010 has been audited by Ernst & Young Ltd, UBS's independent registered public accounting firm, as stated in their report appearing in section (d) below, which expressed an adverse opinion on the effectiveness of UBS's internal control over financial reporting as of 31 December 2010.

(c) Remediation Plans and Activities.

Subsequent to the identification of the unauthorized and fictitious trading activity, we have been remediating and will continue to remediate the control deficiencies referred to above. We have reactivated the confirmation control referred to in (i) in the sixth paragraph of section (b) above, have initiated work on a front-to-back control process to ensure that the exceptions identified by the inter-desk reconciliation process referred to in (ii) in the sixth paragraph of section (b) above are effectively reviewed, investigated and resolved on a timely basis, and will develop new monitoring reports and controls to achieve operating effectiveness in performing the controls referred to in (i) and (ii) above as part of a broader program to strengthen the effectiveness of supervisory oversight.

Investigations are ongoing and we expect we will be adopting further controls and procedures following completion of such investigations and discussions with our regulators. In the course of these ongoing investigations, management may become aware of facts relating to the Investment Bank that cause it to broaden the scope of the findings described above. In addition,

management recognizes that the aforementioned material weakness in internal control over financial reporting will only be confirmed as having been remediated on 31 December 2011 if the necessary internal controls have been designed effectively, placed into operation, operated for a reasonable period of time and tested, allowing management to conclude that the controls are operating effectively.

(d) Attestation Report of the Registered Public Accounting Firm.

In light of the deficiencies described in Item 15(b) above, Ernst & Young Ltd have provided a new *Report of independent registered public accounting firm on internal control over financial reporting*, set forth below:

Ernst & Young Ltd
Aeschengraben 9
CH-4002 Basel

Phone +41 58 286 86 86
Fax +41 58 286 86 00
www.ey.com/ch

To the General Meeting of

UBS AG, Zurich and Basel

**Report of independent registered public accounting firm
on internal control over financial reporting**

We have audited the internal control over financial reporting of UBS AG and its subsidiaries as of 31 December 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). UBS AG's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated 3 March 2011, we expressed an opinion that UBS AG maintained, in all material respects, effective internal control over financial reporting as of 31 December 2010, based on the COSO criteria. Management subsequently identified a material weakness described in the following paragraph. As a result, management has revised its assessment, as presented in Item 15, "Management's Report on Internal Control Over Financial Reporting" to conclude that UBS AG's internal control over financial reporting was not effective as of 31 December 2010. Accordingly, our present opinion on the effectiveness of internal control over financial reporting, as expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The control requiring bilateral confirmation with counterparties of trades within the Investment Bank's equities business with settlement dates of greater than 15 days after trade date, was not operating, and when such trades were cancelled, re-booked or amended, the related monitoring control had ceased to operate effectively; and the controls in the inter-desk reconciliation process within the Investment Bank's equities and fixed income, currencies and commodities businesses to ensure that internal transactions are valid and accurately recorded in the books and records, including controls over cancellations and amendments of internal trades that require supervisor review, intervention and resolution, did not operate effectively.

We also have audited, in accordance with Swiss law, Swiss Auditing Standards, International Standards on Auditing and the standards of the Public Company Accounting Oversight Board (United States of America), the consolidated balance sheets of UBS AG and its subsidiaries as of 31 December 2010 and 2009, and the related consolidated income statements and consolidated statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended 31 December 2010 and notes thereto. The material weakness described in the preceding paragraph was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2010 financial statements and this report does not affect our accompanying report on those financial statements which expressed an unqualified opinion thereon.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, UBS AG and its subsidiaries have not maintained effective internal control over financial reporting as of 31 December 2010, based on the COSO criteria.

Ernst & Young Ltd

Jonathan Bourne
Licensed Audit Expert
(Auditor in Charge)

Andreas Loetscher
Licensed Audit Expert

Basel, Switzerland

3 March 2011, except for the effects of the material weakness described in the sixth paragraph above, as to which the date is 10 November 2011

(e) Changes in Internal Control over Financial Reporting.

There were no changes in the internal control over financial reporting of UBS during 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Item 18. Financial Statements.

Item 18 on page 22 of the 2010 Annual Report on Form 20-F is hereby deleted and replaced with the following:

Please see the Financial Statements and the Notes to the Financial Statements attached to this Amendment No 1. The attached Financial Statements and Notes to the Financial Statements (including the page numbers) are identical to those in our 2010 Annual Report on Form 20-F as filed with the SEC on March 15, 2011.

AMENDMENTS TO PART III

Item 19. Exhibits.

Exhibit Number	Description
12	The certifications required by Rule 13(a)-14(a) (17 CFR 240.13a-14(a)).
13	The certifications required by Rule 13(a)-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350).
15	Consent of Ernst & Young Ltd.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused the undersigned to sign this Amendment No. 1 to the annual report on its behalf.

UBS AG

/s/ Sergio P. Ermotti

Name: Sergio P. Ermotti

Title: Group Chief Executive Officer

/s/ Tom Naratil

Name: Tom Naratil

Title: Group Chief Financial Officer

November 9, 2011

INDEX TO EXHIBITS FOR AMENDMENT NO. 1

Exhibit Number	Description
12	The certifications required by Rule 13(a)-14(a) (17 CFR 240.13a-14(a)).
13	The certifications required by Rule 13(a)-14(b) (17 CFR 240.13a-14(b)) and Section 1350 of Chapter 63 of Title 18 of the U.S. Code (18 U.S.C. 1350).
15	Consent of Ernst & Young Ltd.

Income statement

CHF million, except per share data	Note	For the year ended			% change from 31.12.09
		31.12.10	31.12.09	31.12.08	
Continuing operations					
Interest income	3	18,872	23,461	65,679	(20)
Interest expense	3	(12,657)	(17,016)	(59,687)	26
Net interest income	3	6,215	6,446	5,992	(4)
Credit loss (expense) / recovery		(66)	(1,832)	(2,996)	96
Net interest income after credit loss expense		6,149	4,614	2,996	33
Net fee and commission income	4	17,160	17,712	22,929	(3)
Net trading income	3	7,471	(324)	(25,820)	
Other income	5	1,214	599	692	103
Total operating income		31,994	22,601	796	42
Personnel expenses	6	16,920	16,543	16,262	2
General and administrative expenses	7	6,585	6,248	10,498	5
Depreciation of property and equipment	15	918	1,048	1,241	(12)
Impairment of goodwill	16	0	1,123	341	(100)
Amortization of intangible assets	16	117	200	213	(42)
Total operating expenses		24,539	25,162	28,555	(2)
Operating profit from continuing operations before tax		7,455	(2,561)	(27,758)	
Tax expense / (benefit)	22	(381)	(443)	(6,837)	14
Net profit from continuing operations		7,836	(2,118)	(20,922)	
Discontinued operations					
Profit from discontinued operations before tax	37	2	(7)	198	
Tax expense	22	0	0	1	
Net profit from discontinued operations		2	(7)	198	
Net profit		7,838	(2,125)	(20,724)	
Net profit attributable to non-controlling interests		304	610	568	(50)
from continuing operations		303	600	520	(50)
from discontinued operations		1	10	48	(90)
Net profit attributable to UBS shareholders		7,534	(2,736)	(21,292)	
from continuing operations		7,533	(2,719)	(21,442)	
from discontinued operations		1	(17)	150	
Earnings per share (CHF)					
Basic earnings per share	8	1.99	(0.75)	(7.63)	
from continuing operations		1.99	(0.74)	(7.68)	
from discontinued operations		0.00	0.00	0.05	
Diluted earnings per share	8	1.96	(0.75)	(7.63)	
from continuing operations		1.96	(0.74)	(7.69)	
from discontinued operations		0.00	0.00	0.05	

Statement of comprehensive income

<i>CHF million</i>	For the year ended		
	31.12.10	31.12.09	31.12.08
Net profit	7,838	(2,125)	(20,724)
Other comprehensive income			
Foreign currency translation			
Foreign currency translation movements, before tax	(2,044)	(35)	(4,509)
Foreign exchange amounts reclassified to the income statement from equity	237	(259)	202
Income tax relating to foreign currency translation movements	121	22	(17)
Subtotal foreign currency translation movements, net of tax	(1,686)¹	(272)	(4,324)
Financial investments available-for-sale			
Net unrealized gains / (losses) on financial investments available-for-sale, before tax	(499)	157	(903)
Impairment charges reclassified to the income statement from equity	72	70	47
Realized gains reclassified to the income statement from equity	(357)	(147)	(645)
Realized losses reclassified to the income statement from equity	153	1	6
Income tax relating to net unrealized gains / (losses) on financial investments available-for-sale	13	(54)	341
Subtotal net unrealized gains / (losses) on financial investments available-for-sale, net of tax	(618)¹	27	(1,154)
Cash flow hedges			
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	927	78	2,001
Net realized (gains) / losses reclassified to the income statement from equity	(1,108)	(756)	178
Income tax effects relating to cash flow hedges	38	257	(520)
Subtotal changes in fair value of derivative instruments designated as cash flow hedges	(143)	(421)	1,659
Total other comprehensive income	(2,447)	(667)	(3,818)
Total comprehensive income	5,391	(2,792)	(24,542)
Total comprehensive income attributable to non-controlling interests	(484)	484	(77)
Total comprehensive income attributable to UBS shareholders	5,875	(3,276)	(24,465)

¹ Other comprehensive income attributable to UBS shareholders related to foreign currency translations is negative CHF 909 million and related to financial investments available-for-sale is negative CHF 607 million.

Balance sheet

CHF million	Note	31.12.10	31.12.09	31.12.08	% change from 31.12.09
Assets					
Cash and balances with central banks		26,939	20,899	32,744	29
Due from banks	9	17,133	16,804	17,694	2
Cash collateral on securities borrowed	10	62,454	63,507	122,897	(2)
Reverse repurchase agreements	10	142,790	116,689	224,648	22
Trading portfolio assets	11	167,463	188,037	271,838	(11)
Trading portfolio assets pledged as collateral	11	61,352	44,221	40,216	39
Positive replacement values	23	401,146	421,694	854,100	(5)
Cash collateral receivables on derivative instruments	10	38,071	53,774	85,703	(29)
Financial assets designated at fair value	12	8,504	10,223	12,882	(17)
Loans	9	262,877	266,477	291,456	(1)
Financial investments available-for-sale	13	74,768	81,757	5,248	(9)
Accrued income and prepaid expenses		5,466	5,816	6,141	(6)
Investments in associates	14	790	870	892	(9)
Property and equipment	15	5,467	6,212	6,706	(12)
Goodwill and intangible assets	16	9,822	11,008	12,935	(11)
Deferred tax assets	22	9,522	8,868	8,880	7
Other assets	17	22,681	23,682	19,837	(4)
Total assets		1,317,247	1,340,538	2,014,815	(2)
Liabilities					
Due to banks	18	41,490	31,922	76,822	30
Cash collateral on securities lent	10	6,651	7,995	14,063	(17)
Repurchase agreements	10	74,796	64,175	102,561	17
Trading portfolio liabilities	11	54,975	47,469	62,431	16
Negative replacement values	23	393,762	409,943	851,864	(4)
Cash collateral payables on derivative instruments	10	58,924	66,097	92,937	(11)
Financial liabilities designated at fair value	19	100,756	112,653	101,546	(11)
Due to customers	18	332,301	339,263	362,639	(2)
Accrued expenses and deferred income		7,738	8,689	10,196	(11)
Debt issued	19	130,271	131,352	197,254	(1)
Other liabilities	20, 21, 22	63,719	72,344	101,969	(12)
Total liabilities		1,265,384	1,291,905	1,974,282	(2)
Equity					
Share capital		383	356	293	8
Share premium		34,393	34,824	25,288	(1)
Cumulative net income recognized directly in equity, net of tax		(6,534)	(4,875)	(4,335)	(34)
Retained earnings		19,285	11,751	14,487	64
Equity classified as obligation to purchase own shares		(54)	(2)	(46)	
Treasury shares		(654)	(1,040)	(3,156)	37
Equity attributable to UBS shareholders		46,820	41,013	32,531	14
Equity attributable to non-controlling interests		5,043	7,620	8,002	(34)
Total equity		51,863	48,633	40,533	7
Total liabilities and equity		1,317,247	1,340,538	2,014,815	(2)

Statement of changes in equity

<i>CHF million</i>	Share capital	Share premium	Treasury shares	Equity classified as obligation to purchase own shares
Balance at 1 January 2008	207	12,471	(10,363)	(74)
Issuance of share capital	86			
Acquisition of treasury shares			(367)	
Disposition of treasury shares			7,574	
Net premium / (discount) on treasury share and own equity derivative activity		(4,626)		
Premium on shares issued and warrants exercised		20,003		
Employee share and share option plans		(1,961)		
Tax benefits from deferred compensation awards		(176)		
Transaction costs related to share issuances, net of tax		(423)		
Dividends				
Equity classified as obligation to purchase own shares – movements				28
Preferred securities				
New consolidations and other increases				
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance at 31 December 2008	293	25,288	(3,156)	(46)
Issuance of share capital	63			
Acquisition of treasury shares			(476)	
Disposition of treasury shares			2,592	
Net premium / (discount) on treasury share and own equity derivative activity		(1,268)		
Premium on shares issued and warrants exercised		10,599		
Employee share and share option plans		291		
Tax benefits from deferred compensation awards		1		
Transaction costs related to share issuances, net of tax		(87)		
Dividends ¹				
Equity classified as obligation to purchase own shares – movements				44
Preferred securities				
New consolidations and other increases				
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance at 31 December 2009	356	34,824	(1,040)	(2)
Issuance of share capital	27			
Acquisition of treasury shares			(1,574)	
Disposition of treasury shares			1,960	
Net premium / (discount) on treasury share and own equity derivative activity		(43)		
Premium on shares issued and warrants exercised		(27)		
Employee share and share option plans		(104)		
Tax benefits from deferred compensation awards		(8)		
Transaction costs related to share issuances, net of tax		(113)		
Dividends ¹				
Equity classified as obligation to purchase own shares – movements				(52)
Preferred securities				
New consolidations and other increases		(136)		
Deconsolidations and other decreases				
Total comprehensive income for the year recognized in equity				
Balance at 31 December 2010	383	34,393	(654)	(54)

¹ Includes dividend payment obligations for preferred securities.

Retained earnings	Foreign currency translation	Financial investments available-for-sale	Cash flow hedges	Total equity attributable to UBS shareholders	Non-controlling interests	Total equity
35,795	(2,600)	1,471	(32)	36,875	6,951	43,826
				86		86
				(367)		(367)
				7,574		7,574
				(4,626)		(4,626)
				20,003		20,003
				(1,961)		(1,961)
				(176)		(176)
				(423)		(423)
(16)				(16)	(361)	(377)
				28		28
				0	1,618	1,618
				0	12	12
				0	(141)	(141)
(21,292)	(3,709)	(1,124)	1,659	(24,465)	(77)	(24,542)
14,487	(6,309)	347	1,627	32,531	8,002	40,533
				63		63
				(476)		(476)
				2,592		2,592
				(1,268)		(1,268)
				10,599		10,599
				291		291
				1		1
				(87)		(87)
				0	(849)	(849)
				44		44
				0	(7)	(7)
				0	3	3
				0	(13)	(13)
(2,736)	(136)	17	(421)	(3,276)	484	(2,792)
11,751	(6,445)	364	1,206	41,013	7,620	48,633
				27		27
				(1,574)		(1,574)
				1,960		1,960
				(43)		(43)
				(27)		(27)
				(104)		(104)
				(8)		(8)
				(113)		(113)
				0	(305)	(305)
				(52)		(52)
				0	(1,529)	(1,529)
				(136)	6	(130)
				0	(264)	(264)
7,534	(909)	(607)	(143)	5,875	(484)	5,391
19,285	(7,354)	(243)	1,063	46,820	5,043	51,863

Statement of changes in equity (continued)

Preferred securities¹

<i>CHF million</i>	For the year ended		
	31.12.10	31.12.09	31.12.08
Balance at the beginning of the year	7,254	7,381	6,381
Issuances			1,618
Redemptions	(1,529)	(7)	
Foreign currency translation	(818)	(120)	(618)
Balance at the end of the year	4,907	7,254	7,381

¹ Represents equity attributable to non-controlling interests. Increases and offsetting decreases of equity attributable to non-controlling interests due to dividends are excluded from this table.

<i>Number of shares</i>	For the year ended			% change from 31.12.08
	31.12.10	31.12.09	31.12.08	

Shares issued

Balance at the beginning of the year	3,558,112,753	2,932,580,549	2,073,547,344	21
Issuance of shares	272,727,760	625,532,204	859,033,205	(56)
Balance at the end of the year	3,830,840,513	3,558,112,753	2,932,580,549	8

Treasury shares

Balance at the beginning of the year	37,553,872	61,903,121	158,105,524	(39)
Acquisitions	105,824,816	33,566,097	13,398,118	215
Disposals	(104,486,657)	(57,915,346)	(109,600,521)	(80)
Balance at the end of the year	38,892,031	37,553,872	61,903,121	4

Shares issued

On 5 March 2010, the mandatory convertible notes (MCNs) with a notional value of CHF 13 billion issued in March 2008 to the Government of Singapore Investment Corporation Pte. Ltd. and an investor from the Middle East were converted into UBS shares. The notes were converted at a price of CHF 47.68 per share. As a result, UBS issued 272,651,005 new shares with a nominal value of CHF 0.10 each from existing conditional capital. The MCNs were treated as equity instruments and recognized in *Share premium*. The conversion of the MCNs resulted in a reclassification of CHF 27 million from *Share premium* to *Share capital*.

Conditional share capital

On 31 December 2010, 149,920,712 shares were available for issue to fund UBS's employee share option programs. In addition, conditional capital of up to 100,000,000 shares was available in connection with the Swiss National Bank (SNB) transaction. Furthermore, on 14 April 2010 the Annual General Meeting of UBS AG approved the creation of conditional capital up to a maximum amount of 380,000,000 shares for conversion rights/warrants granted in connection with the issuance of bonds or similar financial instruments. These positions are shown as conditional share capital in the UBS AG (Parent Bank) disclosure.

Statement of cash flows

CHF million	For the year ended		
	31.12.10	31.12.09	31.12.08
Cash flow from / (used in) operating activities			
Net profit	7,838	(2,125)	(20,724)
Adjustments to reconcile net profit to cash flow from / (used in) operating activities			
Non-cash items included in net profit and other adjustments:			
Depreciation of property and equipment	918	1,048	1,241
Impairment of goodwill / amortization of intangible assets	117	1,323	554
Credit loss expense / (recovery)	66	1,832	2,996
Share of net profits of associates	(81)	(37)	6
Deferred tax expense / (benefit)	(605)	(960)	(7,020)
Net loss / (gain) from investing activities	(531)	425	(797)
Net loss / (gain) from financing activities	1,125	8,355	(47,906)
Net (increase) / decrease in operating assets:			
Net due from / to banks	9,022	(41,766)	(41,589)
Reverse repurchase agreements and cash collateral on securities borrowed	(25,048)	162,822	236,497
Trading portfolio, net replacement values and financial assets designated at fair value	21,212	11,118	350,099
Loans / due to customers	(3,429)	(316)	(156,486)
Accrued income, prepaid expenses and other assets	608	(4,208)	31,871
Net increase / (decrease) in operating liabilities:			
Repurchase agreements, cash collateral on securities lent	9,277	(41,351)	(220,935)
Net cash collateral on derivative instruments	(988)	(11,916)	6,316
Accrued expenses, deferred income and other liabilities	(7,039)	(29,242)	(56,232)
Income taxes paid, net of refunds	(498)	(505)	(887)
Net cash flow from / (used in) operating activities	11,963	54,497	77,007
Cash flow from / (used in) investing activities			
Purchase of subsidiaries and associates	(75)	(42)	(1,502)
Disposal of subsidiaries and associates	307	296	1,686
Purchase of property and equipment	(541)	(854)	(1,217)
Disposal of property and equipment	242	163	69
Net (investment in) / divestment of financial investments available-for-sale	(25,631)	(20,127)	(712)
Net cash flow from / (used in) investing activities	(25,698)	(20,563)	(1,676)
Cash flow from / (used in) financing activities			
Net money market papers issued / (repaid)	4,459	(60,040)	(40,637)
Net movements in treasury shares and own equity derivative activity	(1,456)	673	623
Capital issuance	(113)	3,726	23,135
Issuance of long-term debt, including financial liabilities designated at fair value	78,418	67,062	103,087
Repayment of long-term debt, including financial liabilities designated at fair value	(77,497)	(65,024)	(92,894)
Increase in non-controlling interests ¹	6	3	1,661
Dividends paid to / decrease in non-controlling interests	(2,053)	(583)	(532)
Net cash flow from / (used in) financing activities	1,764	(54,183)	(5,557)
Effects of exchange rate differences	(12,181)	5,529	(39,186)
Net increase / (decrease) in cash and cash equivalents	(24,151)	(14,721)	30,588
Cash and cash equivalents at the beginning of the year	164,973	179,693	149,105
Cash and cash equivalents at the end of the year	140,822	164,973	179,693
Cash and cash equivalents comprise:			
Cash and balances with central banks	26,939	20,899	32,744
Money market papers ²	77,998	98,432	86,732
Due from banks with original maturity of less than three months ³	35,885	45,642	60,217
Total	140,822	164,973	179,693

¹ Includes issuance of preferred securities of CHF 1,617 million for the year ended 31 December 2008. ² Money market papers are included in the balance sheet under Trading portfolio assets, Trading portfolio assets pledged as collateral and Financial investments available-for-sale. CHF 39,768 million, CHF 57,116 million and CHF 19,912 million were pledged at 31 December 2010, 31 December 2009 and 31 December 2008, respectively. ³ Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Statement of cash flows (continued)

<i>CHF million</i>	For the year ended		
	31.12.10	31.12.09	31.12.08
Additional information			
Cash received as interest	17,344	23,844	68,232
Cash paid as interest	12,606	19,597	62,284
Cash received as dividends on equities (incl. associates)	1,395	1,090	2,779

Significant non-cash investing and financing activities

There were no significant items in 2010.

<i>CHF million</i>	For the year ended	
	31.12.09	31.12.08
Deconsolidation of UBS Pactual		
Financial investments available-for-sale	14	
Property and equipment	31	
Goodwill and intangible assets	731	
Debt issued	1,393	
Deconsolidation of private equity investments		
Property and equipment		33
Goodwill and intangible assets		22
Acquisition of Caisse Centrale de Réescmpte Group (CCR)		
Property and equipment		5
Goodwill and intangible assets		405
Debt issued		114
Acquisition of VermogensGroep		
Property and equipment		2
Goodwill and intangible assets		173

Notes to the consolidated financial statements

Note 1 Summary of significant accounting policies

a) Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1) Basis of accounting

UBS AG and subsidiaries ("UBS" or the "Group") provide a broad range of financial services including: advisory services, underwriting, financing, market making, asset management and brokerage on a global level and retail banking in Switzerland. The Group was formed on 29 June 1998 when Swiss Bank Corporation and Union Bank of Switzerland merged. The merger was accounted for using the uniting of interests method of accounting.

The consolidated financial statements of UBS (the "Financial Statements") are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are stated in Swiss francs (CHF), the currency of Switzerland where UBS AG is incorporated. On 3 March 2011, the Board of Directors approved them for issue.

Disclosures under IFRS 7 Financial Instruments: Disclosures about the nature and extent of risks and capital disclosures under IAS 1 Presentation of Financial Statements have been included in the audited parts of the "Risk and treasury management" section. Several IFRS 7 credit risk-related disclosures are provided in Note 29c.

2) Use of estimates in the preparation of the Financial Statements

In preparing the financial statements in conformity with IFRS, 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 judgment 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.

3) Subsidiaries

The Financial Statements comprise those of the parent company (UBS AG) and its subsidiaries, including controlled special purpose entities (SPEs), presented as a single economic entity. UBS controls an entity if it has the power to govern the financial and operating policies. This is generally accompanied by a shareholding of more than one-half of the voting rights. Subsidiaries, including SPEs that are directly or indirectly controlled by the Group, are consolidated from the date on which control is transferred to the Group. Subsidiaries to be divested are consolidated up to the date of disposal (i.e. loss of control).

Equity attributable to non-controlling interests (formerly minority interests) is presented on the consolidated balance sheet within equity, and is separate from equity attributable to UBS shareholders. *Net profit attributable to non-controlling interests* is shown separately in the income statement.

The Group sponsors the formation of entities, which may or may not be directly or indirectly owned subsidiaries, in order to accomplish certain narrow and well defined objectives. Such trusts and other SPEs are consolidated in the Group's Financial Statements when the substance of the relationship between the Group and the company indicates that the company is controlled by the Group. The following circumstances may indicate a relationship in which, in substance, UBS controls and consequently consolidates the SPE:

- the activities of the SPE are being conducted on behalf of UBS according to its specific business needs so that UBS obtains benefits from the SPE's operations;
- UBS has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism, UBS has delegated these decision-making powers;
- UBS has rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks associated with the activities of the SPE; or
- UBS retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

SPEs that are used to allow clients to hold investments are structures that allow one or more clients to invest in specific risk and reward profiles or assets. Typically, UBS will receive service and commission fees for the creation of the SPE, or because UBS acts as investment manager, custodian or in some other function. Some of these SPEs are single-investor or family trusts while others allow a large number of investors to invest in a diversified asset base through a single share, note or certificate. The majority of UBS's SPEs are created for client investment purposes and are not consolidated. However, UBS consolidates SPEs in certain cases, in which UBS absorbs the majority of the risks and rewards or has unilateral liquidation rights.

SPEs used for securitization are created when UBS has assets (for example, a portfolio of loans) which it sells to an SPE, and the SPE in turn sells interests in the assets as securities to investors. Consolidation of these SPEs depends mainly on whether UBS retains the majority of the risks and rewards of the assets in the SPE.

Note 1 Summary of significant accounting policies (continued)

UBS does not consolidate SPEs for securitization if it has no control over the assets and if it no longer retains any significant exposure (for gain or loss) to the income or investment returns on the assets sold to the SPE or the proceeds of their liquidation. This type of SPE is known as a bankruptcy-remote entity: if UBS were to go bankrupt, the holders of the securities would clearly be owners of the asset, while if the SPE were to go bankrupt, the securities holders would have no recourse against UBS.

SPEs used for credit protection are set up to allow UBS to sell and purchase the credit risk on portfolios, which may or may not be held by UBS, to investors. They exist primarily to allow UBS to have a single counterparty (the SPE) to which it sells. The SPE in turn has investors who provide it with capital and also participate in the risks and rewards of the credit events that it insures. UBS generally consolidates SPEs that are used for credit protection when, for instance, UBS receives benefits from funding or has unilateral liquidation rights.

Employee benefit trusts are used in connection with share-based payment arrangements and deferred compensation schemes. Such trusts are consolidated when the substance of the relationship between UBS and the entity indicated that the entity is controlled by UBS.

UBS continuously evaluates whether triggering events require the reconsideration of consolidation decisions that were made at inception of its involvement with the SPE. This is especially the case in relation to securitization vehicles and collateralized debt obligations (CDOs). Triggering events are usually caused by restructuring, the vesting of potential rights and acquisition or the disposal or expiration of interests. In these circumstances, special purpose entities may or may not be consolidated or deconsolidated depending on how conditions have changed.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Intercompany transactions, balances and unrealized gains or losses on transactions between the Group companies are eliminated.

Business combinations completed after 1 January 2010 are accounted for using the acquisition method. As of the acquisition date UBS recognizes the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values. For each business combination, UBS measures the non-controlling interests in the acquiree that are present ownership interests and provide entitlement to a proportionate share of the net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of the non-controlling interests are measured at their acquisition-date fair values. The cost of an acquisition is the aggregate of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity instruments issued, measured at acquisition-date fair values. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by UBS is recognized at fair value at the acquisition date. Subsequent changes

in the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in profit or loss. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

Goodwill is recognized as a separate asset. It is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets of the subsidiary acquired exceeds the aggregate of the amounts specified above, the difference is recognized in profit or loss on the acquisition date.

The accounting treatment of business combinations completed prior to 1 January 2010 was different in the following aspects:

- Transaction costs directly attributable to the acquisition formed part of the acquisition costs.
- The non-controlling interest was measured as a proportion of the acquiree's identifiable net assets.
- Contingent consideration was recognized if, and only if, UBS had a present obligation, economic outflow was likely and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognized as part of goodwill.

Assets and liabilities of subsidiaries are classified as "held for sale" if their carrying amount will be recovered principally through a sale transaction rather than through continuing use – see items 19) and 28). Major lines of business and subsidiaries that were acquired exclusively for the purpose of resale are presented as discontinued operations. This information is presented in the statement of comprehensive income for the period when the sale occurred. It may also be presented when it becomes highly probable that a sale will occur within 12 months – see item 28).

4) Associates and jointly controlled entities

Investments in associates in which UBS has a significant influence are accounted for under the equity method of accounting. Significant influence is normally evidenced when UBS owns between 20% and 50% of a company's voting rights. Investments in associates are initially recorded at cost, and the carrying amount is increased or decreased to recognize the Group's share of the investee's net profit or loss (including net profit or loss recognized directly in equity) after the date of acquisition.

Interests in jointly controlled entities, in which UBS and one or more third parties have joint control, are accounted for under the equity method. A jointly controlled entity is subject to a contractual agreement between UBS and one or more third parties, which establishes joint control over its economic activities. Interests in such entities are reflected under *Investments in associates* on the balance sheet, and the related disclosures are included in the disclosures for associates. UBS holds certain interests in jointly controlled real estate entities.

Note 1 Summary of significant accounting policies (continued)

Investments in associates and interests in jointly controlled entities are classified as “held for sale” if their carrying amount will be recovered principally through a sale transaction rather than through continuing use – see items 19) and 28).

5) Recognition and derecognition of financial instruments

UBS recognizes financial instruments on its balance sheet when the Group becomes a party to the contractual provisions of the instrument.

UBS acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and the related income are excluded from UBS's financial statements, as they are not assets of UBS, unless the recognition criteria for the assets are satisfied.

Financial assets

UBS enters into transactions where it transfers financial assets recognized on its balance sheet but retains either all risks and rewards of the transferred financial assets or a portion of them. If all or substantially all risks and rewards are retained, the transferred financial assets are not derecognized from the balance sheet. Transfers of financial assets with retention of all or substantially all risks and rewards include securities lending and repurchase transactions described under items 13) and 14). They also include transactions where financial assets are sold to a third party with a concurrent total return swap on the transferred assets to retain all their risks and rewards. These types of transactions are accounted for as secured financing transactions.

In transactions where substantially all of the risks and rewards of ownership of a financial asset are neither retained nor transferred, UBS derecognizes the financial asset if control over the asset is lost. The rights and obligations retained in the transfer are recognized separately as assets and liabilities as appropriate. In transfers where control over the financial asset is retained, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset. Examples of such transactions are transfers of financial assets involving guarantees, writing put options, acquiring call options, or specific types of swaps linked to the performance of the asset.

Financial liabilities

UBS removes a financial liability from its balance sheet when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. When an existing financial liability is exchanged for a new one from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

6) Determination of fair value

The fair value principles applied when determining fair value are considered significant accounting policies. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Details of the determination of fair value of financial instruments, fair value hierarchy, valuation techniques and inputs by products, day 1 profit or loss and other related fair value disclosures are disclosed in Note 27.

7) Trading portfolio assets and liabilities

An acquired non-derivative financial asset or liability is classified at acquisition as held for trading and presented in the trading portfolio if it is (a) acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or (b) part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

The trading portfolio includes non-derivative financial instruments (including those with embedded derivatives) and commodities. Financial instruments which are considered derivatives in their entirety are generally presented on the balance sheet as *Positive and Negative replacement values* (refer to item 15)). UBS's trading portfolio assets and liabilities (refer to Note 11) include proprietary positions, hedge positions and client business-related positions (provided the recognition criteria mentioned in item 5) are satisfied.

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

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

The Group uses settlement date accounting when recording trading financial asset transactions. From the date the purchase transaction is entered into (trade date), UBS recognizes any unrealized profits and losses arising from revaluing that contract to fair value in *Net trading income*. The corresponding receivable or payable is presented on the balance sheet as a *Positive* or *Negative replacement value*. When the transaction is consummated (settlement date), a 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. When the Group becomes party to a sales contract of

Note 1 Summary of significant accounting policies (continued)

a financial asset classified in its trading portfolio, unrealized profits and losses are no longer recognized from the date the sales transaction is entered into (trade date) and it derecognizes the asset on the day of its transfer (settlement date).

Trading portfolio assets transferred to external parties that do not qualify for derecognition (see item 5)) are reclassified on UBS's balance sheet from *Trading portfolio assets* to *Trading portfolio assets pledged as collateral*, if the transferee has received the right to sell or repledge them.

8) Financial assets and Financial liabilities designated at fair value through profit or loss ("Fair Value Option")

A financial instrument may only be designated at fair value through profit or loss at inception and this designation cannot subsequently be changed. Financial assets (refer to Note 12) and financial liabilities (refer to Note 19) designated at fair value are presented in separate lines on the face of the balance sheet.

The conditions for applying the fair value option are met when

- they are hybrid instruments which consist of a debt host and an embedded derivative component, or
- they are items that are 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.

UBS has designated most of its issued hybrid debt instruments as *Financial liabilities designated at fair value* through profit or loss. These instruments are based predominantly on the following categories of underlyings:

- *Credit-linked*: bonds, notes linked to the performance (coupon and / or redemption amount) of single names (such as a company or a country) or a basket of reference entities.
- *Equity-linked*: bonds, notes that are linked to a single stock, a basket of stocks or an equity index.
- *Rates-linked*: bonds, notes linked to a reference interest rate, interest rate spread or formula.

Besides hybrid instruments, the fair value option is also applied to certain loans and loan commitments which are substantially hedged with credit derivatives. The application of the fair value option to these instruments reduces an accounting mismatch, as loans would have been otherwise accounted for at amortized cost or as financial investments available-for-sale (refer to item 9), whereas the hedging credit protection is accounted for as a derivative instrument at fair value through profit or loss.

UBS has also applied the fair value option to a hedge fund investment and a structured reverse repurchase agreement 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 lia-

bilities designated at fair value through profit or loss are included in *Interest income on financial assets designated at fair value* or *Interest on financial liabilities designated at fair value*. Refer to Note 3.

UBS applies the same recognition and derecognition principles to financial instruments designated at fair value as to financial instruments held for trading (refer to items 5) and 7)).

9) Financial investments available-for-sale

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

Financial investments available-for-sale include highly liquid debt securities, strategic equity investments, certain investments in real estate funds as well as instruments that, in management's opinion, may be sold in response to or in anticipation of needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. In addition, certain equity instruments, including private equity investments as well as debt instruments and non-performing loans acquired in the secondary market are classified as financial investments available-for-sale. Highly liquid debt securities are mainly issued by government and government-controlled institutions.

Financial investments available-for-sale are initially recognized at fair value including direct transaction costs and are subsequently measured at fair value. Unrealized gains or losses are reported in *Equity*, net of applicable income taxes, until such investments are sold, collected or otherwise disposed of, or until any such investment is determined to be impaired. Unrealized gains or losses before tax are presented separately in Note 13. However, foreign exchange translation gains or losses associated with monetary instruments such as debt securities are recognized in *Net trading income*, whereas foreign exchange translation gains or losses associated with non-monetary instruments such as equity securities are part of the overall fair value change of the assets and recognized directly in *Equity*. On disposal of an investment, the accumulated unrealized gain or loss included in *Equity* is transferred to *Net profit* for the period and reported in *Other income*. Gains and losses on disposal are determined using the average cost method and are included in the income statement.

Interest and dividend income on financial investments available-for-sale are included in *Interest and dividend income from financial investments available-for-sale*.

UBS assesses at each balance sheet date whether there are indicators of impairment of an available-for-sale investment. An available-for-sale investment is impaired when there is objective evidence that as a result of one or more events that occurred after the initial recognition of the investment, the estimated future cash flows of the investment have been affected. For equity investments available-for-sale, a significant or prolonged decline in fair value below the original cost is considered to be objective evidence of impairment. For debt investments available-for-sale, objective evidence of impairment includes, for example, a signifi-

Note 1 Summary of significant accounting policies (continued)

cant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or probability that the borrower will enter bankruptcy or financial re-organization. If a financial investment available-for-sale is determined to be impaired, the related cumulative net unrealized loss previously recognized in *Equity* is included in *Net profit for the period* and reported as a deduction from *Other income*. Any further loss is directly recognized in the income statement.

After the recognition of impairment on a financial investment available-for-sale, increases in fair value of equity instruments are reported in *Equity* and increases in fair value of debt instruments up to original cost are recognized in *Other income*, provided that the fair value increase is related to an event occurring after the impairment loss was recorded.

UBS applies the same recognition and derecognition principles to financial assets available-for-sale as to those "Held-for-trading", except that unrealized gains or losses between trade date and settlement date are recognized in *Equity* (refer to items 5) and 7)).

10) Loans and receivables

"Loans and receivables" are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not classified as held-for-trading, not designated as at fair value through profit and loss or available-for-sale, and are not those for which the Group may not recover substantially all of its initial net investment, other than because of credit deterioration.

"Loans and receivables" include:

- originated loans where money is provided directly to the borrower, participation in a loan from another lender and purchased loans (certain purchased non-performing loans are also classified as financial investment available-for-sale at inception) initially classified as "Loans and receivables";
- securities initially classified as "Loans and receivables" and reclassified securities previously "Held-for-trading" (refer to Note 29b) due to illiquid markets such as Auction Rate Securities;
- reclassified loans such as leverage finance loans previously "Held-for-trading" (refer to Note 29b).

For an overview of financial assets and financial liabilities accounted for as "Loans and receivables", refer to the measurement categories presented in Note 29.

In the fourth quarter of 2008 and the first quarter of 2009, UBS reclassified certain debt financial assets from the category "Held-for-trading" to "Loans and receivables", mainly due to illiquid markets for these instruments (refer to Note 1b, Note 29b and Note 9a and 9b). When a financial asset is reclassified from "Held-for-trading" to "Loans and receivables", the financial asset is reclassified at its fair value on the date of reclassification. Any gain or loss recognized in the income statement before reclassification is not reversed. The fair value of a financial asset on the date of reclassification becomes its cost basis or amortized cost basis, as applicable.

Loans are recognized when cash is advanced to borrowers. They are initially recorded at fair value, which is the cash given to originate or purchase the loan, plus any direct transaction costs, and are subsequently measured at amortized cost using the effective interest rate (EIR) method.

Interest on loans is included in *Interest earned on loans and advances* and is recognized on an accrual basis. Fees and direct costs relating to loan origination, refinancing or restructuring and to loan commitments are deferred and amortized to *Interest earned on loans and advances* over the life of the loan using the straight-line method, which approximates the EIR 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. Loan syndication fees where UBS does not retain a portion of the syndicated loan are credited to commission income.

Renegotiated loans

Subject to assessment on a case-by-case basis, UBS may either restructure a loan or take possession of collateral. Restructuring may involve extending the payment arrangements and agreeing to new loan conditions. Once the terms have been renegotiated, any impairment is measured using the EIR as calculated before the modification of terms and the loan is not considered as past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to impairment assessment, calculated using the loan's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Commitments

Letters of credit, guarantees and similar instruments commit UBS to make payments on behalf of third parties under specific circumstances. These instruments, as well as undrawn irrevocable credit facilities, and irrevocable forward starting reverse repurchase agreements and securities borrowing transactions, carry credit risk and are included in the exposure to credit risk table in Note 29c, with their gross maximum exposure to credit risk less provisions.

11) Allowance and provision for credit losses

An allowance or provision for credit losses (refer to Note 9b) is established if there is objective evidence that the Group will be unable to collect all amounts due on a claim according to the original contractual terms or the equivalent value. A "claim" means a loan or receivable carried at amortized cost, or a commitment such as a letter of credit, a guarantee, a commitment to extend credit or other credit products.

Objective evidence of impairment includes, for example, a significant financial difficulty of the issuer or counterparty; default or delinquency in interest or principal payments; or probability that the borrower will enter bankruptcy or financial re-organization.

Note 1 Summary of significant accounting policies (continued)

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

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

Counterparty-specific: A claim is considered impaired when management determines that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms or the equivalent value.

Individual credit exposures are evaluated based on the borrower's character, overall financial condition, resources and payment record; the prospects for support from any financially responsible guarantors; and, where applicable, the realizable value of any collateral.

The estimated recoverable amount is the present value, using the loan's original EIR, of expected future cash flows, including amounts that may result from restructuring or the liquidation of collateral. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and the estimated recoverable amount.

Upon impairment, the accrual of interest income based on the original terms of the claim is discontinued, but the increase of the present value of impaired claims due to the passage of time is reported as *Interest income*.

All impaired claims are generally reviewed and analyzed at least annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared with the prior estimates result in a change in the allowance for credit losses and are charged or credited to *Credit loss expense*.

An allowance for impairment is reversed only when the credit quality has improved to such an extent that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim or equivalent value.

A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established allowances for credit losses or directly to *Credit loss expense* and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are credited to *Credit loss expense*. A restructuring of a financial asset could result in the original loan being derecognized and a new loan being recognized. The new loan is measured at fair value at initial recognition. Any allowance taken against the original loan is removed by increasing write-offs. The gross counterparty exposure, however, may remain unaffected, if the rights existing prior to the restructuring have not been legally waived.

A loan is classified as non-performing when the payment of interest, principal or fees is overdue by more than 90 days and there is no firm evidence that it will be made good by later payments or the liquidation of collateral, insolvency proceedings have

commenced against the firm, or obligations have been restructured on concessionary terms.

Collectively: All loans for which no impairment is identified at a counterparty-specific level are grouped on the basis of the Bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors to collectively assess whether impairment exists within a portfolio. Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimated and actual loss experience. Allowances from collective assessment of impairment are recognized as *Credit loss expense* and result in an offset to the aggregated loan position. As the allowance cannot be allocated to individual loans, the loans are not considered to be impaired and interest is accrued on each loan according to its contractual terms. At 31 December 2010, the collective loan loss allowances represented 3.7% of the total allowances and provisions for credit losses (refer to Note 9b).

Reclassified and acquired securities: UBS periodically revises its estimated cash flows associated with the portfolio of securities backed by multiple assets. Adverse revisions in cash flow estimates related to credit events are recognized in profit or loss as credit loss expenses. For reclassified securities, increases in estimated future cash receipts as a result of increased recoverability are recognized as an adjustment to the EIR on the loan from the date of change.

12) Securitization structures set up by UBS

UBS securitizes various financial assets, which generally results in the sale of these assets to special purpose entities, which in turn issue securities to investors. UBS applies the policies set out in item 3) in determining whether the respective special purpose entity must be consolidated and those set out in item 5) in determining whether derecognition of transferred financial assets is appropriate. The following statements mainly apply to transfers of financial assets, which are qualified for derecognition.

Gains or losses on securitization are generally recognized when the derecognition criteria are satisfied and are classified in *Net trading income*.

Interests in the securitized financial assets may be retained in the form of senior or subordinated tranches, interest-only strips or other residual interests ("retained interests"). Retained interests

Note 1 Summary of significant accounting policies (continued)

are primarily recorded in *Trading portfolio assets* and carried at fair value. Synthetic securitization structures typically involve derivative financial instruments for which the principles set out in item 15) apply.

UBS acts as structurer and placement agent in various MBS and other ABS securitizations. In such capacity, UBS purchases collateral on its own behalf or on behalf of customers during the period prior to securitization. UBS typically sells the collateral into designated trusts at the close of the securitization and underwrites the offerings to investors, earning fees for its placement and structuring services. Consistent with the valuation of similar inventory, fair value of retained tranches is initially and subsequently determined using market price quotations where available or internal pricing models that utilize variables such as yield curves, prepayment speeds, default rates, loss severity, interest rate volatilities and spreads. Where possible, assumptions based on observable transactions are used to determine the fair value of retained tranches, but for several of them substantially no observable information is available.

13) Securities borrowing and lending

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

The securities which have been transferred, whether in a borrowing/lending transaction or as collateral, are not recognized on or derecognized from the balance sheet unless the risks and rewards of ownership are also transferred. In such transactions where UBS transfers owned securities and where the borrower is granted the right to sell or repledge them, the securities are reclassified on the balance sheet from *Trading portfolio assets* to *Trading portfolio assets pledged as collateral*. Cash collateral received is recognized with a corresponding obligation to return it (*Cash collateral on securities lent*). Cash collateral delivered is derecognized with a corresponding receivable reflecting UBS's right to receive it back (*Cash collateral on securities borrowed*). Securities received in a lending or borrowing transaction are disclosed as off-balance sheet items if UBS has the right to resell or repledge them, with securities that UBS has actually resold or repledged also disclosed separately (see Note 24). Additionally, the sale of securities received in a borrowing or lending transaction triggers the recognition of a trading liability (short sale).

Consideration exchanged in financing transactions (i.e. interest received or paid) is recognized on an accrual basis and recorded as *Interest income* or *Interest expense*.

14) Repurchase and reverse repurchase transactions

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 repurchase and reverse repurchase agreements involve debt instruments, such as bonds, notes or money market paper. The transactions are normally conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. UBS monitors the market value of the securities received or delivered on a daily basis 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 UBS'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 obtained or relinquished. In repurchase agreements where UBS transfers owned securities and where the recipient is granted the right to resell or repledge them, the securities are reclassified in the balance sheet from *Trading portfolio assets* to *Trading portfolio assets pledged as collateral*. Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if UBS has the right to resell or repledge them, with securities that UBS has actually resold or repledged also disclosed separately (see Note 24). Additionally, the sale of securities received in reverse repurchase transactions triggers the recognition of a trading liability (short sale).

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

The Group offsets reverse repurchase agreements and repurchase agreements with the same counterparty, maturity, currency and Central Securities Depository (CSD) for transactions covered by legally enforceable master netting agreements when net or simultaneous settlement is intended.

15) Derivative instruments and hedge accounting

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to fair value. The method of recognizing fair value gains or losses depends on whether derivatives are held for trading or are

Note 1 Summary of significant accounting policies (continued)

designated and effective as hedging instruments. If designated as hedging instruments, the method of recognizing gains or losses depends on the nature of the risk being hedged.

Derivative instruments are reported on the balance sheet as *Positive replacement values* or *Negative replacement values* (except for futures, 100% daily-margined exchange-traded options and London Clearing House (LCH) interest rate swaps). Where the Group enters into derivatives for trading purposes, gains and losses are recognized in *Net trading income*. Credit losses incurred on over-the-counter (OTC) derivatives are also reported in *Net trading income*.

Futures and LCH interest rate swaps with daily margining and 100% daily-margined exchange-traded options, and certain credit derivatives contracts are transacted and measured at fair value. They do not have a replacement value as the variation margin, expressing the cumulative market movements each day, is settled daily on a cash basis. Any unpaid variation margin represents a receivable or payable with fixed amount and settlement date and is presented on the balance sheet under *Due from banks* and *Loans* or *Due to banks* and *Due to customers*. The daily cash settlement (i.e. change in market value) is booked to *Net trading income*.

Hedge accounting

The Group also uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. If derivative and non-derivative instruments meet certain criteria specified below, they are designated as hedging instruments in hedges of the change in fair value of recognized assets or liabilities ('fair value hedges'); hedges of the variability in future cash flows attributable to a recognized asset or liability, or a highly probable forecast transaction ('cash flow hedges'); or hedges of a net investment in a foreign operation ('net investment hedges').

At the time a financial instrument is designated as a hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction and the methods that will be used to assess the effectiveness of the hedging relationship. Accordingly, the Group assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instruments, primarily derivatives, have been "highly effective" in offsetting changes in the fair value or cash flows of the hedged items. UBS regards a hedge as highly effective if the following criteria are met: a) at inception of the hedge and throughout its life, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and b) actual results of the hedge are within a range of 80% to 125%. In the case of hedging a forecast transaction, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that could ultimately affect the reported net profit or loss. The Group

discontinues hedge accounting when it determines that a hedging instrument is not, or has ceased to be, highly effective as a hedge; when the derivative expires or is sold, terminated or exercised; when the hedged item matures, is sold or repaid; or when a forecast transaction is no longer deemed highly probable.

Hedge ineffectiveness represents the amount by which the changes in the fair value of the hedging instrument differ from changes in the fair value of the hedged item attributable to the hedged risk or the amount by which changes in the present value of future cash flows of the hedging instrument differ from changes (or expected changes) in the present value of future cash flows of the hedged item. Such ineffectiveness is recorded in current period earnings in *Net trading income*.

Fair value hedges

For qualifying fair value hedges, the change in the fair value of the hedging instrument is recognized in the income statement along with the change in the fair value of the hedged item that is attributable to the hedged risk. In fair value hedges of interest rate risk, the fair value change of the hedged item attributable to the hedged risk is reflected in the carrying value of the hedged item. For a portfolio hedge of interest rate risk, the equivalent change in fair value is reflected in a separate line within *Other assets*. If the hedge relationship is terminated for reasons other than the derecognition of the hedged item, the difference between the carrying value of the hedged item at that point and the value at which it would have been carried had the hedge never existed (the "unamortized fair value adjustment") is amortized to the income statement over the remaining term until maturity. If the interest-bearing instruments are derecognized, e.g. due to sale or repayment, the unamortized fair value adjustment is recognized immediately in profit or loss.

Cash flow hedges

A fair value gain or loss associated with the effective portion of a derivative designated as a cash flow hedge is recognized initially in *Equity*. When the cash flows that the derivative is hedging materialize, resulting in income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from *Equity* to the corresponding income or expense line item.

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or if the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in *Equity* remains there until the committed or forecast transaction occurs or is no longer expected to occur, at which point it is transferred to profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in *Equity* (and presented in the statement of

Note 1 Summary of significant accounting policies (continued)

changes in equity and statement of comprehensive income under *Foreign currency translation*), while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in *Equity* is reclassified to the income statement.

Economic hedges which do not qualify for hedge accounting

Derivative instruments which are transacted as economic hedges but do not qualify for hedge accounting are treated in the same way as derivative instruments used for trading purposes, i.e. realized and unrealized gains and losses are recognized in *Net trading income* except that, in certain cases, the forward points on short duration foreign exchange contracts are reported in *Net interest income*. Refer to Note 23 for more information on “economic hedges”.

Embedded derivatives

A derivative may be embedded in a “host contract”. Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. The embedded derivative is generally required to be separated from the host contract and accounted for as a standalone derivative instrument at fair value through profit or loss, if (a) the host contract is not carried at fair value with changes in fair value reported in the income statement, (b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and (c) the embedded derivative actually meets the definition of a derivative. Bifurcated embedded derivatives are presented on the same balance sheet line as the host contract, and are shown in Note 29 in the “Held for trading” category, reflecting the measurement and recognition principles applied.

Typically, UBS applies the fair value option to hybrid instruments (see item 8)), in which case bifurcation of an embedded derivative component is not required.

16) Loan commitments

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

Loan commitments that can be cancelled by UBS at any time (without giving a reason) according to their general terms and conditions are recognized neither on-balance sheet nor off-balance sheet. Upon a loan draw down by the counterparty, the amount of the loan is accounted for as *Loans and receivables* (refer to item 10)).

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

- Derivative loan commitments (loan commitments that can be settled net in cash or by delivering or issuing another financial instrument) or if there is evidence that UBS is selling similar loans resulting from its loan commitments before or shortly after origination (refer to item 15)).
- Loan commitments designated at fair value through profit and loss (“Fair value option”) (refer to item 8)).
- Below market loan commitments. Below market loan commitments are recognized at fair value and subsequently measured at the higher of the initially recognized liability at fair value less cumulative amortization and a provision (refer to item 26)). UBS uses them only in specific situations (e.g. restructuring, insolvency).
- Other loan commitments. Other loan commitments are not recorded in the balance sheet. However, a provision is recognized if it is probable that a loss has been incurred and a reliable estimate of the amount of the obligation can be made (refer to item 26)). Other loan commitments include irrevocable forward starting reverse repos and irrevocable securities borrowing agreements.

17) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months’ maturity from the date of acquisition including cash and balances with central banks, treasury bills, due from banks with an original maturity of less than three months included in *Due from banks* and *Cash collateral receivables on derivative instruments*, as well as money market paper included in *Trading portfolio assets* and *Financial investments available-for-sale*.

18) Physical commodities

Physical commodities (precious metals, base metals, energy and other commodities) held by UBS as a result of its broker-trader activities are accounted for at fair value less costs to sell and recognized within the *Trading portfolio assets*. Changes in fair value less costs to sell are recorded in *Net trading income*.

19) Property and equipment

Property and equipment includes owned-used properties, investment properties, leasehold improvements, IT, software and communication and other machines and equipment.

With the exception of investment properties, *Property and equipment* is carried at cost, less accumulated depreciation and accumulated impairment losses, and is periodically reviewed for impairment. The useful life of property and equipment is estimated on the basis of the economic utilization of the asset.

Classification for own-used property

Own-used property is defined as property held by the Group for use in the supply of services or for administrative purposes, whereas investment property is defined as property held to earn rental income and/or for capital appreciation. If a property of the Group

Note 1 Summary of significant accounting policies (continued)

includes a portion that is own-used and another portion that is held to earn rental income or for capital appreciation, the classification is based on whether or not these portions can be sold separately. If the portions of the property can be sold separately, they are separately accounted for as own-used property and investment property. If the portions cannot be sold separately, the whole property is classified as own-used property unless the portion used by the Group is minor. The classification of property is reviewed on a regular basis to account for major changes in its usage.

Investment property

Investment property is carried at fair value with changes in fair value recognized in the income statement in the period of change. UBS employs internal real estate experts to determine the fair value of investment property by applying recognized valuation techniques. In cases where prices of recent market transactions of comparable properties are available, fair value is determined by reference to these transactions.

Leasehold improvements

Leasehold improvements are investments made to customize buildings and offices occupied under operating lease contracts to make them suitable for the intended purpose. The present value of estimated reinstatement costs to bring a leased property into its original condition at the end of the lease, if required, is capitalized as part of the total leasehold improvements costs. At the same time, a corresponding liability is recognized to reflect the obligation incurred. Reinstatement costs are recognized in profit and loss through depreciation of the capitalized leasehold improvements over their estimated useful lives.

Property held for sale

Non-current property formerly own-used or leased to third parties under an operating lease and equipment the Group has decided to sell and for which sale within 12 months is highly probable are classified as non-current assets held for sale and recorded in *Other assets*. Upon classification as held for sale, they are no longer depreciated and are carried at the lower of book value or fair value less cost to sell. Foreclosed properties and other properties classified as current assets are included in *Properties held for sale* and recorded in *Other assets* (see Note 17). They are also carried at the lower of book value or fair value less cost to sell.

Software

Software development costs are capitalized when they meet certain criteria relating to identifiability, it is probable that future economic benefits will flow to the enterprise and the cost can be measured reliably. Internally developed software that meets these criteria and purchased software are classified within IT, software and communication.

Estimated useful life of property and equipment

Property and equipment is depreciated on a straight-line basis over its estimated useful life as follows:

Properties, excluding land	Not exceeding 50 years
Leasehold improvements	Residual lease term, but not exceeding 10 years
Other machines and equipment	Not exceeding 10 years
IT, software and communication	Not exceeding 5 years

20) Goodwill and intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired entity at the date of acquisition. Goodwill is not amortized; it is tested yearly for impairment and, additionally, when a reasonable indication of impairment exists. The impairment test is conducted at the segment level as reported in Note 2a. The segment has been determined as the cash-generating unit for impairment testing purposes, since this is the level at which the performance of investments is reviewed and assessed by management. Refer to Note 16 for details.

Intangible assets comprise separately identifiable intangible items arising from business combinations and certain purchased trademarks and similar items. Intangible assets are recognized at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortized. Generally, all identified intangible assets of UBS have a definite useful life. At each balance sheet date, intangible assets are reviewed for indications of impairment or changes in estimated future benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

Intangible assets are classified into two categories: a) infrastructure, and b) customer relationships, contractual rights and other. Infrastructure consists of an intangible asset recognized in connection with the acquisition of PaineWebber Group, Inc. Customer relationships, contractual rights and other includes mainly intangible assets for client relationships, non-compete agreements, favorable contracts, proprietary software, trademarks and trade names acquired in business combinations.

21) Income taxes

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

Note 1 Summary of significant accounting policies (continued)

Deferred tax assets are recognized for temporary differences that will result in deductible amounts in future periods, but only to the extent that it is probable that sufficient taxable profits will be available against which these differences can be utilized. Deferred tax liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the balance sheet and their amounts as measured for tax purposes, which will result in taxable amounts in future periods.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset will be realized or the liability will be settled based on enacted rates.

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

Current and deferred taxes are recognized as income tax benefit or expense except for current and deferred taxes recognized (i) upon the acquisition of a subsidiary, (ii) for unrealized gains or losses on financial investments available-for-sale, for changes in fair value of derivative instruments designated as cash flow hedges, and for certain foreign currency translations of foreign operations, (iii) for certain tax benefits on deferred compensation awards, and (iv) for gains and losses on the sale of treasury shares. Deferred taxes recognized in a business combination (item (i)) are considered when determining goodwill. Items (ii), (iii) and (iv) are recorded in *Net income recognized directly in equity*.

22) Debt issued***Debt without embedded derivatives***

Issued debt instruments without embedded derivatives that are not designated at fair value through profit or loss are accounted for at amortized cost. However, in cases where fair value hedge accounting is applied to fixed-rate debt instruments as part of the Group's asset and liability management activity, the carrying values of debt issued are adjusted for changes in fair value related to the hedged exposure rather than carried at amortized cost – refer to item 15) for further discussion.

Debt with embedded derivatives (related to UBS AG shares)

Debt instruments issued with embedded derivatives that are related to UBS AG shares (e.g. mandatory convertible notes) are separated into a liability and an equity component at issue date if the derivative is settled by UBS receiving or delivering a fixed number of its own shares in exchange for a fixed amount of cash or another financial asset. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value. The determination of fair value is generally based on quoted market prices for UBS debt instruments with comparable terms but without a conversion feature. The debt component is subsequently measured at amortized cost or at fair value through profit or loss, if the fair value option is applied. The remaining

amount of the net proceeds is allocated to the equity component and reported in *Share premium*. The equity component is not subsequently re-measured. However, if the entire debt instrument or the embedded derivative related to UBS AG shares is to be cash settled or if it contains a cash or net share settlement alternative, then the separated derivative is accounted for as a freestanding derivative, with changes in fair value recorded in *Net trading income* unless the entire hybrid debt instrument is designated at fair value through profit or loss ("Fair Value Option") – refer to item 8).

Debt with embedded derivatives (not related to UBS AG shares)

Debt instruments issued with embedded derivatives that are related to non-UBS AG equity instruments, foreign exchange, interest rate, credit instruments or indices are considered structured debt instruments. UBS has designated most of its structured debt instruments at fair value through profit or loss ("Fair Value Option") – see item 8). If such instruments have not been designated at fair value through profit or loss, the embedded derivative is separated from the host contract and accounted for as a standalone derivative if the criteria for separation are met. The host contract is subsequently measured at amortized cost. The fair value option is not applied to certain hybrid instruments which contain bifurcated embedded derivatives with references to foreign exchange rates and precious metal prices and which are not hedged by derivative instruments.

Bonds issued by UBS held as a result of market making activities or deliberate purchases in the market are treated as redemption of debt. A gain or loss on redemption is recorded depending on whether the repurchase price of the bond is lower or higher than its carrying value. A subsequent sale of own bonds in the market is treated as a reissuance of debt.

Interest expense on debt instruments is included in *Interest on debt issued*. Refer to Note 19 for further details on debt issued.

23) Pension and other post-employment benefit plans

UBS sponsors a number of post-employment benefit plans for its employees worldwide, which include defined benefit and defined contribution plans, and other post-retirement benefits such as medical and life insurance benefits.

Defined benefit plans

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The defined benefit liability recognized in the balance sheet is the present value of the defined obligation at the balance sheet date less the fair value of the plan assets at the balance sheet date, together with adjustments for any unrecognized actuarial gains and losses and unrecognized past service cost. If the defined benefit liability is negative (i.e. a defined benefit asset), measurement of the asset is limited to the lower of a) the defined benefit asset and b) the total of any cumulative unrecognized net actuarial losses plus unrecognized past service cost plus the present

Note 1 Summary of significant accounting policies (continued)

value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. UBS applies the projected unit credit method to determine the present value of its defined benefit obligation and the related current service cost and, where applicable, past service cost. These amounts are calculated annually by independent actuaries. The principal actuarial assumptions used are set out in Note 30.

UBS recognizes a portion of its actuarial gains and losses as income or expense if the net cumulative unrecognized actuarial gains and losses at the beginning of the reporting period are outside the corridor defined as the greater of:

-
- a) 10% of the present value of the defined benefit obligation at that date (before deducting the fair value of plan assets); and
 - b) 10% of the fair value of any plan assets at that date.
-

The unrecognized actuarial gains and losses exceeding the greater of these two values are recognized in the income statement over the expected average remaining working lives of the employees participating in the plans.

UBS recognizes curtailments on its defined benefit plans when the reductions in expected future service and in the defined benefit obligation are 10% or more. Reductions in expected future service and in the defined benefit obligation of between 5% and 10% are recognized if deemed material, and reductions of less than 5% are generally not recognized.

Defined contribution plans

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

Other post-retirement benefits

UBS also provides post-retirement medical and life insurance benefits to certain retirees in the US and the UK. The expected costs of these benefits are recognized over the period of employment using the same accounting methodology used for the defined benefit plans.

24) Equity participation and other compensation plans

Equity participation plans

UBS has established several equity participation plans in the form of share plans, option plans and share-settled stock appreciation right (SAR) plans. UBS's equity participation plans are mandatory, discretionary, or voluntary plans. UBS recognizes the fair value of share, option and SAR awards, determined at the date of grant,

as compensation expense over the period that the employee is required to provide services in order to earn the award.

Plans containing voluntary termination non-compete provisions (i.e. good leaver clauses) and no vesting conditions are considered vested at the grant date because no future service is required. Compensation expense is fully recognized on the grant date or is recognized in a period prior to the grant date if the bank can substantiate that the award is attributable to past service and the amount of the award can be reasonably and reliably estimated. The awards remain forfeitable until the legal vesting date if certain conditions are not met. Forfeiture events occurring after the grant date do not result in a reversal of compensation expense because the related services have been received.

Plans containing vesting conditions have either a tiered vesting structure, which vest in increments over that period or a cliff vesting structure, which vest at the end of the period. Such plans may contain provisions that shorten the required service period due to retirement eligibility. In such instances, UBS recognizes compensation expense over the shorter of the legal vesting period and the period from grant to the retirement eligibility date of the employee. Forfeiture of these awards during the service period results in a reversal of compensation expense.

Equity settled awards are classified as equity instruments. The fair value of an equity-settled award is not remeasured subsequent to the grant date, unless its terms are modified such that the fair value immediately after modification exceeds the fair value immediately prior to modification. Any increase in fair value resulting from a modification is recognized as compensation expense, either over the remaining service period or immediately for vested awards.

Cash settled awards are classified as liabilities and remeasured to fair value at each balance sheet date as long as the award is outstanding. Decreases in fair value reduce compensation expense, and no compensation expense, on a cumulative basis, is recognized for awards that expire worthless or remain unexercised.

Details of the determination of fair value of equity participation plans are disclosed in Note 31d).

Other compensation plans

UBS has established other fixed and variable deferred cash compensation plans, the value of which is not linked to UBS's own equity. UBS's deferred cash compensation plans are either mandatory or discretionary plans.

The grant date fair value of fixed deferred cash awards is recognized as compensation expense over the service period, which is the period the employee is obligated to work in order to become entitled to the award.

Variable deferred cash compensation is generally awarded in the form of alternative investment vehicles (AIVs). The grant date fair value for AIVs is based on the fair value of the underlying assets (i.e. money market funds, UBS and non-UBS mutual funds and other UBS sponsored funds) on the grant date and is subsequently marked-to-market at each reporting date until the award

Note 1 Summary of significant accounting policies (continued)

is distributed. Forfeiture of these awards results in the reversal of expense. Refer to Note 31 for further details on equity participation and other compensation plans.

25) Amounts due under unit-linked investment contracts

UBS's financial liabilities from unit-linked contracts are presented as *Other liabilities* (refer to Note 20) on the balance sheet. These contracts allow investors to invest in a pool of assets through investment units issued by a UBS subsidiary. The unit holders receive all rewards and bear all risks associated with the reference asset pool. The financial liability represents the amount due to unit holders and is equal to the fair value of the reference asset pool.

Assets held under unit-linked investment contracts are presented as *Trading portfolio assets*. Refer to Note 11.

26) Provisions

Provisions are recognized when UBS has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. When a provision is recognized, its amount needs to be estimated as the exact amount of the obligation is generally unknown. The estimate is based on all available information and reflects the amount that in management's opinion represents the best estimate of the expenditure required to settle the obligation. UBS revises existing provisions up or down as soon as it is able to quantify the amounts more accurately. If the effect of the time value of money is material, provisions are discounted and measured at the present value of the expenditure expected to settle the obligation, using a rate that reflects the current market assessments of the time value of money and the risks specific to the obligation.

The majority of UBS's provisions relate to operational risks, including litigation and restructuring costs. Provisions are reflected under *Other liabilities* on the balance sheet. Refer to Note 21.

If the amount of an obligation cannot be measured with sufficient reliability, a present obligation is not recognized but disclosed as contingent liabilities in Note 21.

27) Equity, treasury shares and contracts on UBS shares**Transaction costs related to share issuances**

Incremental costs directly attributable to the issue of new shares or contracts with physical settlement (classified as equity instruments) are recognized in *Equity* as "transaction costs related to share issuances, net of tax" and are a deduction from *Equity*.

Non-controlling interests

Net profit and *Equity* are presented including non-controlling interests. *Net profit* is split into *Net profit attributable to UBS shareholders* and *Net profit attributable to non-controlling interests*. *Equity* is split into *Equity attributable to UBS shareholders* and *Equity attributable to non-controlling interests*.

UBS AG shares held ("treasury shares")

UBS AG shares held by the Group are classified in *Equity* as Treasury shares and accounted for at cost. Treasury shares are deducted from total shareholders' equity until they are cancelled or reissued. The difference between the proceeds from sales of Treasury shares and their weighted average cost (net of tax, if any) is reported as *Share premium*.

Contracts with gross physical settlement (except physically settled written put options and forward share purchase contracts)

Contracts that require gross physical settlement in UBS AG shares are classified in *Equity* as *Share premium* (provided a fixed amount of shares is exchanged against a fixed amount of cash) and accounted for at cost. They are added to or deducted from equity until settlement of such contracts. Upon settlement of such contracts, the difference between the proceeds received and their cost (net of tax, if any) are reported as *Share premium*.

Contracts with net cash settlement or net cash settlement option

Contracts on UBS AG shares that require net cash settlement, or provide the counterparty or UBS with a settlement option which includes a choice of settling net in cash, are classified as trading instruments, with changes in fair value reported in the income statement as *Net trading income*, except for written put options and forward share purchase contracts.

Physically settled written put options and forward share purchase contracts

Physically settled written put options and forward share purchase contracts, including contracts where physical settlement is a settlement alternative, result in the recognition of a financial liability. At the inception of the contract, the present value of the obligation to purchase own shares in exchange for cash is transferred out of *Equity* and recognized as a liability. The liability is subsequently accreted, using the EIR method, over the life of the contract to the nominal purchase obligation by recognizing interest expense. Upon settlement of the contract, the liability is derecognized, and the amount of equity originally recognized as a liability is reclassified within *Equity* to *Treasury shares*. The premium received for writing put options is recognized directly in *Share premium*.

Trust preferred securities issued

UBS has issued trust preferred securities through consolidated preferred funding trusts which hold debt issued by UBS. UBS AG has fully and unconditionally guaranteed all of these securities. UBS's obligations under these guarantees are subordinated to the fully prior payment of the deposit liabilities of UBS and all other liabilities of UBS. The trust preferred securities represent equity instruments which are held by third parties and treated as non-controlling interests in UBS's consolidated financial statements. Once a coupon payment becomes mandatory, i.e. when it is trig-

Note 1 Summary of significant accounting policies (continued)

gered by a contractually defined event, the full dividend payment obligation on these trust preferred securities issued is reclassified from *Equity* to a corresponding liability. In the income statement the full dividend payment is reclassified from *Net profit attributable to UBS shareholders* to *Net profit attributable to non-controlling interests* at that time. UBS bonds held by preferred funding trusts are eliminated in consolidation.

28) Discontinued operations and non-current assets held for sale

UBS classifies individual non-current non-financial assets and disposal groups as held for sale if such assets or disposal groups are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets or disposal groups and their sale is considered highly probable. For a sale to be highly probable, management must be committed to a plan to sell such assets and is actively looking for a buyer. Furthermore, the assets must be actively marketed at a reasonable sales price in relation to their fair value and the sale is expected to be completed within one year. These assets (and liabilities in the case of disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell and presented in *Other assets* and *Other liabilities* (see Notes 17 and 20).

UBS presents discontinued operations in a separate line in the income statement if an entity or a component of an entity has been disposed of or is classified as held for sale and a) represents a separate major line of business or geographical area of operations, b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or c) is a subsidiary acquired exclusively with a view to resale (e.g. certain private equity investments). Net profit from discontinued operations includes the net total of operating profit and loss before tax from discontinued operations (including net gain or loss on sale before tax or measurement to fair value less costs to sell) and discontinued operations tax expense. A component of an entity comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of UBS's operations and cash flows. If an entity or a component of an entity is classified as a discontinued operation, UBS restates prior periods in the income statement. Refer to Note 37 for further details.

29) Leasing

UBS enters into lease contracts, predominantly of premises and equipment, as a lessor and a lessee. The terms and conditions of these contracts are assessed and the leases are classified as operating leases or finance leases according to their economic substance. When making such an assessment, the Group focuses on the following aspects: a) transfer of ownership of the asset to the lessee at the end of the lease term; b) existence of a bargain purchase option held by the lessee; c) whether the lease term is for the major part of the economic life of the asset; d) whether the present value of the minimum lease payments is substantially equal to the fair value of the leased asset at inception of the lease

term; and e) whether the asset is of a specialized nature that only the lessee can use without major modifications being made. If one or more of the conditions are met, the lease is generally classified as a finance lease, while the non-existence of such conditions normally leads to a classification as an operating lease.

Lease contracts classified as operating leases where UBS is the lessee are disclosed in Note 25. These contracts include non-cancellable long-term leases of office buildings in most UBS locations. Lease contracts classified as operating leases where UBS is the lessor, and finance lease contracts where UBS is the lessor or the lessee, are not material. Contractual arrangements which are not considered leases in their entirety but which include lease elements are not material to UBS.

UBS recognizes a provision for a lease contract of office space if the unavoidable costs of a contract exceed the benefits to be received under it, which requires that a lease contract is considered onerous in its entirety. A provision for onerous lease contracts often includes significant vacant rental space.

30) Fee income

UBS earns fee income from a diverse range of services it provides to its clients. Fee income can be divided into two broad categories: income earned from services that are provided over a certain period of time and income earned from providing transaction-type services. Fees earned from services that are provided over a certain period of time are recognized ratably over the service period with the exception of performance-linked fees or fee components which are recognized when the performance criteria are fulfilled. Fees earned from providing transaction-type services are recognized when the service has been completed. Loan commitment fees on lending arrangements are deferred until the loan is drawn down and then recognized as an adjustment to the effective yield over the life of the loan. If the commitment expires and the loan is not drawn down, the fees are recognized as revenue on expiry.

The following fee income is predominantly earned from services that are provided over a period of time: investment fund fees, portfolio management and advisory fees, insurance-related fees and credit-related fees. Fees predominantly earned from providing transaction-type services include underwriting fees, corporate finance fees and brokerage fees.

31) Foreign currency translation

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 assets and liabilities denominated in foreign currency, except for non-monetary items, are translated using the closing exchange rate. Non-monetary items measured at historical cost are translated at the exchange rate on the date of the transaction. Resulting foreign exchange differences are recognized in *Net trading income*, except for non-monetary financial investments available-for-sale. Foreign exchange differences from non-monetary finan-

Note 1 Summary of significant accounting policies (continued)

cial investments available-for-sale are recorded directly in *Equity* until the asset is sold or becomes impaired, unless the non-monetary financial investment is subject to a fair value hedge of foreign exchange risk, in which case changes in fair value attributable to the hedged risk are reported in *Net trading income*.

Upon consolidation, assets and liabilities of foreign operations are translated into Swiss francs (CHF) – UBS's presentation currency – at the closing exchange rate on the balance sheet date, and income and expense items are translated at the average rate for the period. Differences resulting from the use of different exchange rates are recognized directly in *Foreign currency translation within Equity*.

When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in *Foreign currency translation within Equity* related to that foreign operation attributable to UBS is reclassified to profit or loss as part of the gain or loss on disposal. When UBS disposes of a portion of its interest in a subsidiary that includes a foreign operation without losing control, the related portion of the cumulative currency translation balance is reattributed to non-controlling interests. When UBS disposes of a portion of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the related portion of the cumulative currency translation balance is reclassified to profit or loss.

32 Earnings per share (EPS)

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated using the same method as for basic EPS and adjusting the net profit or loss for the period attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding to reflect the potential dilution that could occur if options, warrants, convertible debt securities or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

33 Segment reporting

UBS's businesses are organized on a worldwide basis into four business divisions: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and Investment Bank, fully supported by the Corporate Center. In 2009, these four business divisions were presented as four operating segments or reportable segments in Note 2a "Segment reporting", in addition to the Corporate Center column.

In 2010, for the purpose of segment reporting, the business division Wealth Management & Swiss Bank was split into two separate reportable segments, namely Wealth Management and Retail & Corporate. As a result of the split, UBS now presents five reportable segments. This change was made in order to better reflect the management structure and responsibilities. In the internal management report to the Group Executive Board or the

chief operating decision maker, the financial information about the five reportable segments and the Corporate Center was separately presented. This internal management view was the basis for the external segment reporting.

In addition, the Corporate Center column for Note 2a "Segment Reporting" was renamed to "Treasury activities and other corporate items" to reflect the changes in presentation of the Corporate Center information during the year as described in Note 1b "Allocation of additional Corporate Center costs and to reportable segments". The Corporate Center is not considered an operating segment under IFRS 8 *Operating segments*. It predominantly includes the results of treasury activities, e.g. from the management of structural foreign exchange risks and interest rate risks, residual operating expenses such as those associated with the functioning of the Group Executive Board and the Board of Directors, other costs related to organizational management, as well as a limited number of specifically defined items. These items include the valuation of UBS's option to acquire the SNB StabFund's equity and expenses such as capital taxes, as well as the difference between actually incurred Corporate Center costs and periodically agreed flat fees charged to the business divisions. All other costs incurred by the Corporate Center related to shared services and control functions like risk management and control, finance, legal and compliance, marketing and communications, human resources, information technology infrastructure and service centers are charged out to the reportable segments based on internal accounting policies.

UBS's internal accounting policies, which include the management accounting policies and service level agreements, determine the revenues and expenses directly attributable to each reportable segment. Internal charges and transfer pricing adjustments are reflected in the reportable segment performances.

Revenue-sharing agreements are used to allocate external client revenues to reportable segments on a reasonable basis. Due to the present arrangement of revenue-sharing agreements, the total inter-segment revenues for UBS are not considered material.

The costs of shared services and control functions managed by the Corporate Center are allocated to the direct cost lines of personnel expenses, general and administrative expenses and depreciation in the respective reportable segment income statements, based on internally determined allocation keys.

Net interest income is allocated to the reportable segments based on their balance sheet positions. Assets and liabilities of the reportable segments are funded through and invested with the treasury departments located in each business division. The treasury departments are supported by the Group Treasury in the Corporate Center, with the net margin reflected in the results of each reportable segment. The Corporate Center transfers interest income earned from managing UBS's consolidated equity back to the reportable segments based on the average attributed equity.

Commissions are credited to the reportable segments based on the corresponding client relationship. Revenue-sharing agree-

Note 1 Summary of significant accounting policies (continued)

ments are used for the allocation of customer revenues where several reportable segments are involved in the value-creation chain.

In line with the internal management reporting, segment assets are reported without intercompany balances or on a third-party view basis. Refer to Note 2a "Segment reporting" for further details. For the purpose of segment reporting under IFRS 8, the non-current assets consist of investment in associates and joint ventures, goodwill, other intangible assets as well as plant, property and equipment.

34) Netting

UBS nets assets and liabilities in 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 positive and negative replacement values of OTC interest rate swaps transacted with London Clearing House. The positions are netted by currency and across maturities.

b) Changes in accounting policies, comparability and other adjustments

Wealth Management & Swiss Bank reorganization

From 2010 onwards, the internal reporting of Wealth Management & Swiss Bank to the Group Executive Board was revised in order to better reflect the management structure and responsibilities. Segregated financial information is now reported for:

- "Wealth Management", encompassing all wealth management business conducted out of Switzerland and in the Asian and European booking centers;
- "Retail & Corporate", including services provided to Swiss retail private clients, small and medium enterprises and corporate and institutional clients.

In line with this revised internal reporting structure and IFRS 8 *Operating segments*, Wealth Management and Retail & Corporate are now presented in the external financial reports as separate business units and reportable segments. Prior periods presented have been restated to conform to the new presentation format.

Allocation of additional Corporate Center costs to reportable segments

From 2010 onwards, almost all costs incurred by the Corporate Center related to shared services and control functions are allocated to the reportable segments, which directly and indirectly receive the value of the services, either based on a full cost recovery or on a periodically agreed flat fee. The allocated costs are shown in the respective expense lines of the reportable segments in Note 2a "Segment reporting", and in the "UBS business divisions and Corporate Center" section of this report.

Up to and including 2009, certain costs incurred by the Corporate Center were presented as Corporate Center expenses and not charged to the business divisions. This change in allocation

policy has been applied prospectively and prior year numbers have not been restated.

The incremental charges to the business divisions made in 2010 mainly relate to control functions. If figures for each quarter of 2009 had been presented on the basis of the allocation methodology applied for 2010, the estimated impact on operating expenses and performance before tax would have been as shown in the table below.

The "Corporate Center" column of the table in Note 2a "Segment reporting" has been renamed "Treasury activities and other corporate items". Refer to Note 1a) 33) "Segment reporting" for more details.

Cash collateral from derivative transactions and Prime brokerage receivables and payables

From 2010 onwards, UBS has changed the presentation of cash collateral from derivative transactions and prime brokerage receivables and payables to improve transparency.

Cash collateral receivables and payables on derivatives are presented in the new balance sheet lines *Cash collateral receivables on derivative instruments* and *Cash collateral payables on derivative instruments* by transferring the amounts out of *Due from banks* and *Loans*, and *Due to banks* and *Due to customers*, respectively. Prime brokerage receivables and prime brokerage payables have been transferred out of *Due from banks* and *Loans* to *Other assets*, and out of *Due to banks* and *Due to customers* to *Other liabilities*, respectively. These changes in presentation impacted neither UBS's income statement nor total assets and liabilities. The respective tables, notes and other information in this financial information section were adjusted accordingly.

Corporate Center cost allocation impact on 2009 figures

	Wealth Management & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Total business divisions	Corporate Center
	Wealth Management	Retail & Corporate					
<i>CHF million</i>							
Estimated increase in 2009 operating expenses and decrease in performance before tax	128	96	84	44	288	640	(640)

Note 1 Summary of significant accounting policies (continued)

For 2009 and 2008, the following reclassifications were made:

Cash collateral from derivative transactions and Prime brokerage receivables and payables

CHF million	31.12.09 – before reclassification	Reclassification	31.12.09 – after reclassification	31.12.08 – before reclassification	Reclassification	31.12.08 – after reclassification
Due from banks	46,574	(29,770)	16,804	64,451	(46,757)	17,694
Cash collateral receivables on derivatives instruments	0	53,774	53,774	0	85,703	85,703
Loans	306,828	(40,351)	266,477	340,308	(48,852)	291,456
Other assets	7,336	16,347	23,682	9,931	9,906	19,837
Due to banks	65,166	(33,244)	31,922	125,628	(48,806)	76,822
Cash collateral payables on derivatives instruments	0	66,097	66,097	0	92,937	92,937
Due to customers	410,475	(71,212)	339,263	465,741	(103,102)	362,639
Other liabilities	33,986	38,359	72,344	42,998	58,971	101,969

Equity and Other comprehensive income

In 2010, UBS reviewed certain components of its equity and made adjustments to correct immaterial misstatements that relate to periods several years back. The following paragraphs describe the impacts of the changes on UBS's financial statements as of 31 December 2010.

UBS's *Foreign currency translation* balance was adjusted by a credit of CHF 592 million. The adjustment increased total *Other comprehensive income* by CHF 592 million and total *Comprehensive income* by CHF 429 million because a loss of CHF 163 million was transferred to the income statement.

In addition, UBS reclassified an amount of CHF 213 million from *Equity attributable to non-controlling interests* to *Other liabilities* as this amount has been identified as redeemable and therefore not satisfying the criteria for an equity instrument under IFRS. Also, an amount of CHF 134 million relating to an equity participation plan was reclassified from *Share premium* to *Other liabilities* as it was identified that the amount is not related to equity settled awards. The impact on the income statement for both items was insignificant.

Furthermore, UBS merged the balance of the balance sheet line *Revaluation reserve from step acquisitions, net of tax* into *Share premium*, resulting in an increase of *Share premium* by CHF 38 million. The balance sheet as of 31 December 2009 and 2008 and the statement of changes in equity for 2009 and 2008, were adjusted accordingly.

Personnel expenses

In 2010, UBS reclassified certain elements of *Other personnel expenses* to *Variable compensation – other* in order to align the presentation with the new FINMA definition of variable compensation.

In addition, amounts previously reported under *Salaries and variable compensation* are presented for the first time on the following separate lines: *Salaries*, *Variable compensation – discretionary bonus*, *Variable compensation – other* and *Wealth Management Americas: Financial advisor compensation*.

Furthermore, UBS reclassified the pension costs related to bonus to *Pension and other post-employment benefit plans*. Previously, those amounts were reported under *Social security*. Prior period amounts have been adjusted accordingly. The change in the presentation did not impact UBS's personnel expenses. The related amounts are disclosed in the footnotes to Note 6.

Fair value hierarchy of financial instruments

From 2010 onwards, UBS considers input data observable and classifies the respective financial instrument as level 2 in the fair value hierarchy when there is an equally offsetting transaction. An offsetting transaction constitutes evidence of an observable market transaction, when it can be demonstrated that the offsetting transactions nullifies substantially all the price risk of the proportion of the offset instrument and the proportion is significant. In cases such as derivatives, where the counterparty's credit risk is also based on observable inputs, then it can be concluded that all input data are observable. Refer to Note 27b) for more details.

Effective 2010

Improvements to IFRSs 2009

The IASB issued amendments to twelve IFRS standards as part of its annual improvements project in April 2009. UBS adopted the Improvements to IFRSs 2009 on 1 January 2010. The adoption of the amendments did not have a significant impact on UBS's financial statements.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items

The amendments to IAS 39 were issued in July 2008. The amendments provide additional guidance on the designation of a hedged item. The amendments clarify how the existing principles underlying hedge accounting should be applied in two particular situations: a) a one-sided risk in a hedged item and b) inflation in a financial hedged item. UBS adopted the amendments to IAS 39 on 1 January 2010. The adoption of the amend-

Note 1 Summary of significant accounting policies (continued)

ments to IAS 39 did not have a significant impact on UBS's financial statements.

IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements, and IAS 21 The Effects of Changes in Foreign Exchange Rates

In January 2008, the IASB issued the revised IFRS 3 *Business Combinations* and amendments to IAS 27 *Consolidated and Separate Financial Statements*, and IAS 21 *The effects of Changes in Foreign Exchange Rates*.

The most significant changes under revised IFRS 3 are as follows:

- Contingent consideration should be recognized at fair value as part of the consideration transferred at the acquisition date. Previously, contingent consideration was recognized if, and only if, UBS had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable.
- Non-controlling interests in an acquiree that are present ownership interests and provide entitlement to a proportionate share of the net assets in the event of liquidation should either be measured at fair value or as the non-controlling interest's proportionate share of the fair value of net identifiable assets of the entity acquired. All other components of the non-controlling interests are measured at their acquisition-date fair values. The option is available on a transaction-by-transaction basis.
- Transaction costs incurred by the acquirer should be expensed as incurred.

The amendments to IAS 27 and the consequential amendments to IAS 21 require the effects (including foreign exchange translation) of all transactions with non-controlling interests to be recorded in equity if there is no change in control. The standards also specify the accounting when control is lost: any remaining interest in the entity should be re-measured to fair value, and a gain or loss (including foreign exchange translation) should be recognized in profit or loss. The amendments to IAS 21 further clarify that no deferred foreign currency translation gains and losses are to be released upon a partial repayment of share capital of a subsidiary without a loss of control.

UBS adopted the amendments to IFRS 3, IAS 27 and IAS 21 with prospective effect on 1 January 2010. The adoption of the revised guidance did not materially impact UBS's financial statements.

Effective in 2009 and earlier

IAS 1 (revised) Presentation of Financial Statements

Effective 1 January 2009, the revised International Accounting Standard (IAS) 1 affected the presentation of owner changes in equity and of comprehensive income. UBS continued to present owner changes in equity in the "statement of changes in equity", but detailed information relating to non-owner changes in equity, such as foreign exchange translation, cash flow hedges and financial investments available-for-sale, were presented in the "statement of comprehensive income".

When implementing these amendments as of 1 January 2009, UBS also adjusted the format of its "statement of changes in equity" and replaced the "statement of recognized income and expense" in the financial statements of previous years with a "statement of comprehensive income".

UBS also re-assessed its accounting treatment of dividends from trust preferred securities. In line with the classification of trust preferred securities as equity instruments, UBS recognizes liabilities for the full dividend payment obligation once a coupon payment becomes mandatory, i.e., when it is triggered by a contractually determined event. In the income statement, the same amount is reclassified from net profit attributable to UBS shareholders to net profit attributable to non-controlling interests.

IFRS 8 Operating Segments

Effective as of 1 January 2009, UBS adopted IFRS 8 *Operating Segments* which replaced IAS 14 *Segment Reporting*. Under the requirements of the new standard, UBS's external segmental reporting is now based on the internal management reporting to the Group Executive Board (or the "chief operating decision maker"), which makes decisions on the allocation of resources and assesses the performance of the reportable segments. Refer to item 33) and Note 2 for further details.

IFRS 7 (revised) Financial Instruments: Disclosures

This standard was revised in March 2009 when the International Accounting Standards Board (IASB) published the amendment "Improving Disclosures about Financial Instruments". Effective 1 January 2009, the amendment requires enhanced disclosures about fair value measurements and liquidity risk.

The enhanced fair value measurement disclosure requirements include: a fair value hierarchy (i.e. categorization of all financial instruments into levels 1, 2 and 3 based on the relevant definitions); significant transfers between level 1 and level 2; reconciliation of level 3 instruments at the beginning of the period to the ending balance (level 3 movement table); level 3 profit or loss for positions still held at balance sheet date; and sensitivity information for the total position of level 3 instruments and the basis for the calculation of such information.

The amended liquidity risk disclosure requirements largely confirm the previous rules for providing maturity information for non-derivative financial liabilities, but amend the rules for providing maturity information for derivative financial liabilities.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation

IFRIC 16 was issued on 1 October 2008 and became effective on 1 January 2009. IFRIC 16 provides guidance in identifying the foreign currency risks that qualify as a hedged risk in the hedge of a net investment in a foreign operation; where, within a group, hedging instruments that are hedges of a net investment in a foreign operation can be held to qualify for hedge accounting, and how an entity should determine the amounts to be reclassi-

Note 1 Summary of significant accounting policies (continued)

fied from equity to profit or loss for both the hedging instrument and the hedged item. The impact of this interpretation on UBS's financial statements was immaterial.

IAS 24 Related Party Disclosures

In November 2009, the IASB amended IAS 24 *Related Party Disclosures* with latest possible effective date 1 January 2011. UBS has early adopted the revised requirements in its annual financial statements 2009. The revised standard amends the definition of related parties, in particular, the relationship between UBS and associated companies of UBS's key management personnel or their close family members. Transactions between UBS and associated companies of UBS key management personnel over which UBS key management personnel does not have control or joint control are no longer considered related-party transactions. Due to the application of the revised guidance, related party transactions disclosed in Note 32e of the annual financial statements 2008 have been significantly reduced. Balances and movements of loans to related parties have been reduced by CHF 668 million as of 31 December 2008 and fees received for services provided by UBS have been reduced by CHF 11 million in 2008.

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations

On 1 January 2008, UBS adopted an amendment to IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations* and fully restated the two comparative prior years. The amended standard clarifies the definition of vesting conditions and the accounting treatment of cancellations. Under the amended standard, UBS is required to distinguish between vesting conditions (such as service and performance conditions) and non-vesting conditions.

The amended standard no longer considers vesting conditions to include certain non-compete provisions.

The impact of this change is that UBS compensation awards are expensed over the period that the employee is required to provide active services in order to earn the award. Post-vesting sale and hedge restrictions and non-vesting conditions are considered when determining grant date fair value. The effect of the restatement on the opening balance sheet at 1 January 2006 was as follows: reduction of retained earnings by approximately CHF 2.3 billion, increase of share premium by approximately CHF 2.3 billion, increase

of liabilities (including deferred tax liabilities) by approximately CHF 0.5 billion, and increase of deferred tax assets by approximately CHF 0.5 billion. Net profit attributable to UBS shareholders declined by CHF 863 million in 2007 and by CHF 730 million in 2006. Additional compensation expenses of CHF 797 million and CHF 516 million were recognized in 2007 and 2006, respectively. These additional compensation expenses include awards granted in 2008 for the performance year 2007. The impact of the restatement on total equity as of 31 December 2007 was a decrease of CHF 366 million. Retained earnings as of 31 December 2007 decreased by approximately CHF 3.9 billion, share premium increased by approximately CHF 3.5 billion, liabilities (including deferred tax liabilities) increased by approximately CHF 0.6 billion and deferred tax assets increased by approximately CHF 0.2 billion. The restatement decreased basic and diluted earnings per share for the year ended 31 December 2007 by CHF 0.40 each and for the year ended 31 December 2006 by CHF 0.33 and CHF 0.31, respectively. In order to provide comparative information, these amounts also reflect the retrospective adjustments to shares outstanding in 2007 due to the capital increase and the share dividend paid in 2008.

The additional compensation expense is attributable to the acceleration of expenses related to share-based awards as well as for certain alternative investment vehicle awards and deferred cash compensation awards which contain non-compete provisions and sale and hedge restrictions that no longer qualify as vesting conditions under the amended standard.

Reclassifications of Financial Assets

The International Accounting Standards Board published an amendment to International Accounting Standard 39 (IAS 39 *Financial Instruments: Recognition and Measurement*) on 13 October 2008, under which eligible financial assets, subject to certain conditions being met, may be reclassified out of the *Held for trading* category if the firm had the intent and ability to hold them for the foreseeable future or until maturity.

Although the amendment could have been applied retrospectively from 1 July 2008, UBS decided at the end of October 2008 to apply the amendment with effect from 1 October 2008 following an assessment of the implications on its financial statements. Refer to Note 29b for further details on reclassification of financial assets.

Note 1 Summary of significant accounting policies (continued)

c) International Financial Reporting Standards and Interpretations to be adopted in 2011 and later

Effective in 2011

Improvements to IFRSs 2010

In May 2010, the IASB issued amendments to seven standards as part of its annual improvements project. UBS will adopt the improvements to IFRSs 2010 as of 1 January 2011. The amendments will not have a material impact on UBS's financial statements.

IFRIC 14 Prepayments of a Minimum Funding Requirement

In November 2009, the IASB issued the amended IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, which itself is an interpretation of IAS 19 *Employee Benefits*. The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits an entity to treat the benefit of such an early payment as an asset. The amendment is effective from 1 January 2011. Early application is permitted. UBS is not affected by this amendment.

Effective in 2012 and later, if not adopted early

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 and amended IFRS 7 to include disclosures about transferred financial assets. The publication of IFRS 9 represents 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 to be classified on the basis of the entity's business model for managing the financial assets, and the contractual cash flow characteristics of the financial asset. A financial asset is accounted for at amortized cost only if the following criteria are met: (a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and (b) the contractual cash flows under the instrument solely represent payments of principal and interest. 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. Non-traded equity instruments may be accounted for at fair value through other comprehensive income (OCI). Such designation is available on initial recognition on an instrument-by-instrument basis and is irrevocable.

There is no subsequent recycling of realized gains or losses from OCI to profit or loss. All other financial assets are measured at fair value through profit or loss.

The accounting and presentation for financial liabilities and for derecognition of financial instruments has been transferred from IAS 39 *Financial instruments: Recognition and measurement* to IFRS 9. The guidance is unchanged with one exception: the accounting for financial liabilities designated at fair value through profit or loss. The requirements in IAS 39 regarding the classification and measurement of financial liabilities have been retained, including the related application and implementation guidance. The two existing measurement categories for financial liabilities remain unchanged. The criteria for designating a financial liability at fair value through profit or loss also remain unchanged. For financial liabilities designated at fair value through profit or loss, changes in fair value due to changes in an entity's own credit risk are directly recognized in OCI instead of in profit and loss. There is no subsequent recycling of realized gains or losses from OCI to profit or loss. For financial liabilities that are required to be measured at fair value through profit or loss, i.e., all derivatives and trading portfolio liabilities, all fair value movements will continue to be recognized in profit and loss.

UBS is currently assessing the impact of the new standard on its financial statements. The effective date for mandatory adoption is 1 January 2013, with early adoption permitted. The IFRS 7 amendments are applicable for annual accounting periods beginning on or after 1 July 2011. UBS did not early adopt IFRS 9 for the year ended 31 December 2010.

Amendments to IAS 12 Income Taxes

In December 2010, the IASB issued amendments to IAS 12 *Income Taxes* to clarify guidance related to the measurement of deferred taxes. IAS 12 requires an entity to measure the deferred tax related to an asset based on whether the entity expects to recover the carrying amount of the asset principally through use or sale. The guidance establishes a rebuttable presumption that recovery of the carrying amount will normally be through sale. As a result of the amendments, SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, would no longer apply to investment properties carried at fair value. The amendments provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. The amendments also incorporate the guidance contained in SIC-21, which is now withdrawn. The amendments are effective for annual periods beginning on or after 1 January 2012, with early adoption permitted. UBS is currently assessing the impact of the revised standard on its financial statements.

Note 2a Segment reporting

UBS AG is the parent company of the UBS Group (Group). The operational structure of the Group comprises the Corporate Center and four business divisions: Wealth Management & Swiss Bank, Wealth Management Americas, Global Asset Management and the Investment Bank. In 2010, for the purpose of segment reporting, the business division Wealth Management & Swiss Bank was split into two separate reportable segments, namely Wealth Management and Retail & Corporate. As a result of the split, UBS now presents five reportable segments compared with only four reportable segments in 2009. The Corporate Center includes all corporate functions, elimination items as well as the remaining industrial holdings activities and is not considered a business segment. The "Corporate Center" column of the table in Note 2a "Segment reporting" has been renamed "Treasury activities and other corporate items". Refer to Note 1a) 33) "Segment reporting" for more details.

Wealth Management & Swiss Bank

Wealth Management & Swiss Bank focuses on delivering comprehensive financial services to high net worth and ultra high net worth individuals around the world – except to those served by Wealth Management Americas – as well as private and corporate clients in Switzerland. Our Wealth Management business unit provides clients in over 40 countries, including Switzerland, with financial advice, products and tools to fit their individual needs. Our Retail & Corporate business unit provides individual and business clients with an array of banking services, such as deposits and lending, and maintains a leading position across its client segments in Switzerland.

Wealth Management Americas

Wealth Management Americas provides advice-based solutions through financial advisors who deliver a fully integrated set of products and services specifically designed to address the needs

of ultra high net worth, high net worth and core affluent individuals and families. It includes the domestic United States business (Wealth Management US), the domestic Canadian business and international business booked in the United States.

Global Asset Management

Global Asset Management is a large-scale asset manager with businesses diversified across regions, capabilities and distribution channels. It offers investment capabilities and styles across all major traditional and alternative asset classes including equities, fixed income, currency, hedge fund, real estate and infrastructure that can also be combined into multi-asset strategies. The fund services unit provides legal fund set-up and accounting and reporting for retail and institutional funds.

Investment Bank

The Investment Bank provides securities and other financial products and research in equities, fixed income, rates, foreign exchange and commodities. It also provides advisory services and access to the world's capital markets for corporate and institutional clients, sovereign and governmental bodies, financial intermediaries, alternative asset managers and private investors.

Corporate Center

The Corporate Center provides and manages support and control functions for the Group in areas such as risk control, finance, legal and compliance, funding, capital and balance sheet management, management of non-trading risk, communication and branding, human resources, information technology, real estate, procurement, corporate development and service centres. Most costs and personnel of the Corporate Center are allocated to the business divisions.

Note 2a Segment reporting (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

CHF million	Wealth Management & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Treasury activities and other corporate items	UBS
	Wealth Management	Retail & Corporate					
For the year ended 31 December 2010							
Net interest income	1,737	2,422	695	(17)	2,235	(858)	6,215
Non-interest income	5,608	1,524	4,870	2,075	9,775	1,993	25,845
Income ¹	7,345	3,946	5,565	2,058	12,010	1,135	32,060
Credit loss (expense) / recovery	11	(76)	(1)	0	0	0	(66)
Total operating income ²	7,356	3,870	5,564	2,058	12,010	1,135	31,994
Personnel expenses	3,153	1,625	4,225	1,096	6,743	78	16,920
General and administrative expenses	1,264	836	1,223	400	2,693	168	6,585
Services to / from other business divisions	449	(509)	(6)	(5)	64	8	0
Depreciation of property and equipment	163	146	198	43	278	89	918
Amortization of intangible assets ³	19	0	55	8	34	0	117
Total operating expenses ⁴	5,049	2,098	5,694	1,542	9,813	343	24,539
Performance from continuing operations before tax	2,308	1,772	(130)	516	2,197	793	7,455
Performance from discontinued operations before tax	0	0	0	0	0	2	2
Performance before tax	2,308	1,772	(130)	516	2,197	795	7,457
Tax expense / (benefit) on continuing operations							(381)
Tax expense / (benefit) on discontinued operations							0
Net profit							7,838
Additional information⁵							
Total assets	94,056	153,101	50,071	15,894	966,945	37,180	1,317,247
Additions to non-current assets	25	12	48	8	32	467	593

¹ Impairments of financial investments available-for-sale for the year ended 31 December 2010 were as follows: Wealth Management & Swiss Bank CHF 45 million; Global Asset Management CHF 2 million; Investment Bank CHF 41 million; Treasury activities and other corporate items CHF (16) million. The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. ² Refer to "Note 38 Reorganizations and disposals" for further information on the impact on performance before tax of restructuring charges, and to "Note 27 Fair value of financial instruments" for further information on the allocation of own credit charges to the Investment Bank. ³ Refer to "Note 16 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. ⁴ Refer to "Note 1 Summary of significant accounting policies" for more information on the allocation of additional Corporate Center costs to business divisions from 2010 onwards. ⁵ The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances.

Note 2a Segment reporting (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

CHF million	Wealth Management & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Treasury activities and other corporate items	UBS
	Wealth Management	Retail & Corporate					
For the year ended 31 December 2009							
Net interest income	1,853	2,681	800	2	2,339	(1,229)	6,446
Non-interest income	5,574	1,415	4,746	2,134	2,494	1,623	17,987
Income ¹	7,427	4,096	5,546	2,137	4,833	394	24,433
Credit loss (expense) / recovery	45	(178)	3	0	(1,698)	(5)	(1,832)
Total operating income	7,471	3,918	5,550	2,137	3,135	389	22,601
Personnel expenses	3,360	1,836	4,231	996	5,568	551	16,543
General and administrative expenses	1,182	835	1,017	387	2,628	199	6,248
Services to / from other business divisions	428	(518)	4	(74)	(147)	306	0
Depreciation of property and equipment	154	136	170	36	360	193	1,048
Impairment of goodwill ²	0	0	34	340	749	0	1,123
Amortization of intangible assets ²	67	0	62	13	59	0	200
Total operating expenses ³	5,191	2,289	5,518	1,698	9,216	1,250	25,162
Performance from continuing operations before tax	2,280	1,629	32	438	(6,081)	(860)	(2,561)
Performance from discontinued operations before tax	0	0	0	0	0	(7)	(7)
Performance before tax	2,280	1,629	32	438	(6,081)	(867)	(2,569)
Tax expense / (benefit) on continuing operations							(443)
Tax expense / (benefit) on discontinued operations							0
Net profit							(2,125)
Additional information⁴							
Total assets	109,627	138,513	53,197	20,238	991,964	26,999	1,340,538
Additions to non-current assets	13	30	59	11	81	745	939

¹ Impairments of financial investments available-for-sale for the year ended 31 December 2009 were as follows: Wealth Management & Swiss Bank CHF 158 million; Global Asset Management CHF 20 million; Investment Bank CHF 142 million; Treasury activities and other corporate items CHF 29 million. The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. ² Refer to "Note 16 Goodwill and intangible assets" for further information regarding goodwill and other intangible assets by business division. ³ Refer to "Note 1 Summary of significant accounting policies" for more information on the allocation of additional Corporate Center costs to business divisions from 2010 onwards. ⁴ The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances.

Note 2a Segment reporting (continued)

Transactions between the reportable segments are carried out at internally agreed rates or at arm's length and are reflected in the performance of each segment. Revenue-sharing agreements are used to allocate external client revenues to a segment and cost-allocation agreements are used to allocate shared costs between the segments.

CHF million	Wealth Management & Swiss Bank		Wealth Management Americas	Global Asset Management	Investment Bank	Treasury activities and other corporate items	UBS
	Wealth Management	Retail & Corporate					
For the year ended 31 December 2008							
Net interest income	2,217	3,207	938	(2)	2,007	(2,375)	5,992
Non-interest income	8,285	1,704	5,340	2,906	(23,808)	3,373	(2,200)
Income ¹	10,502	4,911	6,278	2,905	(21,800)	998	3,792
Credit loss (expense) / recovery	(388)	(4)	(29)	0	(2,575)	0	(2,996)
Total operating income	10,114	4,907	6,249	2,904	(24,375)	998	796
Personnel expenses	3,503	1,927	4,271	946	5,182	433	16,262
General and administrative expenses	2,357	938	2,558	462	3,830	353	10,498
Services to / from other business divisions	409	(482)	16	88	41	(73)	0
Depreciation of property and equipment	181	142	162	44	447	265	1,241
Impairment of goodwill	0	0	0	0	341	0	341
Amortization of intangible assets	33	0	65	33	83	0	213
Total operating expenses ²	6,483	2,524	7,072	1,572	9,925	979	28,555
Performance from continuing operations before tax	3,631	2,382	(823)	1,333	(34,300)	19	(27,758)
Performance from discontinued operations before tax	0	0	0	0	0	198	198
Performance before tax	3,631	2,382	(823)	1,333	(34,300)	217	(27,560)
Tax expense / (benefit) on continuing operations							(6,837)
Tax expense / (benefit) on discontinued operations							1
Net profit							(20,724)
Additional information³							
Total assets	96,777	154,710	39,039	24,640	1,680,257	19,392	2,014,815
Additions to non-current assets	241	34	135	430	809	961	2,609

¹ Impairments of financial investments available-for-sale for the year ended 31 December 2008 were as follows: Wealth Management & Swiss Bank CHF 19 million; Wealth Management Americas CHF 1 million; Global Asset Management CHF 22 million; Investment Bank CHF 121 million; Treasury activities and other corporate items CHF 40 million. The total inter-segment revenues for the Group are immaterial as the majority of the revenues are allocated across the business divisions by means of revenue-sharing agreements. ² Refer to "Note 1 Summary of significant accounting policies" for more information on the allocation of additional Corporate Center costs to business divisions from 2010 onwards. ³ The segment assets are based on a third-party view, i.e. the amounts do not include inter-company balances.

Note 2b Segment reporting by geographic location

The geographic analysis of operating income and non-current assets is based on the location of the entity in which the transactions and assets are recorded. The divisions of the Group are managed on an autonomous basis worldwide with a focus on cross-divisional collaboration and the interest of our clients to yield the maximum possible profitability by product line for the Group. The geographical analysis of operating income and non-current assets is provided in order to comply with IFRS.

For the year ended 31 December 2010

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Switzerland	12,670	40	4,922	31
United Kingdom	2,791	9	594	4
Rest of Europe	1,514	5	1,078	7
United States	10,752	34	8,673	54
Asia Pacific	3,796	12	394	2
Rest of the world	470	1	418	3
Total	31,994	100	16,080	100

For the year ended 31 December 2009

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Switzerland	11,939	53	5,137	28
United Kingdom	(3,999)	(18)	743	4
Rest of Europe	1,264	6	1,266	7
United States	9,333	41	9,928	55
Asia Pacific	3,770	17	451	3
Rest of the world	294	1	565	3
Total	22,601	100	18,090	100

For the year ended 31 December 2008

	Total operating income		Total non-current assets	
	CHF million	Share %	CHF million	Share %
Switzerland	11,564	1,453	5,207	25
United Kingdom	(9,219)	(1,158)	805	4
Rest of Europe	6,132	770	1,337	7
United States	(10,519)	(1,321)	10,505	51
Asia Pacific	3,122	392	495	2
Rest of the world	(284)	(36)	2,184	11
Total	796	100	20,533	100

Income statement notes

Note 3 Net interest and trading income

Accounting standards require separate disclosure of *Net interest income* and *Net trading income* (see the tables on this and the next page). This required disclosure, however, does not take into account that net interest and trading income are generated by a range of different businesses. In many cases, a particular business can generate both interest and trading income. Fixed income trading activity, for example, generates both trading profits and coupon income. UBS considers it to be more meaningful to analyze net interest and trading income according to the businesses that drive

it. The second table below (Breakdown by businesses) provides information that corresponds to this view: Net income from trading businesses includes both interest and trading income generated by the Investment Bank, including its lending activities, and trading income generated by the other business divisions; Net income from interest margin businesses comprises interest income from the loan portfolios of Wealth Management & Swiss Bank and Wealth Management Americas; Net income from treasury activities and other reflects all income from the Group's centralized treasury function.

CHF million	For the year ended			% change from 31.12.09
	31.12.10	31.12.09	31.12.08	
Net interest and trading income				
Net interest income	6,215	6,446	5,992	(4)
Net trading income	7,471	(324)	(25,820)	
Total net interest and trading income	13,686	6,122	(19,828)	124
Breakdown by businesses				
Net income from trading businesses ¹	7,508	382	(27,203)	
Net income from interest margin businesses	4,624	5,053	6,160	(8)
Net income from treasury activities and other	1,554	687	1,214	126
Total net interest and trading income	13,686	6,122	(19,828)	124
Net interest income²				
Interest income				
Interest earned on loans and advances ^{3, 4}	10,603	13,202	20,213	(20)
Interest earned on securities borrowed and reverse repurchase agreements	1,436	2,629	22,521	(45)
Interest and dividend income from trading portfolio	6,015	7,150	22,397	(16)
Interest income on financial assets designated at fair value	262	316	404	(17)
Interest and dividend income from financial investments available-for-sale	557	164	145	240
Total	18,872	23,461	65,679	(20)
Interest expense				
Interest on amounts due to banks and customers ⁵	1,984	3,873	18,150	(49)
Interest on securities lent and repurchase agreements	1,282	2,179	16,123	(41)
Interest and dividend expense from trading portfolio	3,794	3,878	9,162	(2)
Interest on financial liabilities designated at fair value	2,392	2,855	7,298	(16)
Interest on debt issued	3,206	4,231	8,954	(24)
Total	12,657	17,016	59,687	(26)
Net interest income	6,215	6,446	5,992	(4)

¹ Includes lending activities of the Investment Bank. ² Interest includes forward points on foreign exchange swaps used to manage short-term interest rate risk on foreign currency loans and deposits. ³ Includes interest income on impaired loans and advances of CHF 37 million for 2010, CHF 66 million for 2009 and CHF 42 million for 2008. ⁴ Includes interest income on cash collateral receivables on derivative instruments and net interest income on swaps. ⁵ Includes interest expense on cash collateral payables on derivative instruments.

Note 3 Net interest and trading income (continued)

CHF million	For the year ended			% change from 31.12.09
	31.12.10	31.12.09	31.12.08	
Net trading income¹				
Investment Bank equities	2,356	2,462	4,694	(4)
Investment Bank fixed income, currencies and commodities	2,000	(5,455)	(35,040)	
Other business divisions ²	3,115	2,668	4,525	17
Net trading income	7,471	(324)	(25,820)	
of which: net gains / (losses) from financial assets designated at fair value	465	678	(974)	(31)
of which: net gains / (losses) from financial liabilities designated at fair value ³	(1,001)	(6,741)	44,284	85

¹ Refer to the table "Net interest and trading income" on the previous page for the Net income from trading businesses (for an explanation, refer to the corresponding introductory comment).
² Mainly consists of gains and losses from foreign exchange and net trading income from treasury activities. ³ Financial liabilities designated at fair value are to a large extent economically hedged with derivatives and other instruments whose change in fair value is also reported in Net trading income. For more information on own credit refer to "Note 27 Fair value of financial instruments".

Significant impacts on net trading income

Net trading income in 2010 included a gain of CHF 0.7 billion from credit valuation adjustments for monoline credit protection (CHF 0.8 billion loss in 2009). 2010 Net trading income also included a gain of CHF 0.7 billion from the valuation of UBS's

option to acquire the SNB StabFund's equity (CHF 0.1 billion gain in 2009).

→ Refer to the "Risk management and control" section of this report for more information on exposure to monolines and the option to acquire equity of the SNB StabFund

Note 4 Net fee and commission income

CHF million	For the year ended			% change from 31.12.09
	31.12.10	31.12.09	31.12.08	
Equity underwriting fees	1,157	1,590	1,138	(27)
Debt underwriting fees	755	796	818	(5)
Total underwriting fees	1,912	2,386	1,957	(20)
M&A and corporate finance fees	857	881	1,662	(3)
Brokerage fees ¹	4,930	5,400	7,150	(9)
Investment fund fees	3,898	4,000	5,583	(3)
Portfolio management and advisory fees	5,959	5,863	7,667	2
Insurance-related and other fees	361	264	317	37
Total securities trading and investment activity fees	17,918	18,794	24,335	(5)
Credit-related fees and commissions	448	339	273	32
Commission income from other services	850	878	1,010	(3)
Total fee and commission income	19,216	20,010	25,618	(4)
Brokerage fees paid ¹	1,093	1,231	1,164	(11)
Other ¹	964	1,068	1,524	(10)
Total fee and commission expense	2,057	2,299	2,689	(11)
Net fee and commission income	17,160	17,712	22,929	(3)
of which: net brokerage fees ¹	3,837	4,169	5,985	(8)

¹ In 2010, UBS corrected the amounts presented in previous periods on the lines Brokerage fees, Brokerage fees paid, Other and Net brokerage fees. Amounts previously disclosed have been decreased as follows: Brokerage fees by CHF 817 million and CHF 1,059 million for the years ended 31 December 2009 and 31 December 2008 respectively; Brokerage fees paid by CHF 517 million and CHF 599 million for the years ended 31 December 2009 and 31 December 2008 respectively; Other and Net brokerage fees by CHF 300 million and CHF 460 million for the years ended 31 December 2009 and 31 December 2008 respectively. The totals of Net fee and commission income and consequently Net profit attributable to UBS shareholders are not affected by this correction.

Note 5 Other income

CHF million	For the year ended			% change from 31.12.09
	31.12.10	31.12.09	31.12.08	
Associates and subsidiaries				
Net gains from disposals of consolidated subsidiaries ¹	(7)	96	(184)	
Net gains from disposals of investments in associates ²	256	(1)	199	
Share of net profits of associates	81	37	(6)	119
Total	331	133	9	149
Financial investments available-for-sale				
Net gains from disposals	204	110	615 ³	85
Impairment charges	(72)	(349) ⁴	(202)	79
Total	132	(239)	413	
Net income from properties ⁵	53	72	88	(26)
Net gains from investment properties ⁶	8	(39)	0	
Other ⁷	690	672	183	3
Total other income	1,214	599	692	103

¹ Includes foreign exchange amounts reclassified from equity upon disposal or deconsolidation of subsidiaries. 2009 included a loss of CHF 498 million on the sale of UBS Pactual. ² Included in 2010 is a gain of CHF 180 million from the sale of investments in associates owning office space in New York. ³ Includes a gain of approximately CHF 360 million for the disposal of UBS's equity stake in Bank of China. ⁴ Includes impairments for a global real estate fund of CHF 155 million, Asian debt instruments of CHF 86 million and private equity investments of CHF 55 million.

⁵ Includes net rent received from third parties and net operating expenses. ⁶ Includes unrealized and realized gains from investment properties at fair value and foreclosed assets. ⁷ Includes net gains from disposals of loans and receivables of CHF 324 million in 2010 and of CHF 205 million in 2009. 2010 includes a gain of CHF 158 million from the sale of a property in Zurich. 2009 included a gain of CHF 304 million from the public tender offer for four subordinated bonds of UBS.

Note 6 Personnel expenses

CHF million	Note	For the year ended			% change from 31.12.09
		31.12.10	31.12.09	31.12.08	
Salaries		7,033	7,383	7,775	(5)
Variable compensation – discretionary bonus	31	4,082	2,809	1,674	45
Variable compensation – other ¹	31	310	830	1,025	(63)
Contractors		232	275	423	(16)
Social security ²		826	804	660	3
Pension and other post-employment benefit plans ²	30	724	988	972	(27)
Wealth Management Americas: financial advisor compensation ³	31	2,667	2,426	2,435	10
Other personnel expenses ¹		1,047	1,027	1,298	2
Total personnel expenses		16,920	16,543	16,262	2

¹ In 2010, UBS adjusted the amounts presented in previous periods on the line Other personnel expenses to align the presentation with the new definition by FINMA of variable compensation. Amounts previously disclosed under Other personnel expenses have been decreased by CHF 648 million for the year ended 31 December 2009 and CHF 702 million for the year ended 31 December 2008, with a corresponding increase in Variable compensation – other. ² Starting 2010, UBS presents the pension costs related to cash bonus in Pension and other post-employment benefit plans. Previously those amounts were reported under Social security. Prior periods amounts have been adjusted accordingly as follows: by CHF 47 million for the year ended 31 December 2009 and by CHF 46 million for the year ended 31 December 2008. ³ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements.

Note 7 General and administrative expenses

CHF million	For the year ended			% change from 31.12.09
	31.12.10	31.12.09	31.12.08	
Occupancy	1,252	1,420	1,516	(12)
Rent and maintenance of IT and other equipment	555	623	669	(11)
Telecommunications and postage	664	697	888	(5)
Administration	669	695	926	(4)
Marketing and public relations	339	225	408	51
Travel and entertainment	466	412	728	13
Professional fees	754	830	1,085	(9)
Outsourcing of IT and other services	1,078	836	1,029	29
Other ¹	807	512	3,249 ²	58
Total general and administrative expenses	6,585	6,248	10,498	5

¹ Includes litigation provisions. Refer to "Note 21 Provisions and contingent liabilities". ² Includes an amount of CHF 1,464 million for the expected costs associated with the repurchase of auction rate securities from clients and CHF 917 million in connection with UBS's US cross-border case.

Note 8 Earnings per share (EPS) and shares outstanding

	As of or for the year ended			% change from
	31.12.10	31.12.09	31.12.08	31.12.09
Basic earnings (CHF million)				
Net profit attributable to UBS shareholders	7,534	(2,736)	(21,292)	
from continuing operations	7,533	(2,719)	(21,442)	
from discontinued operations	1	(17)	150	
Diluted earnings (CHF million)				
Net profit attributable to UBS shareholders	7,534	(2,736)	(21,292)	
Less: (profit) / loss on equity derivative contracts	(2)	(5)	(28)	60
Net profit attributable to UBS shareholders for diluted EPS	7,532	(2,741)	(21,320)	
from continuing operations	7,531	(2,724)	(21,470)	
from discontinued operations	1	(17)	150	
Weighted average shares outstanding				
Weighted average shares outstanding for basic EPS	3,789,732,938	3,661,086,266	2,792,023,098	4
Potentially dilutive ordinary shares resulting from unvested exchangeable shares, in-the-money options and warrants outstanding ¹	48,599,111	754,948	1,151,556	
Weighted average shares outstanding for diluted EPS	3,838,332,049	3,661,841,214	2,793,174,654	5
Potential ordinary shares from unexercised employee shares and in-the-money options not considered due to the anti-dilutive effect	0	20,166,373	27,909,964	(100)
Earnings per share (CHF)				
Basic	1.99	(0.75)	(7.63)	
from continuing operations	1.99	(0.74)	(7.68)	
from discontinued operations	0.00	0.00	0.05	
Diluted	1.96	(0.75)	(7.63)	
from continuing operations	1.96	(0.74)	(7.69)	
from discontinued operations	0.00	0.00	0.05	
Shares outstanding				
Ordinary shares issued	3,830,840,513	3,558,112,753	2,932,580,549	8
Treasury shares	38,892,031	37,553,872	61,903,121	4
Shares outstanding	3,791,948,482	3,520,558,881	2,870,677,428	8
Retrospective adjustment for capital increase ²			23,252,487	
Mandatory convertible notes and exchangeable shares ³	580,261	273,264,461	605,547,748	(100)
Shares outstanding for EPS	3,792,528,743	3,793,823,342	3,499,477,663	0

¹ Total equivalent shares outstanding on out-of-the-money options that were not dilutive for the respective periods but could potentially dilute earnings per share in the future were 241,320,185; 288,915,585 and 283,263,330 for the years ended 31 December 2010, 31 December 2009 and 31 December 2008 respectively. An additional 100 million ordinary shares ("contingent share issue") related to the SNB transaction were not dilutive for all periods, but could potentially dilute earnings per share in the future. ² Shares outstanding increased by 0.81% due to the capital increase in 2009. ³ 31 December 2009 and 31 December 2008 include 272,651,005 shares for the mandatory convertible notes issued to two investors in March 2008. 31 December 2008 includes 332,225,913 shares for the mandatory convertible notes issued to the Swiss Confederation in December 2008. All other numbers related to exchangeable shares.

Balance sheet notes: assets

Note 9a Due from banks and loans (held at amortized cost)

CHF million

	31.12.10	31.12.09
By type of exposure		
Banks, gross	17,158	16,836
Allowance for credit losses	(24)	(32)
Net due from banks	17,133	16,804
Loans, gross		
Residential mortgages	122,499	121,031
Commercial mortgages	20,362	19,970
Current accounts and loans	99,710	100,887
Securities ¹	21,392	27,237
Subtotal	263,964	269,124
Allowance for credit losses	(1,087)	(2,648)
of which: related to securities ¹	(273)	(179)
Net loans	262,877	266,477
Net due from banks and loans (held at amortized cost)	280,010	283,281

By geographical region (based on the location of the borrower)

Switzerland	161,109	159,990
United Kingdom	7,376	9,681
Rest of Europe	22,142	25,360
United States	52,097	60,520
Asia Pacific	16,984	13,659
Rest of the world	24,672	20,759
Subtotal	284,381	289,969
Allowance for credit losses	(1,111)	(2,680)
Net due from banks, loans (held at amortized cost) and loans designated at fair value²	283,270	287,289

By type of collateral

Secured by real estate	144,403	142,617
Collateralized by securities	46,565	39,463
Guarantees and other collateral	30,890	39,439
Unsecured	62,523	68,450
Subtotal	284,381	289,969
Allowance for credit losses	(1,111)	(2,680)
Net due from banks, loans (held at amortized cost) and loans designated at fair value²	283,270	287,289

¹ On 31 December 2010, includes reclassified US student loan auction rate securities (ARS) of CHF 4.3 billion (CHF 7.8 billion on 31 December 2009), other reclassified securities of CHF 7.4 billion (CHF 11.5 billion on 31 December 2009) and CHF 9.7 billion ARS acquired from clients (CHF 8.0 billion on 31 December 2009). The related allowances for reclassified ARS amount to CHF 157 million (CHF 66 million on 31 December 2009) and other reclassified securities to CHF 63 million (CHF 96 million on 31 December 2009), respectively. ² Includes loans designated at fair value of CHF 3.3 billion on 31 December 2010 and CHF 4.0 billion on 31 December 2009. For further details refer to "Note 12 Financial assets designated at fair value".

Note 9b Allowances and provisions for credit losses

<i>CHF million</i>	Specific allowances and provisions	Collective loan loss allowances	Total 31.12.10	Total 31.12.09
Balance at the beginning of the year	2,771	49	2,820	3,070
Write-offs	(1,505)	0	(1,505)	(2,046)
Recoveries	79	0	79	52
Increase / (decrease) in credit loss allowances and provisions recognized in the income statement	67	(2)	66	1,832
Disposals	0	0	0	(51)
Foreign currency translation and other adjustments	(173)	0	(173)	(37)
Balance at the end of the year	1,239¹	47	1,287	2,820

<i>CHF million</i>	Specific allowances and provisions	Collective loan loss allowances	Total 31.12.10	Total 31.12.09
As a reduction of due from banks	24	0	24	32
As a reduction of loans ¹	1,039	47	1,087	2,648
As a reduction of securities borrowed	46	0	46	51
Subtotal	1,109	47	1,157	2,730
Included in other liabilities related to provisions for contingent claims	130	0	130	90
Total allowances and provisions for credit losses	1,239	47	1,287	2,820

¹ CHF 254 million is related to reclassified assets (securities and other assets) on 31 December 2010 and CHF 1,192 million on 31 December 2009.

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

The Group enters into collateralized reverse repurchase and repurchase agreements, securities borrowing and securities lending transactions and derivative transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Group controls

credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

Balance sheet assets

<i>CHF million</i>	Cash collateral on securities borrowed 31.12.10	Reverse repurchase agreements 31.12.10	Cash collateral receivables on derivative instruments 31.12.10	Cash collateral on securities borrowed 31.12.09	Reverse repurchase agreements 31.12.09	Cash collateral receivables on derivative instruments 31.12.09
By counterparty						
Banks	20,302	91,788	20,230	17,143	71,051	29,705
Customers	42,153	51,002	17,841	46,364	45,638	24,069
Total	62,454	142,790	38,071	63,507	116,689	53,774

Balance sheet liabilities

<i>CHF million</i>	Cash collateral on securities lent 31.12.10	Repurchase agreements 31.12.10	Cash collateral payables on derivative instruments 31.12.10	Cash collateral on securities lent 31.12.09	Repurchase agreements 31.12.09	Cash collateral payables on derivative instruments 31.12.09
By counterparty						
Banks	5,820	28,201	34,930	7,268	26,167	32,932
Customers	831	46,595	23,994	727	38,008	33,165
Total	6,651	74,796	58,924	7,995	64,175	66,097

Note 11 Trading portfolio

The Group trades in debt instruments (including money market paper and tradable loans), equity instruments, precious metals, other commodities and derivatives to meet the financial needs of its customers and to generate revenue. Refer to “Note 23 Deriva-

tive instruments and hedge accounting”. The table below represents a pure accounting view. It does not reflect hedges and other risk mitigating factors and the amounts must therefore not be considered risk exposures.

<i>CHF million</i>	31.12.10	31.12.09
Trading portfolio assets by counterparty		
Debt instruments		
Government and government agencies ¹	83,952	85,483
<i>of which: Switzerland</i>	13,292	3,778
<i>of which: United States</i>	19,843	22,498
<i>of which: Japan</i>	25,996	25,795
Banks ¹	14,711	10,850
Corporates and other	35,647	39,902
Total debt instruments	134,310	136,234
Equity instruments	57,506	57,541
Financial assets for unit-linked investment contracts	18,056	21,619
Financial assets held for trading	209,873	215,393
Precious metals and other physical commodities	18,942	16,864
Total trading portfolio assets	228,815	232,258
Trading portfolio liabilities by counterparty		
Debt instruments		
Government and government agencies ¹	29,628	26,317
<i>of which: Switzerland</i>	237	85
<i>of which: United States</i>	11,729	10,351
<i>of which: Japan</i>	7,699	3,384
Banks ¹	3,107	3,462
Corporates and other	4,640	5,447
Total debt instruments	37,376	35,226
Equity instruments	17,599	12,243
Total trading portfolio liabilities	54,975	47,469

¹ From 2010 onwards bills issued by the Swiss National Bank are reported under Government and government agencies. In previous years, these bills were presented under Banks. The comparative period has been adjusted accordingly.

Note 11 Trading portfolio (continued)

CHF million	31.12.10			Total	31.12.09
	Level 1	Level 2	Level 3		
Trading portfolio assets by product type					
Debt instruments					
Government bills / bonds	43,583	22,543	310	66,435	67,528
Corporate bonds, including bonds issued by financial institutions	1,097	42,275	3,864	47,237	49,460
Loans	0	3,117	2,425	5,543	5,559
Asset-backed securities	7,070	4,287	3,741	15,098	13,688
<i>of which: mortgage-backed securities</i>	7,070	2,360	925	10,355	9,202
Total debt instruments	51,751	72,222	10,337	134,310	136,234
Equity instruments					
Shares	40,861	2,041	273	43,175	43,074
Investment fund units and other	5,432	8,726	174	14,331	14,467
Total equity instruments	46,292	10,767	446	57,506	57,541
Financial assets for unit-linked investment contracts	18,056	0	0	18,056	21,619
Financial assets held for trading	116,100	82,989	10,783	209,873	215,393
Precious metals and other physical commodities				18,942	16,864
Total trading portfolio assets				228,815	232,258
Trading portfolio liabilities by product type					
Debt instruments					
Government bills / bonds	25,079	1,561	10	26,650	22,259
Corporate bonds, including bonds issued by financial institutions	864	9,544	117	10,525	12,033
Loans	0	0	0	0	160
Asset-backed securities	77	97	27	200	774
<i>of which: mortgage-backed securities</i>	76	47	0	123	515
Total debt instruments	26,020	11,201	154	37,376	35,226
Equity instruments					
Shares	15,947	419	128	16,494	11,615
Investment fund units and other	959	146	0	1,106	629
Total equity instruments	16,906	565	128	17,599	12,243
Total trading portfolio liabilities	42,926	11,766	282	54,975	47,469

Note 12 Financial assets designated at fair value

<i>CHF million</i>	31.12.10	31.12.09
Loans	2,331	3,052
Structured loans	929	957
Reverse repurchase and securities borrowing agreements		
Banks	2,784	3,712
Customers	1,345	1,662
Other financial assets	1,115	840
Total financial assets designated at fair value	8,504	10,223

The maximum exposure to credit loss of all items in the above table is equal to the fair value except CHF 856 million as of 31 December 2010 and CHF 840 million as of 31 December 2009 reported in *Other financial assets* which are generally comprised of equity investments that are not directly exposed to credit risk. The maximum exposure to credit loss as of 31 December 2010 and

31 December 2009 is mitigated by collateral of CHF 3,929 million and CHF 4,845 million, respectively.

The amount by which credit derivatives or similar instruments mitigate the maximum exposure to credit loss of loans and structured loans designated at fair value is as follows:

<i>CHF million</i>	31.12.10	31.12.09
Notional amount of loans and structured loans	4,075	4,224
Credit derivatives related to loans and structured loans – notional amount ¹	1,730	2,699
Credit derivatives related to loans and structured loans – fair value ¹	(5)	90

Additional Information

<i>CHF million</i>	For the year ended		Cumulative from inception until the year ended	
	31.12.10	31.12.09	31.12.10	31.12.09
Change in fair value of loans and structured loans designated at fair value, attributable to changes in credit risk ²	100	530	(27)	(128)
Change in fair value of credit derivatives and similar instruments which mitigate the maximum exposure to credit loss of loans and structured loans designated at fair value ²	(94)	(435)	(5)	90

¹ Credit derivatives contracts include credit default swaps, total return swaps, and similar instruments. These are generally used to manage credit risk when UBS has a direct credit exposure to the counterparty, which has not otherwise been collateralized. ² Current and cumulative changes in the fair value of loans attributable to changes in their credit risk are only calculated for those loans outstanding on the balance sheet date. Current and cumulative changes in the fair value of credit derivatives hedging such loans include all the derivatives which have been used to mitigate the credit risk of these loans since designation at fair value. For loans reported under the fair value option, changes in fair value due to changes in the credit standing of the borrower are calculated using counterparty credit information obtained from independent market sources.

Note 13 Financial investments available-for-sale

CHF million	31.12.10	31.12.09
Financial investments available-for-sale by counterparty		
Debt instruments		
Government and government agencies ¹	67,552	76,938
of which: Switzerland	3,206	646
of which: United States	38,070	47,282
of which: United Kingdom	8,303	4,741
of which: Japan	6,541	3,950
Banks ¹	5,091	2,937
Corporates and other	765	531
Total debt instruments	73,409	80,406
Equity instruments	1,359	1,351
Total financial investments available-for-sale	74,768	81,757
unrealized gains – before tax	514	577
unrealized (losses) – before tax	(662) ²	(93)
Net unrealized gains / (losses) – before tax	(148)	484
Net unrealized gains / (losses) – after tax	(243)	375

CHF million	31.12.10				31.12.09
	Level 1	Level 2	Level 3	Total	
Financial investments available-for-sale by product					
Debt instruments					
Government bills / bonds	52,285	5,324	32	57,642	64,908
Corporate bonds, including bonds issued by financial institutions	561	11,045	64	11,670	14,688
Asset-backed securities	6	4,078	13	4,097	810
of which: mortgage-backed securities	2	4,078	13	4,093	807
Total debt instruments	52,852	20,447	110	73,409	80,406
Equity instruments					
Shares	80	445	496	1,021	862
Investment fund units		87	23	110	119
Private equity investments	2	1	224	227	370
Total equity instruments	82	533	743	1,359	1,351
Total financial investments available-for-sale	52,935	20,980	853	74,768	81,757

¹ From 2010 onwards, bills issued by the Swiss National Bank are reported within Government and government agencies. In previous years, these bills were presented within Banks. The comparative period has been adjusted accordingly. ² Includes losses of CHF 31 million with a duration of more than 12 months.

Note 14 Investments in associates

<i>CHF million</i>	31.12.10	31.12.09
Carrying amount at the beginning of the year	870	892
Additions	19	14
Disposals	(94)	(38)
Transfers	0	(1)
Income	86	42
Impairments	(6)	(4)
Dividends paid	(29)	(30)
Foreign currency translation	(55)	(5)
Carrying amount at the end of the year	790	870

Significant associated companies of the Group had the following balance sheet and income statement totals on an aggregated basis, not adjusted for the Group's proportionate interest. Refer to "Note 34 Significant subsidiaries and associates".

<i>CHF million</i>	31.12.10	31.12.09
Assets	6,391	5,155
Liabilities	4,391	3,248
Revenues	1,371	1,468
Net profit	239	319

Note 15 Property and equipment

At historical cost less accumulated depreciation

<i>CHF million</i>	Own-used properties	Leasehold improvements	IT, software and communication	Other machines and equipment	Projects in progress	31.12.10	31.12.09
Historical cost							
Balance at the beginning of the year	9,468	3,227	4,150	784	217	17,846	17,952
Additions	33	96	170	41	198	538	854
Additions from acquired companies	0	0	0	0	0	0	0
Disposals write-offs ¹	(36)	(304)	(185)	(77)	(0)	(602)	(736)
Reclassifications	(90)	31	104	9	(186)	(132)	(227)
Foreign currency translation	(55)	(218)	(237)	(58)	(15)	(583)	2
Balance at the end of the year	9,321	2,832	4,002	700	213	17,068	17,846
Accumulated depreciation							
Balance at the beginning of the year	5,417	2,109	3,669	555	0	11,750	11,461
Depreciation ²	209	286	359	63	0	918	1,048
Disposals/write-offs ¹	(20)	(280)	(182)	(66)	0	(548)	(644)
Reclassifications	(34)	38	(0)	8	0	12	(104)
Foreign currency translation	(25)	(148)	(220)	(43)	0	(437)	(12)
Balance at the end of the year	5,548	2,005	3,625	518	0	11,695	11,750
Net book value at the end of the year³	3,773	827	377	182	213	5,373	6,096

¹ Includes write-offs of fully depreciated assets. ² In 2010, amounts include CHF 1 million impairments of own-used property, CHF 40 million impairments of leasehold improvements and CHF 1 million impairments of IT, software and communication. ³ Fire insurance value of property and equipment is CHF 13,481 million (2009: CHF 13,800 million).

Investment properties at fair value

<i>CHF million</i>	31.12.10	31.12.09
Balance at the beginning of the year	116	215
Additions	3	0
Sales	(23)	(60)
Revaluations	2	(37)
Reclassifications	6	0
Foreign currency translation	(10)	(2)
Balance at the end of the year	94	116

Note 16 Goodwill and intangible assets

Introduction

As of 31 December 2010, the following four segments carried goodwill: Wealth Management (CHF 1.4 billion), Wealth Management Americas (CHF 3.3 billion), Global Asset Management (CHF 1.4 billion), and Investment Bank (CHF 3.0 billion). For the purpose of testing goodwill for impairment, UBS considers the segments as reported in Note 2a as separate cash-generating units, and determines the recoverable amount of a segment on the basis of value in use.

As of 31 December 2010, equity attributable to UBS shareholders stood at CHF 47 billion, up from CHF 41 billion as of 31 December 2009. UBS's market capitalization was approximately CHF 59 billion as of 31 December 2010 compared with CHF 57 billion as of 31 December 2009. On the basis of the impairment testing methodology described below, UBS concluded that the year-end 2010 balances of goodwill allocated to its segments remain recoverable.

Methodology for goodwill impairment testing

The recoverable amount is determined using a discounted cash flow model, which uses inputs that consider features of the banking business and its regulatory environment. The recoverable amount is calculated by estimating streams of earnings available to shareholders over the next five years, discounted to their present values. The terminal value reflecting all periods beyond the fifth year is calculated on the basis of the forecast of fifth-year profit, the cost of equity and the long-term growth rate. For the 2010 test, the discount rates and long-term growth rates used to calculate the present values of the cash-generating units remained unchanged. The recoverable amount of a segment is the sum of discounted earnings available to shareholders from the first five individually forecast years and the terminal value.

Discount and growth rates

In %	Discount rates		Growth rates	
	31.12.10	31.12.09	31.12.10	31.12.09
Wealth Management	9.0	9.0	1.2	1.2
Wealth Management Americas	9.0	9.0	2.4	2.4
Global Asset Management	9.0	9.0	2.4	2.4
Investment Bank	11.0	11.0	2.4	2.4

The carrying amount for each segment is determined by reference to the Equity Attribution framework. Within this framework, which is described in the Treasury management section of this report, management attributes equity to the businesses after considering their risk exposure, asset size, goodwill and intangible assets. Until the end of 2009, the carrying amount for each segment was determined by a roll-forward of the historic carrying amount. The change in methodology for determining the carrying amount of the cash-generating units from the roll-forward approach to the Equity Attribution framework was made in 2010 as the principles underlying the Equity Attribution framework were approved by the Board of Directors during the year. Moreover, the framework became embedded in the Bank for purposes of measuring the performance of each of its businesses. This new methodology is aligned with the 2010 business planning process, the inputs from which are used in calculating the recoverable amounts of the respective cash-generating units.

Assumptions

The model used to determine the recoverable amount is most sensitive to changes in the forecast earnings available to shareholders in years one to five, the cost of equity and to changes in the long-term growth rate. The applied long-term growth rate is based on real growth rates and expected inflation. Earnings available to shareholders are estimated on the basis of forecast results, which take into account business initiatives and planned capital investments. Valuation parameters used within the Group's impairment test model are linked to external market information, where applicable. Management believes that reasonable changes in key assumptions used to determine the recoverable amounts of all segments will not result in an impairment situation.

Note 16 Goodwill and intangible assets (continued)

Investment Bank / Wealth Management Americas

As in prior years, the assessment of the goodwill of the Investment Bank and Wealth Management Americas continued to be a focus. In its review of the year-end 2010 goodwill balance, UBS considered the performance outlook of its Investment Bank and Wealth Management Americas business divisions and the underlying business operations to resolve whether the recoverable amounts for these units cover their carrying amounts, based on the methodology described above. On this basis, UBS concluded that goodwill allocated to the Investment Bank and Wealth Management Americas remains recoverable on 31 December 2010. The conclusion was reached on the basis of the current forecast results and the underlying assumption that the economy will gradually improve and reach an average growth level.

In addition, a stress test was performed employing the same

discounted cash flow model. The earnings used were based on an economic stress scenario. Under this economic stress scenario, the key macro economic drivers are severely reduced in the near term, with a gradual recovery thereafter. The stressed values exceeded the carrying values of all business divisions, including the Investment Bank and Wealth Management Americas. However, if the regulatory pressure on the banking industry further intensifies and conditions in the financial markets turn out to be worse than anticipated in our performance forecasts, the goodwill carried in these business divisions may need to be impaired in future periods.

Recognition of any impairment of goodwill would reduce IFRS Equity attributable to UBS shareholders and net profit, but it would not impact cash flows, as well as the BIS Tier 1 capital, BIS total capital, and capital ratios of the UBS Group, as goodwill is required to be deducted from capital under the Basel II capital framework.

CHF million	Goodwill		Intangible assets		31.12.10	31.12.09
	Total	Infrastructure	Customer relationships, contractual rights and other	Total		
Historical cost						
Balance at the beginning of the year	10,115	787	894	1,680	11,795	13,716
Additions and reallocations	20	0	14	14	34	70
Disposals	(3)	0	0	0	(3)	(2,190)
Write-offs ¹	0	0	(1)	(1)	(1)	0
Foreign currency translation	(1,016)	(77)	(97)	(174)	(1,190)	199
Balance at the end of the year	9,115	710	809	1,519	10,634	11,795
Accumulated amortization and impairment						
Balance at the beginning of the year	0	361	426	787	787	781
Amortization	0	40	65	105	105	144
Impairment	0	0	12	12	12	1,180
Disposals	0	0	0	0	0	(1,416)
Write-offs ¹	0	0	(1)	(1)	(1)	0
Foreign currency translation	0	(39)	(52)	(91)	(91)	99
Balance at the end of the year	0	362	450	812	812	787
Net book value at the end of the year	9,115	348	359	707	9,822	11,008

¹ Represents write-offs of fully amortized intangible assets.

Note 16 Goodwill and intangible assets (continued)

The following table presents the disclosure of goodwill and intangible assets by business unit for the year ended 31 December 2010.

<i>CHF million</i>	Balance at the beginning of the year	Additions and reallocations	Disposals	Amortization	Impairment	Foreign currency translation	Balance at the end of the year
Goodwill							
Wealth Management	1,510	20				(178)	1,351
Wealth Management Americas	3,655					(352)	3,303
Global Asset Management	1,610					(161)	1,448
Investment Bank	3,341		(3)			(325)	3,013
UBS	10,115	20	(3)			(1,016)	9,115
Intangible assets							
Wealth Management	137			(8)	(12)	(18)	100
Wealth Management Americas	526			(55)		(46)	425
Global Asset Management	49	3		(8)		(5)	40
Investment Bank	182	10		(34)		(15)	143
UBS	893	14		(105)	(12)	(83)	707

The estimated, aggregated amortization expenses for intangible assets are as follows:

<i>CHF million</i>	Intangible assets
Estimated, aggregated amortization expenses for:	
2011	93
2012	88
2013	81
2014	74
2015	73
2016 and thereafter	298
Total	707

Note 17 Other assets

<i>CHF million</i>	31.12.10	31.12.09
Settlement and clearing accounts	708	915
VAT and other tax receivables	275	209
Prepaid pension costs	3,174	3,053
Properties held for sale	302	568
Prime brokerage receivables	16,395	16,347
Other receivables	1,827	2,590
Total other assets	22,681	23,682

Balance sheet notes: liabilities

Note 18 Due to banks and customers

CHF million	31.12.10	31.12.09
Due to banks	41,490	31,922
Due to customers in savings and investment accounts	104,607	101,573
Other amounts due to customers	227,694	237,691
Total due to customers	332,301	339,263
Total due to banks and customers	373,791	371,185

Note 19 Financial liabilities designated at fair value and debt issued

Financial liabilities designated at fair value

CHF million	31.12.10	31.12.09
Bonds and compound debt instruments issued		
Equity linked	46,894	54,856
Credit linked	19,761	25,663
Rates linked	20,439	16,367
Other	949	2,286
Total	88,043	99,173
Compound debt instruments – OTC	12,475	13,306
Repurchase agreements	93	0
Loan commitments ¹	145	174
Total	100,756	112,653

¹ Loan commitments recognized as Financial liabilities designated at fair value, until drawn down and recognized as loans. See Note 1a) 8) for additional information.

As of 31 December 2010, the contractual redemption amount at maturity of *Financial liabilities designated at fair value* through profit or loss was CHF 11.1 billion higher than the carrying value. As of 31 December 2009, the contractual redemption amount at maturity of such liabilities was CHF 7.6 billion higher than the carrying value. Refer to Note 1a) 8) for details.

Debt issued (held at amortized cost)

CHF million	31.12.10	31.12.09
Money market papers	56,039	51,579
Debt:		
Senior bonds	54,627	57,653
Subordinated bonds	8,547	11,244
Bonds issued by the central bond institutions of the Swiss regional or cantonal banks	8,455	7,909
Medium-term notes	2,605	2,967
Total	130,271	131,352

Note 19 Financial liabilities designated at fair value and debt issued (continued)

The Group uses interest rate and foreign exchange derivatives to manage the risks inherent in certain debt issues (held at amortized cost). In certain cases, the Group applies hedge accounting for interest rate risk as discussed in Note 1a) 15) and "Note 23 Derivative Instruments and Hedge Accounting". As a result of applying hedge accounting, as of 31 December 2010 and 31 December 2009, the carrying value of debt issued was CHF 913 million higher and CHF 600 million higher, respectively, reflecting changes in fair value due to interest rate movements.

The Group issues both CHF and non-CHF denominated fixed-rate and floating-rate debt.

Subordinated debt securities are unsecured obligations of the Group that are subordinated in right of payment to all present and future senior indebtedness and certain other obligations of the Group. As of 31 December 2010 and 31 December 2009, the

Group had CHF 8,547 million and CHF 11,244 million, respectively, in subordinated debt. Subordinated debt usually pays fixed interest annually or floating-rate interest based on three-month or six-month London Interbank Offered Rate (LIBOR) and provides for single principal payments upon maturity.

As of 31 December 2010 and 31 December 2009, the Group had CHF 153,730 million and CHF 167,702 million, respectively, in unsubordinated debt (excluding money market paper, compound debt instruments – OTC and loan commitments designated at fair value).

The following table shows the split between fixed-rate and floating-rate debt issues based on the contractual terms. However, it should be noted that the Group uses interest rate swaps to hedge many of the fixed-rate debt issues, which changes their re-pricing characteristics into those of floating-rate debt.

Contractual maturity dates

<i>CHF million, except where indicated</i>	2011	2012	2013	2014	2015	2016–2020	Thereafter	Total 31.12.10	Total 31.12.09
UBS AG (Parent Bank)									
Senior debt									
Fixed rate	66,270	9,108	18,435	8,010	9,061	18,044	9,839	138,767	130,356
Interest rates (range in %) ¹	0-10.0	0-10.0	0-10.0	0-10.0	0-8.4	0-9.5	0-8.0		
Floating rate	14,378	11,349	6,507	5,045	6,436	5,811	9,847	59,372	68,375
Subordinated debt									
Fixed rate	0	0	0	397	1,049	3,914	1,052	6,412	7,167
Interest rates (range in %)				3.34	2.38-7.38	3-7.38	6.38-8.75		
Floating rate	0	0	0	0	0	1,703	431	2,134	4,077
Subtotal	80,648	20,457	24,942	13,452	16,546	29,471	21,170	206,685	209,975
Subsidiaries									
Senior debt									
Fixed rate	8,742	266	315	155	39	869	4,009	14,396	19,494
Interest rates (range in %) ¹	0-8.38	0-9.62	0-2.82	0-7.63	0-7.4	0-8.25	0-10.0		
Floating rate	816	1,058	881	818	1,423	1,587	3,363	9,947	14,537
Subtotal	9,558	1,324	1,197	973	1,462	2,456	7,372	24,342	34,030
Total	90,206	21,781	26,139	14,424	18,008	31,928	28,542	231,027	244,005

¹ The contractual interest rates on some minor positions of structured products were not considered in the interest rate ranges. The interest rates of these products are up to 35.76%.

The table above indicates fixed interest rate coupons on the Group's bonds. The high or low coupons generally relate to structured debt issues prior to the separation of embedded derivatives. As a result, the stated interest rate on such debt issues generally

does not reflect the effective interest rate the Group is paying to service its debt after the embedded derivative has been separated and, where applicable, the application of hedge accounting.

Note 20 Other liabilities

<i>CHF million</i>	Note	31.12.10	31.12.09
Provisions	21	1,574	2,311
Provisions for contingent claims	9b	130	90
Current tax liabilities		750	1,082
Deferred tax liabilities	22	97	142
VAT and other tax payables		579	612
Settlement and clearing accounts		961	1,430
Amounts due under unit-linked investment contracts		18,125	21,740
Prime brokerage payables		36,383	38,359
Other payables ¹		5,121	6,579
Total other liabilities		63,719	72,344

¹ Includes third-party interest of consolidated limited partnerships of CHF 0.9 billion (2009: CHF 1.6 billion) and liabilities from cash-settled employee compensation plans of CHF 2.2 billion (2009: CHF 2.5 billion).

Note 21 Provisions and contingent liabilities

a) Provisions

<i>CHF million</i>	Operational risks ¹	Litigation ²	Restructuring	Other ³	Total 31.12.10	Total 31.12.09
Balance at the beginning of the year	82	1,028	488	713	2,311	2,727
Increase in provisions recognized in the income statement	86	721	144	106	1,056	1,346
Release of provisions recognized in the income statement	(22)	(88)	(93)	(58)	(260)	(309)
Provisions used in conformity with designated purpose	(79)	(960) ⁴	(199)	(103)	(1,341)	(1,375)
Capitalized reinstatement costs	0	0	0	(24)	(24)	3
Disposal of subsidiaries	0	0	0	0	0	(35)
Reclassifications	0	(20)	1	23	4	90
Foreign currency translation	(11)	(63)	(60)	(39)	(173)	(135)
Balance at the end of the year	56	618	281	619	1,574	2,311

¹ Includes provisions for litigation resulting from security risks and transaction processing risks. ² Includes litigation resulting from legal, liability and compliance risks. Additionally, includes a provision established in connection with demands for repurchase of US mortgage loans sold or securitized by UBS, as described in section "c) Other contingent liabilities" of this note. ³ Includes reinstatement costs for leasehold improvement which amounted to CHF 122 million on 31 December 2010 (CHF 161 million on 31 December 2009), provisions for onerous lease contracts, provisions for employee benefits (service anniversaries and sabbatical leave) and other items. ⁴ Includes an amount of CHF 651 million relating to the settlement of the US cross-border case. The respective provision was recognized in 2008.

Note 21 Provisions and contingent liabilities (continued)**b) Litigation and regulatory matters**

The UBS Group operates in a legal and regulatory environment that exposes it to significant litigation risks. As a result, UBS (which for purposes of this Note may refer to UBS AG and / or one or more of its subsidiaries, as applicable) is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations. Such cases are subject to many uncertainties, and their outcome is often difficult to predict, including the impact on operations or on the financial statements, particularly in the earlier stages of a case. In certain circumstances, to avoid the expense and distraction of legal proceedings, UBS may, based on a cost-benefit analysis, enter into a settlement even though UBS denies any wrongdoing. The Group makes provisions for cases brought against it when, in the opinion of management after seeking legal advice, it is probable that a liability exists, and the amount can be reliably estimated.

Certain potentially significant legal proceedings or threatened proceedings as of 31 December 2010 are described below. In some cases we provide the amount of damages claimed, the size of a transaction or other information in order to assist investors in considering the magnitude of any potential exposure. We are unable to provide an estimate of the possible financial effect of particular claims or proceedings (where the possibility of an outflow is more than remote) beyond the level of current reserves established. Doing so can be expected to prejudice seriously our position in these matters and would require us to provide speculative legal assessments as to claims and proceedings which involve unique fact patterns or novel legal theories, have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimant. In many cases a combination of these factors impedes our ability to estimate the financial effect of contingent liabilities.

1) Municipal Bonds

In November 2006, UBS and others received subpoenas from the Antitrust Division of the US Department of Justice (DOJ) and the US Securities and Exchange Commission (SEC) seeking information relating to the investment of proceeds of municipal bond issuances and associated derivative transactions. In addition, various state Attorneys General have issued subpoenas seeking similar information. The investigations are ongoing, and UBS is cooperating. Several putative class actions also have been filed in Federal District Courts against UBS and numerous other firms. In the SEC investigation, on 4 February 2008, UBS received a "Wells notice" advising that the SEC staff is considering recommending that the SEC bring a civil action against UBS in connection with the bidding of various financial instruments associated with municipal securities. In December 2010, three former UBS employees were indicted in connection with the Federal criminal antitrust

investigation. Discussions with the SEC, DOJ and a number of state Attorneys General are ongoing.

2) Auction Rate Securities

UBS was the subject of an SEC investigation and state regulatory actions relating to the marketing and sale of auction rate securities (ARS) to clients, and to UBS's role and participation in ARS auctions and underwriting of ARS. UBS was also named in several putative class actions and individual civil suits and arbitrations. The regulatory actions and investigations and the civil proceedings followed the disruption in the markets for these securities and related auction failures since mid-February 2008. At the end of 2008 UBS entered into settlements with the SEC, the New York Attorney General (NYAG) and the Massachusetts Securities Division whereby UBS agreed to offer to buy back ARS from eligible customers within certain time periods, the last of which began on 30 June 2010, and to pay penalties of USD 150 million (USD 75 million to the NYAG, USD 75 million to the other states). UBS's settlement is largely in line with similar industry regulatory settlements. UBS has settled with the majority of states and is continuing to finalize settlements with the rest. The fines being paid in these state settlements are being charged against the USD 150 million provision that was established in 2008. The SEC continues to investigate individuals affiliated with UBS regarding the trading in ARS and disclosures. During the third quarter of 2010, a claimant alleging consequential damages from the illiquidity of ARS was awarded approximately USD 80 million by an arbitration panel and UBS has booked a provision of CHF 78 million relating to the case. UBS moved in state court to vacate the award and oral argument was heard on that motion in December 2010. UBS is the subject of other pending arbitration and litigation claims by clients and issuers relating to ARS.

3) Inquiries Regarding Cross-Border Wealth Management Businesses

Following the disclosure and the settlement of the US cross-border matter, tax and regulatory authorities in a number of countries have made inquiries and served requests for information located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. UBS is cooperating with these requests within the limits of financial privacy obligations under Swiss and other applicable laws.

4) Matters Related to the Credit Crisis

UBS is responding to a number of governmental inquiries and investigations and is involved in a number of litigations, arbitrations and disputes related to the credit crisis and in particular

Note 21 Provisions and contingent liabilities (continued)

mortgage-related securities and other structured transactions and derivatives. In particular, the SEC is investigating UBS's valuation of super senior tranches of collateralized debt obligations (CDOs) during the third quarter of 2007 and UBS's reclassification of financial assets pursuant to amendments to IAS 39 during the fourth quarter of 2008. UBS has provided documents and testimony to the SEC and is continuing to cooperate with the SEC in its investigation. UBS has also communicated with and has responded to other inquiries by various governmental and regulatory authorities, including the Swiss Financial Market Supervisory Authority (FINMA), the UK Financial Services Authority (FSA), the SEC, the US Financial Industry Regulatory Authority (FINRA), the Financial Crisis Inquiry Commission (FCIC), the New York Attorney General, and the US Department of Justice, concerning various matters related to the credit crisis. These matters concern, among other things, UBS's (i) disclosures and write-downs, (ii) interactions with rating agencies, (iii) risk control, valuation, structuring and marketing of mortgage-related instruments, and (iv) role as underwriter in securities offerings for other issuers.

5) Lehman Principal Protection Notes

From March 2007 through September 2008, UBS sold approximately USD 1 billion face amount of structured notes issued by Lehman Brothers Holdings Inc. ("Lehman"), a majority of which were referred to as "principal protection notes," reflecting the fact that while the notes' return was in some manner linked to market indices or other measures, some or all of the investor's principal was an unconditional obligation of Lehman as issuer of the notes. UBS has been named along with other defendants in a putative class action alleging materially misleading statements and omissions in the prospectuses relating to these notes and asserting claims under US securities laws. UBS has also been named in numerous individual civil suits and customer arbitrations (some of which have resulted in settlements or adverse judgments), was named in a proceeding brought by the New Hampshire Bureau of Securities, and is responding to investigations by other state regulators and FINRA relating to the sale of these notes to UBS customers. The customer litigations and regulatory investigations relate primarily to whether UBS adequately disclosed the risks of these notes to its customers.

6) Claims Related to Sales of RMBS and Mortgages

From 2002 through about 2007, UBS was a substantial underwriter and issuer of US residential mortgage-backed securities (RMBS). UBS has been named as a defendant relating to its role as underwriter and issuer of RMBS in more than 20 lawsuits relating to at least USD 39 billion in original face amount of RMBS underwritten or issued by UBS. Most of the lawsuits are in their early stages. Many have not advanced beyond the motion to dismiss phase; some are

in the early stages of discovery. Of the original face amount of RMBS at issue in these cases, approximately USD 4.5 billion was issued in offerings in which a UBS subsidiary transferred underlying loans (the majority of which were purchased from third party originators) into a securitization trust and made representations and warranties about those loans. The remaining USD 34.5 billion of RMBS to which these cases relate was issued in third-party securitizations where UBS acted as underwriter. In connection with most of the claims included in this latter category, UBS currently expects to be indemnified by the issuers against any loss or liability. These RMBS-related claims include cases in which UBS is named as a defendant in litigation by insurers of RMBS seeking recovery of insurance paid to RMBS investors. These insurers allege that UBS and other RMBS underwriters aided and abetted misrepresentations and fraud by RMBS issuers, and claim equitable and contractual subrogation rights. UBS has also been contacted by certain government-sponsored enterprises requesting that UBS repurchase USD 2 billion of securities issued in UBS-sponsored RMBS offerings.

As described below under "c) Other contingent liabilities", UBS also has contractual obligations to repurchase US residential mortgage loans as to which its representations made at the time of transfer prove to have been materially inaccurate. Contested loan repurchase demands relating to loans with an initial principal balance of USD 30 million are the subject of litigation.

7) Claims Related to UBS Disclosure

A putative consolidated class action has been filed in the United States District Court for the Southern District of New York against UBS, a number of current and former directors and senior officers and certain banks that underwrote UBS's May 2008 Rights Offering (including UBS Securities LLC) alleging violation of the US securities laws in connection with the firm's disclosures relating to its positions and losses in mortgage-related securities, its positions and losses in auction rate securities, and its US cross-border business. Defendants have moved to dismiss the complaint for failure to state a claim. UBS, a number of senior officers and employees and various UBS committees have also been sued in a putative consolidated class action for breach of fiduciary duties brought on behalf of current and former participants in two UBS Employee Retirement Income Security Act (ERISA) retirement plans in which there were purchases of UBS stock. Defendants have moved to dismiss the ERISA complaint for failure to state a claim.

8) Madoff

In relation to the Bernard L. Madoff Investment Securities LLC (BMIS) investment fraud, UBS AG, UBS (Luxembourg) SA and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including FINMA and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Lux-

Note 21 Provisions and contingent liabilities (continued)

embourg law, substantially all assets of which were with BMIS, as well as certain funds established under offshore jurisdictions with either direct or indirect exposure to BMIS. These funds now face severe losses, and the Luxembourg funds are in liquidation. The last reported net asset value of the two Luxembourg funds before revelation of the Madoff scheme was approximately USD 1.7 billion in the aggregate, although that figure likely includes fictitious profit reported by BMIS. The documentation establishing both funds identifies UBS entities in various roles including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members. Between February and May 2009 UBS (Luxembourg) SA responded to criticisms made by the CSSF in relation to its responsibilities as custodian bank and demonstrated to the satisfaction of the CSSF that it has the infrastructure and internal organization in place in accordance with professional standards applicable to custodian banks in Luxembourg. In December 2009 and March 2010 the liquidators of the two Luxembourg funds filed claims on behalf of the funds against UBS entities, non-UBS entities and certain individuals including current and former UBS employees. The amounts claimed are approximately EUR 890 million and EUR 305 million respectively. In addition, a large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff scheme. The majority of these cases are pending in Luxembourg, where appeals have been filed against the March 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In the US, the BMIS Trustee has filed claims against UBS entities, amongst others, in relation to the two Luxembourg funds and one of the offshore funds. A claim was filed in November 2010 against 23 defendants including UBS entities, the Luxembourg and offshore funds concerned and various individuals, including current and former UBS employees. The total amount claimed against all defendants is no less than USD 2 billion. A second claim was filed in December 2010 against 16 defendants including UBS entities and the Luxembourg fund concerned. The total amount claimed against all defendants is not less than USD 555 million. In Germany, certain clients of UBS are exposed to Madoff-managed positions through third-party funds and funds administered by UBS entities in Germany. A small number of claims have been filed with respect to such funds.

9) Transactions with City of Milan and Other Italian Public Sector Entities

In January 2009, the City of Milan filed civil proceedings against UBS Limited, UBS Italia SIM Spa and three other international banks in relation to a 2005 bond issue and associated derivatives transactions entered into with the City of Milan between 2005 and 2007. The claim is to recover alleged damages in an amount which will compensate for terms of the related derivatives which

the City claims to be objectionable. In the alternative, the City seeks to recover alleged hidden profits asserted to have been made by the banks in an amount of approximately EUR 88 million (of which UBS Limited is alleged to have received approximately EUR 16 million) together with further damages of not less than EUR 150 million. The claims are made against all of the banks on a joint and several basis. In addition, two current UBS employees and one former employee, together with employees from other banks, a former City officer and a former adviser to the City, are facing a criminal trial for alleged "aggravated fraud" in relation to the City's 2005 bond issue and the execution, and subsequent restructuring, of certain related derivative transactions. The primary allegation is that UBS Limited and the other international banks fraudulently obtained hidden and / or illegal profits by entering into the derivative contracts with the City of Milan. The banks also face an administrative charge of failing to have in place a business organizational model to avoid the alleged misconduct by employees, the sanctions for which could include a limitation on activities in Italy. The City has separately asserted claims for damages against UBS Limited and UBS individuals in relation to this alleged failure. A number of transactions with other public entity counterparties in Italy have also been called into question or become the subject of legal proceedings and claims for damages and other awards. These include derivative transactions with the Regions of Calabria, Tuscany, Lombardy and Lazio and the City of Florence. UBS has itself issued proceedings before English courts in connection with a number of derivative transactions with Italian public entities, including some of those mentioned above, aimed at obtaining declaratory judgments as to the legitimacy of UBS's behavior.

10) HSH Nordbank AG (HSH)

HSH has filed an action against UBS in New York State court relating to USD 500 million of notes acquired by HSH in a synthetic CDO transaction known as North Street Referenced Linked Notes, 2002-4 Limited (NS4). The notes were linked through a credit default swap between the NS4 issuer and UBS to a reference pool of corporate bonds and asset-backed securities. HSH alleges that UBS knowingly misrepresented the risk in the transaction, sold HSH notes with "embedded losses", and improperly profited at HSH's expense by misusing its right to substitute assets in the reference pool within specified parameters. HSH is seeking USD 500 million in compensatory damages plus pre-judgment interest. The case was initially filed in 2008. Following orders issued in 2008 and 2009, in which the court dismissed most of HSH's claims and its punitive damages demand and later partially denied a motion to dismiss certain repleaded claims, the claims remaining in the case are for fraud, breach of contract and breach of the implied covenant of good faith and fair dealing. Both sides have appealed the court's most recent partial dismissal order, and a decision on the appeal is pending.

Note 21 Provisions and contingent liabilities (continued)

11) Kommunale Wasserwerke Leipzig GmbH (KWL)

In 2006 and 2007, KWL entered into a series of managed Credit Default Swap transactions with bank swap counterparties, including UBS. Under the CDS contracts between KWL and UBS, the last of which were terminated by UBS on 18 October 2010, a net sum of approximately USD 138 million has fallen due from KWL but not been paid. In January 2010, UBS issued proceedings in the English High Court against KWL seeking various declarations from the English court, in order to establish that the swap transaction between KWL and UBS is valid, binding and enforceable as against KWL. On 15 October 2010, the English court dismissed an application by KWL contesting its jurisdiction, and ruled that it has jurisdiction and will hear the proceedings. On 18 October 2010, UBS issued a further claim against KWL in the English court seeking declarations concerning the validity of UBS's early termination on that date of the remaining CDS with KWL. On 11 November 2010, the English Supreme Court ruled in a case concerning similar jurisdictional issues, but not involving UBS, that certain questions should be referred to the European Court of Justice. Thereafter, KWL was granted permission to appeal certain jurisdictional aspects of its claim, and the court ordered a temporary stay of the proceedings related to UBS's claim for a declaration as to validity. In March 2010, KWL issued proceedings in Leipzig, Germany, against UBS and other banks involved in these contracts, 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. UBS is contesting the claims and has also contested the jurisdiction of the Leipzig court. The Leipzig court indicated in August 2010 that it did not have jurisdiction over KWL's claim. Subsequently, KWL made a further submission in October 2010 making additional allegations including fraudulent collusion by UBS employees. On 15 February 2011, the Leipzig court proposed that the proceedings in Leipzig be stayed against UBS and the other banks pending the outcome of the appeal on the jurisdiction aspects in England.

The other two banks that entered into CDS transactions with KWL entered into back-to-back CDS transactions with UBS. In

April 2010, UBS issued separate proceedings in the English High Court against those bank swap counterparties seeking declarations as to the parties' obligations under those transactions. The aggregate amount that UBS contends is outstanding under those transactions is approximately USD 189 million. These English proceedings are also currently stayed.

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

12) Puerto Rico

The SEC has been investigating UBS's secondary market trading and associated disclosures involving shares of closed-end funds managed by UBS Asset Managers of Puerto Rico, principally in 2008 and 2009. In November 2010, the SEC issued a "Wells notice" to two UBS subsidiaries, advising them that the SEC staff is considering whether to recommend that the SEC bring a civil action against them relating to these matters. We believe that the negative financial results, if any, to shareholders of the funds who traded their shares through UBS during the relevant periods were less than USD 5 million in the aggregate. There is, however, no assurance that the SEC's staff will agree with UBS's analysis.

13) LIBOR

UBS has received subpoenas from the SEC, the US Commodity Futures Trading Commission and the US Department of Justice in connection with investigations regarding submissions to the British Bankers' Association, which sets LIBOR rates. UBS understands that the investigations focus on whether there were improper attempts by UBS, either acting on its own or together with others, to manipulate LIBOR rates at certain times. In addition, UBS has received an order to provide information to the Japan Financial Supervisory Agency concerning similar matters. UBS is conducting an internal review and is cooperating with the investigations.

c) Other contingent liabilities

Demands Related to Sales of Mortgages and RMBS

For several years prior to the crisis in the US residential mortgage loan market, UBS sponsored securitizations of US residential mortgage-backed securities (RMBS) and was a purchaser and seller of US residential mortgages. A subsidiary of UBS, UBS Real Estate Securities Inc. ("UBS RESI"), acquired pools of residential mortgage loans from originators and (through an affiliate) deposited them into securitization trusts. In this manner, from 2004 through 2007 UBS RESI sponsored approximately USD 80 billion in RMBS, based on the original principal balances of the securities

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

UBS RESI also sold pools of loans acquired from originators to third-party purchasers. These whole loan sales during the period 2004 through 2007 totaled approximately USD 19 billion in original principal balance.

UBS was not a significant originator of US residential loans. A subsidiary of UBS originated approximately USD 1.5 billion in US residential mortgage loans during the period in which it was active from 2006 to 2008, and securitized less than half of these loans.

Note 21 Provisions and contingent liabilities (continued)

When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in most cases contractually obligated to repurchase the loans to which they related or to indemnify certain parties against losses. UBS has been notified by certain institutional purchasers and insurers of mortgage loans and RMBS that possible breaches of representations may entitle the purchasers to require that UBS repurchase the loans or to other relief. UBS has received relatively few repurchase demands and has repurchased only a small fraction of the underlying loans.

In the period from 2006 through 2009, UBS received demands to repurchase loans having an original principal balance of approximately USD 356 million in the aggregate. Of that principal balance of USD 356 million, UBS has repurchased or agreed to repurchase loans accounting for about 5%. Repurchase demands accounting for about 45% were rescinded after rebuttal by UBS. Demands accounting for a further 41% either were rebutted by UBS but not rescinded (and are the subject of ongoing discussions) or were not pursued by the party making the demand. Repurchase demands accounting for about 9% are the subject of ongoing litigation.

In 2010, UBS received demands to repurchase additional loans having an original principal balance of approximately USD 350 million. Of that principal balance of USD 350 million, UBS has agreed to repurchase loans accounting for about 12%, repurchase demands accounting for about 67% have been rebutted by UBS but not rescinded, UBS continues to review repurchase demands accounting for about 15%, and demands accounting for about 6% are being resolved between the repurchase requestor and the originators of the loans. UBS expects that the majority of the underlying loans subject to these 2010 repurchase demands will ultimately not be required to be repurchased. Since 1 January 2011 UBS has received demands to repurchase additional loans having an original principal balance of approximately USD 5 million. Those loans are under review.

UBS established by the end of the fourth quarter 2010 a USD 97 million provision based on its best estimate of the loss arising from loan repurchase demands received from 2006 through 2010 to which UBS has agreed, or which UBS has rebutted but which are unresolved, and for certain anticipated loan repurchase demands of which UBS has been informed. It is not yet clear when or to what extent this provision will be utilized in connection with

actual repurchases or indemnity payments, because both the submission of anticipated demands and the timing of resolution of such demands are uncertain. We nevertheless expect that most of the repurchases and payments related to the demands received in 2010, excluding any that become the subject of litigation, will occur in 2011.

UBS has made indemnity payments in amounts equivalent to 62% of the original principal balance of already-liquidated loans that were the subject of 2010 demands to which UBS agreed. With respect to unliquidated loans that UBS agreed to repurchase in response to demands made in 2010, UBS does not yet have sufficient information to estimate the charge it will recognize upon repurchase. Losses upon repurchase will reflect the estimated value of the loans in question at the time of repurchase as well as, in some cases, partial repayment by the borrowers prior to repurchase. It is not possible to predict future indemnity rates or percentage losses upon repurchase for reasons including timing and market uncertainties as well as possible differences in the characteristics of loans that may be the subject of future demands compared to those that have been the subject of past demands.

In most instances in which UBS would be required to repurchase loans or indemnify against losses due to misrepresentations, UBS would be able to assert demands against third-party loan originators who provided representations when selling the related loans to UBS. However, many of these third parties are insolvent or no longer exist. UBS estimates that, of the total original principal balance of loans sold or securitized by UBS from 2004 through 2007, less than 50% was purchased from third-party originators that remain solvent. In respect of loans that UBS has agreed to repurchase pursuant to demands received in 2010, UBS has in turn asserted indemnity or repurchase demands against third parties for loans with an aggregate original principal balance of USD 29 million. Only a small number of UBS's demands have been resolved, and UBS has not recognized any asset in respect of the unresolved demands.

We cannot reliably estimate the level of future repurchase demands, and do not know whether UBS's past success rate in rebutting such demands will be a good predictor of future success. We also cannot reliably estimate the timing of any such demands.

As described above under "b) Litigation and regulatory matters", UBS is also subject to claims and threatened claims in connection with its role as underwriter and issuer of RMBS, and certain loan repurchase demands are also the subject of litigation.

Note 22 Income taxes

CHF million	For the year ended		
	31.12.10	31.12.09	31.12.08
Tax expense from continuing operations			
Domestic			
Current	(75)	55	(336)
Deferred	668	23	(7,282)
Foreign			
Current	300	462	519
Deferred	(1,273)	(983)	262
Total income tax expense/(benefit) from continuing operations	(381)	(443)	(6,837)
Tax expense from discontinued operations			
Domestic	0	0	1
Total income tax expense from discontinued operations	0	0	1
Total income tax expense/(benefit)	(381)	(443)	(6,836)

The deferred tax benefit reflects the recognition of additional deferred tax assets in respect of tax losses and temporary differences in a number of foreign locations including the US (CHF 1,161 million) and Japan (CHF 98 million), taking into account updated forecast taxable profit assumptions over the five-year horizon used for recognition purposes. This was partly offset by a Swiss net deferred tax expense as Swiss tax losses for which deferred tax assets have previously been recognized were used against profits for the year (tax expense of CHF 1,409 million), which was itself partly offset by an upwards revaluation of Swiss deferred tax assets taking into account revised forecast profit assumptions (tax benefit of CHF 741 million).

The current tax expense relates to tax expenses in respect of taxable profits in the Group partly offset by tax benefits of CHF 261 million arising from the agreement of prior year positions with tax authorities in various locations. In addition, there is a deferred tax expense of CHF 3 million relating to prior years. The net tax benefits relating to prior years were therefore CHF 258 million.

The Group made net corporate income tax payments, including domestic and foreign taxes, of CHF 498 million, CHF 505 million and CHF 887 million in 2010, 2009 and 2008 respectively.

The components of operating profit before tax, and the differences between income tax expense reflected in the financial statements and the amounts calculated at the Swiss statutory rate, are as follows:

CHF million	For the year ended		
	31.12.10	31.12.09	31.12.08
Operating profit from continuing operations before tax	7,455	(2,561)	(27,758)
Domestic	5,999	4,871	3,269
Foreign	1,456	(7,433)	(31,027)
Income taxes at Swiss statutory rate of 21.5% for 2010 and 2009, 22% for 2008	1,603	(551)	(6,107)
Increase/(decrease) resulting from:			
Applicable tax rates differing from Swiss statutory rate	(49)	(1,636)	(7,056)
Tax effects of losses not recognized	275	1,188	7,412
Previously unrecorded tax losses now utilized	(1,225)	(79)	(10)
Non-taxable and lower taxed income	(889)	(932)	(773)
Non-deductible expenses and additional taxable income	1,985	1,012	897
Adjustments related to prior years	(258)	(65)	(490)
Change in deferred tax valuation allowances	(1,820)	552	(692)
Other items	(3)	69	(17)
Income tax expense/(benefit) from continuing operations	(381)	(443)	(6,837)

Note 22 Income taxes (continued)

Significant components of the Group's deferred income tax assets and liabilities are as follows:

CHF million	31.12.10			31.12.09		
	Gross	Valuation allowance	Recognized	Gross	Valuation allowance	Recognized
Deferred tax assets						
Compensation and benefits ¹	1,993	(1,791)	201	2,204	(1,983)	221
Tax loss carry-forwards ¹	28,474	(19,546)	8,929	31,945	(23,699)	8,246
Trading assets ¹	1,164	(999)	165	923	(765)	158
Other	2,002	(1,776)	226	2,458	(2,215)	243
Total deferred tax assets	33,634	(24,112)	9,522	37,529	(28,661)	8,868
Deferred tax liabilities						
Compensation and benefits			0			5
Property and equipment			0			1
Financial investments and associates			25			60
Trading assets			1			0
Goodwill and intangible assets			40			61
Other			31			15
Total deferred tax liabilities			97			142

¹ As compared to the figures stated in the tax note to the 2009 consolidated financial statements, the gross deferred tax assets and valuation allowance in the comparatives for 31 December 2009 have each been increased by a net amount of CHF 224 million, resulting in no change in the deferred tax assets recognized. The net increase is made up of i) an increase for compensation and benefits of CHF 422 million, ii) an increase for trading assets of CHF 362 million and iii) a decrease for tax loss carry-forwards of CHF 560 million.

Certain deferred tax asset and liability movements are recognized directly in the statement of changes in equity and in the statement of comprehensive income, including the effects of exchange rate changes on tax assets and liabilities denominated in currencies other than Swiss francs. In particular, in 2010, deferred tax assets of CHF 318 million were recognized directly in *Equity* for the increased recognition of those Swiss tax losses incurred in previous years that are of an equity nature for IFRS accounting purposes (2009: CHF 203 million).

In the table above, the valuation allowance represents amounts that are not expected to provide future benefits due to insufficiency of future taxable income.

UBS AG Switzerland and certain overseas branches and subsidiaries of the Group have deferred tax assets related to tax loss carry-forwards and other items as shown in the table above. For entities that incurred tax losses in either the current or preceding year, an amount of CHF 9,147 million is recognized as deferred tax assets as of 31 December 2010 (CHF 8,773 million as of 31 December 2009). These deferred tax assets mainly relate to Swiss tax losses (primarily due to the write-down of investments in US subsidiaries in 2007 and 2008) and US tax losses.

The deferred tax assets recognized as of 31 December 2010 in respect of tax losses have been based on profitability assumptions over the five-year horizon. The expected future profitability is based on business plan assumptions, as adjusted to take into account the recognition criteria of IAS 12. If the business plan earnings and assumptions in future periods substantially deviate from the current assumptions, the amount of deferred tax assets may need to be adjusted in the future.

As of 31 December 2010, tax losses totaling CHF 51,355 million which are not recognized as deferred tax assets are available to be offset against future taxable income. As of 31 December 2009, there were tax losses of CHF 72,313 million, which were not recognized as deferred tax assets and were available to be offset against future taxable income and potential tax adjustments. The tax losses not recognized reduced during 2010 because of their utilization against profits for the year, the increased recognition of deferred tax assets for losses brought forward, foreign exchange rate effects on the Swiss franc value of overseas losses and a change as of 31 December 2010 as compared to the prior year in terms of presenting the unrecognized tax losses net of any potential tax adjustments.

The tax losses not recognized as deferred tax assets as of 31 December 2010 expire as follows:

CHF million	31.12.10
Within 1 year	0
From 2 to 5 years	3,184
From 6 to 10 years	54
From 11 to 20 years	36,943
No expiry	11,174
Total	51,355

Note 22 Income taxes (continued)

In general, Swiss tax losses can be carried forward for seven years, US federal tax losses for 20 years and UK and Jersey tax losses for an unlimited period.

The Group provides for deferred income taxes on undistributed earnings of subsidiaries except to the extent that those earnings are indefinitely invested. As of 31 December 2010, no such earnings were treated as indefinitely invested.

For the reasons set out in Note 33, as compared to UBS's fourth quarter 2010 report issued on 8 February 2011, the tax benefit for the year in the income statement is CHF 320 million higher, the deferred tax benefit recognized in equity is CHF 315 million lower and deferred tax assets recognized at 31 December 2010 are CHF 5 million higher.

Note 23 Derivative instruments and hedge accounting

Derivatives: overview

A derivative is a financial instrument, the value of which is derived from the value of some other variable ("underlying"). These underlyings may be indices, exchange or interest rates, or the value of shares, commodities, bonds, or other financial instruments. The majority of derivative contracts are negotiated with respect to notional amounts, as well as tenor, price and settlement mechanisms, as is customary with other financial instruments.

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

Over-the-counter (OTC) contracts are usually traded under an International Swaps and Derivatives Association (ISDA) master trading agreement (MTA) between UBS and its counterparties. Such contracts are negotiated directly with counterparties, at terms agreed between those parties, and will have industry-standard settlement mechanisms prescribed by ISDA. Other derivative contracts are standardized in terms of their amounts and settlement dates, and are bought and sold on organized exchanges; the latter are referred to as exchange-traded derivatives (ETD) contracts. Exchanges offer the benefits of pricing transparency, daily settlement of changes in value at the exchange, and consequently reduced credit risk. In 2010, industry norms have resulted in increased use of exchanges in favor of OTC trading and settlement mechanisms, a trend which is expected to continue.

Derivative instruments which are transacted in the OTC market are carried at fair value on the face of the balance sheet and classified as *Positive replacement values* and *Negative replacement values*, both on the balance sheet, and in the notes to the accounts. Derivative instruments which trade at an exchange are classified as either Due from or Due to banks and customers. The treatment of exchange-traded derivatives in this manner is an indication the Group has a receivable from, or payable to, an exchange for the change in fair value from the previous day.

Products which 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.

Principles and techniques applied in the measurement of fair value derivative instruments are discussed in Note 27a). *Positive replacement values* represent the amount the Group would receive if the derivative contract were settled in full on the balance sheet date. *Negative replacement values* indicate the value at which the Group would extinguish its obligations in respect of the underlying contract, were it able and required to do so. It is not industry standard for derivative contracts to be settled or extinguished before their maturity, as stated in, and governed by, ISDA or the applicable exchange.

All contracts at an exchange are settled net, with the net receivable or payable, as reported by the applicable exchange, recorded on the balance sheet. The Group may avail itself of netting provisions for OTC contracts, which do not settle via exchange, if all necessary conditions exist. Those conditions are: contracts with the same legal counterparty; legally enforceable rights to set off amounts due; common maturity dates; and an intention to settle net, which is evidenced by current practice. Changes in the replacement values of derivatives transacted in trading businesses are recorded in net trading income, unless the derivatives are designated and effective as hedging instruments in certain types of hedge accounting relationships as described in "Note 1a) 15) Derivative instruments and hedge accounting".

Types of derivative instruments

The Group uses the following derivative financial instruments for both trading and hedging purposes. Through the use of the products listed below the Group is engaged in extensive high volume market making and client facilitation trading referred to as the flow business. Measurement techniques applied to determine the fair value of each product type are described in Note 27c).

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

- *Options and warrants*: options and warrants are contractual agreements under which, typically, the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified

Note 23 Derivative instruments and hedge accounting (continued)

quantity of a financial instrument or commodity at a predetermined price. The purchaser pays a premium to the seller for this right. Options involving more complex payment structures are also transacted. Options may be traded in the OTC market or on a regulated exchange and may be traded in the form of a security (warrant).

- **Swaps:** Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.
- **Forwards and futures:** Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardized contracts transacted on regulated exchanges.
- **Cross-currency:** Cross-currency swaps involve the exchange of interest payments based on two different currency principal balances and reference interest rates and generally also entail exchange of principal amounts at the start and / or end of the contract. Most cross-currency swaps are traded in the OTC market.
The main underlying products used by the Group are:
 - **Interest rate contracts:** Interest rate products include interest rate swaps, swaptions and caps and floors.
 - **Credit derivatives:** Credit default swaps (CDSs) are the most common form of a credit derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following a credit event (as defined in the contract) with respect to a third-party credit entity (as defined in the contract). Settlement following a credit event may be a net cash amount or cash in return for physical delivery of one or more obligations of the credit entity and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is terminated. An elaboration of credit derivatives is included in a separate section below.
 - **Total return swaps (TRSs):** TRSs are employed in both the Investment Bank's fixed income and equity trading businesses with underlyings which are generally equity or fixed income indices, loans or bonds. TRSs are structured with one party making payments based on a set rate, either fixed or variable, and the other party making payments based on the return of an underlying asset, which includes both the profit or loss it generates and any changes in its value.
 - **Foreign exchange contracts:** Foreign exchange contracts will include spot, forward and cross-currency swaps and options and warrants. Forward purchase and sale currency contracts are typically executed to meet customer needs and for trading and hedging purposes.
 - **Equity / Index contracts:** The Group uses equity derivatives linked to single names, indices and baskets of single names

and indices. The indices used may be based on a standard market index, or may be defined by UBS. The product types traded include vanilla listed derivatives, both options and futures, total return swaps, forwards and exotic OTC contracts.

- **Commodities contracts:** The Group has an established commodity derivatives trading business, which includes the commodity index and the recently added flow business. The index business is a client facilitation business trading exchange traded funds, OTC swaps and options on commodity indices. The underlying indices cover third party and UBS defined indices such as the UBS Bloomberg Constant Maturity Commodity Index and the Dow Jones UBS Commodity indices. The flow business is investor led and incorporates both ETD and vanilla OTC products, for which the underlying covers the agriculture, base metals and energy sectors. All of the flow trading is cash settled with no physical delivery of the underlying.
- **Precious metals:** The Group has a well established precious metals ability in both flow and non-vanilla OTC products incorporating both physical and non-physical trading. The flow business is investor led and products include ETD, vanilla OTCs and certain non-vanilla OTCs. The vanilla OTCs are in forwards, swaps and options. The non-vanilla OTC business relates to cash settled forwards similar in nature to non deliverable forwards, meaning there is no physical delivery of the underlying.

Usage of derivative instruments at UBS

Derivatives transacted for trading purposes

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market making, positioning and arbitrage activities. Market making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning means managing market risk positions with the expectation of profiting from favorable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between the same product in different markets or the same economic factor in different products.

Detailed example: Credit derivatives

UBS is an active dealer in the fixed income market, including CDSs and related products, with respect to a large number of issuer's securities. The primary purpose of these activities is for the benefit of UBS's clients (market making) and to a lesser extent creating new credit exposures taken for UBS's own trading purposes (proprietary trading).

Market making activity consists of buying and selling single-name CDSs, index CDSs, loan CDSs and related referenced cash instruments to facilitate client trading activity. Proprietary trading

Note 23 Derivative instruments and hedge accounting (continued)

consists of trading in single-name CDSs, index CDSs and loan CDSs to capitalize on pricing discrepancies between various credit instruments (bonds, loans and equities) across investment grade, high-yield and emerging markets.

UBS actively utilizes CDSs to economically hedge specific counterparty credit risks in its accrual loan portfolio and off balance sheet loan portfolio (including loan commitments) with the aim of reducing concentrations in individual names, sectors or specific portfolios. In addition, UBS actively utilizes CDSs to economically hedge specific counterparty credit risks in its OTC derivative portfolios including financial instruments which are designated at fair value through profit or loss.

In 2009, UBS's strategy with respect to CDS trading was the reduction in scope and scale of the firm's structured credit risk transfer products, proprietary credit trading, and synthetic assets securitizations activities, a continuation of strategic decisions made in 2008. In 2010, market innovation and client demand for exposure to related products resulted in an expansion of structured activities and continuation of the Bank's CDS flow trading. These activities include market making on behalf of clients in index, multi-name index, swap index option, and first-to-default CDS products. Where applicable, these products may form part of structured arrangements with clients seeking exposure to specific risks.

The value of protection bought and sold is not in isolation a measure of UBS's credit risk. Counterparty relationships are viewed in terms of the total outstanding credit risk, which relates to other instruments in addition to CDSs, and in connection with collateral arrangements in place.

As of 31 December 2010, the total notional value of protection bought was CHF 1,195 billion (CHF 39 billion and CHF 17 billion *Positive replacement values* and *Negative replacement values*, respectively) and the total notional value of protection sold was CHF 1,118 billion (CHF 17 billion and CHF 34 billion *Positive replacement values* and *Negative replacement values*, respectively).

UBS's credit derivatives are usually traded as OTC contracts. During 2009 a number of initiatives were launched in both the US and Europe to establish centralized clearing solutions for OTC CDS contracts (exchange cleared derivatives), with the aim of reducing counterparty risk. UBS, along with other dealer members, continued to participate in these initiatives throughout 2010.

A significant portion of UBS's credit derivatives are traded under an ISDA MTA between UBS and its counterparty. UBS's CDS trades are also documented using industry standard forms of documentation published by ISDA or equivalent terms documented in a bespoke (i.e. tailored) agreement. Those forms and agreements use standardized terms that form the basis for market conventions related to the types of credit events that would trigger performance (i.e. payment) under a CDS.

The types of credit events that would require UBS to perform under a CDS contract are subject to agreement between the parties at the time of the transaction. However, nearly all transactions are traded using credit events that are applicable under certain

market conventions based on the type of reference entity to which the transaction relates. Applicable credit events by market conventions include "bankruptcy", "failure to pay", "restructuring", "obligation acceleration" and "repudiation / moratorium".

Credit Derivatives: Recourse provisions

UBS uses standardized agreements and forms as the basis for its credit derivative contracts. Those agreements and forms do not contain recourse provisions that would enable UBS to recover from third parties any amounts paid out by UBS (i.e. this is the case where a credit event occurs and UBS is required to make payment under a CDS).

Contingent features of derivative liabilities

Based on UBS's credit ratings as of 31 December 2010, additional collateral or termination payments pursuant to bilateral agreements with certain counterparties of approximately CHF 0.7 billion and CHF 1.9 billion would have been required in the event of a one-notch and two-notch reduction, respectively, in UBS's long-term credit ratings. In evaluating UBS's liquidity requirements, UBS considers additional collateral or termination payments that would be required in the event of a reduction in UBS's long-term credit ratings.

Derivatives used for structural hedging

The Group enters into derivative transactions for the purposes of hedging assets, liabilities, forecast transactions, cash flows and credit exposures. The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and whether the hedge qualifies as such for accounting purposes.

Derivative transactions may qualify as hedges for accounting purposes. These are described under the corresponding headings in this note (fair value hedges, cash flow hedges and hedges of net investments in foreign operations). The Group's accounting policies for derivatives designated and accounted for as hedging instruments are explained in "Note 1a) 15) Derivative instruments and hedge accounting", where terms used in the following sections are explained.

The Group has also entered into interest rate swaps and other interest rate derivatives (e.g. futures) for day-to-day economic interest rate risk management purposes, but without applying hedge accounting. In addition, the Group has used equity futures, options and, to a lesser extent, swaps for economically hedging in a variety of equity trading strategies to offset underlying equity and equity volatility exposure. The Group has also entered into CDSs that provide economic hedges for credit risk exposures (refer to the credit derivatives section). Fair value changes of derivatives that are part of economic relationships, but do not qualify for hedge accounting treatment, are booked to *Net trading income*.

Fair value hedges

The Group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of

Note 23 Derivative instruments and hedge accounting (continued)

fixed-rate instruments (e.g. long-term fixed-rate debt issues) due to movements in market interest rates. The fair values of outstanding interest rate derivatives designated as fair value hedges

were assets of CHF 1,171 million and liabilities of CHF 46 million as of 31 December 2010 and assets of CHF 526 million and liabilities of CHF 71 million as of 31 December 2009.

Fair value hedges of interest rate risk

CHF million	For the year ended		
	31.12.10	31.12.09	31.12.08
Gains / (losses) on hedging instruments	402	(171)	778
Gains / (losses) on hedged items attributable to the hedged risk	(383)	182	(796)
Net gains / (losses) representing ineffective portions of fair value hedges	19	11	(18)

The Group also hedges foreign exchange exposures arising from certain foreign currency denominated non-monetary financial investments available-for-sale using either the spot component of the forward foreign exchange contracts or debt issued denominated in the same currencies. As of 31 December 2010 the aggregate notional amount of hedging instruments designated as fair value hedges of foreign currency risk was CHF 393 million (CHF 386 million as of 31 December 2009). The ineffectiveness of these hedges was not material for the financial statements of the Group in the disclosed reporting periods.

Fair value hedges for portfolio interest rate risk

The Group also applies fair value hedge accounting to portfolio interest rate risk. The change in fair value of the hedged items is recorded separately from the hedged item and is included in *Other assets* on the balance sheet. The fair value of derivatives designated for this hedge method as of 31 December 2010 was a CHF 972 million liability; as of 31 December 2009 it was a CHF 956 million liability.

Fair value hedge of portfolio of interest rate risk¹

CHF million	For the year ended		
	31.12.10	31.12.09	31.12.08
Gains / (losses) on hedging instruments	35	(48)	(644)
Gains / (losses) on hedged items attributable to the hedged risk	(60)	11	688
Net gains / (losses) representing ineffective portions of fair value hedges	(25)	(37)	44

¹ Hedge effectiveness is calculated on a cumulative basis.

Cash flow hedges of forecasted transactions

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be refunded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities, based on contractual terms and other relevant factors including estimates of prepayments and

defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying the non-trading interest rate risk of the Group, which is hedged with interest rate swaps, the maximum maturity of which is 18 years.

The schedule of forecasted principal balances on which the expected interest cash flows arise as of 31 December 2010 is shown below.

Forecasted cash flows

CHF billion	< 1 year	1-3 years	3-5 years	5-10 years	over 10 years
Cash inflows	215	368	233	180	15
Cash outflows	52	87	60	44	1
Net cash flows	163	281	173	136	14

To the extent the cash flow hedging relationship meets the qualifying criteria, the effective portion of the fair value changes of the designated derivative hedging instruments is recognized in Equity. These gains and losses are transferred from Equity to current period earnings in the same period in which the hedged cash flows affect

net profit or loss. The ineffective portion of the fair value changes of the derivative hedging instruments is recognized immediately in the income statement. A CHF 22 million loss, a CHF 183 million loss and a CHF 108 million loss were recognized in 2010, 2009 and 2008, respectively, in Net trading income due to hedge ineffectiveness.

Note 23 Derivative instruments and hedge accounting (continued)

As of 31 December 2010, the fair values of outstanding derivatives designated as cash flow hedges of forecasted transactions were CHF 5,397 million assets and CHF 3,392 million liabilities and as of 31 December 2009 the amounts were CHF 5,180 million assets and CHF 2,736 million liabilities.

At the end of 2010 and 2009, gains of CHF 18 million and CHF 46 million associated with de-designated interest rate swaps were deferred in *Equity*. They will be removed from *Equity* when the previously hedged forecasted cash flows have an impact on net profit or loss, or when the forecasted cash flows are no longer expected to occur. Amounts reclassified from *Equity* to *Net interest income* of de-designated swaps were CHF 28 million net gain in 2010, CHF 40 million net gain in 2009 and CHF 49 million net gain in 2008.

In 2008, due to reductions in the volume of short-term financial instruments, some of the forecasted cash flows previously included in the hedge relationships were determined to no longer be expected to occur.

Hedges of net investments in foreign operations

The Group applies hedge accounting for certain consolidated net investments in USD-denominated operations. At 31 December 2010 the fair values of the financial liabilities (predominantly structured products issued by UBS) designated as hedging instruments in net investment hedges was CHF 1.9 billion as compared to CHF 2.5 billion at 31 December 2009. Gains or losses on the translation of these hedging instruments are transferred directly to Equity to offset any gains or losses on translation of the net investments in the subsidiaries, which are also recognized in Equity. No material ineffectiveness of hedges of net investments in foreign operations was recognized in the income statements during 2010 and 2009.

Contractual maturities of derivatives designated as hedging instruments in hedge accounting relationships

The contractual maturities of derivatives designated as hedging instruments in hedge accounting relationships are considered "essential" for the understanding of the timing of their cash flows.

Derivatives designated in hedge accounting relationships (undiscounted cash flows)

CHF billion	On demand	Due within 1 month	Due between 1 and 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
Interest rate swaps¹							
Cash inflows	0	0	0	1	3	17	21
Cash outflows	0	0	0	1	4	14	19
Net cash flows	0	0	0	0	(1)	3	2

¹ Interest rate swaps are generally gross settled. The table includes cash inflows and cash outflows of all interest rate swaps designated in hedge accounting relationships, which are either assets or liabilities of UBS as of 31 December 2010.

Risks of derivative instruments

Derivative instruments are transacted in many trading portfolios, which generally include several types of instruments, not just derivatives. The market risk of derivatives is predominantly managed and controlled as an integral part of the market risk of these portfolios. The Group's approach to market risk is described in the audited "Market risk" section of this report.

Derivative instruments are transacted with many different counterparties, most of whom are also counterparties for other types of business. The credit risk of derivatives is managed and controlled in the context of the Group's overall credit exposure to each counterparty. The Group's approach to credit risk is described in the audited "Credit risk" section of this report. It should be noted that, although the Positive replacement values shown on the balance sheet can be an important component of the Group's credit exposure, the Positive replacement values for a counterparty are rarely an adequate reflection of the Group's credit exposure on its derivatives business with that counterparty. This is, for example, because on the one hand, replacement values can increase over time ("potential future exposure"), while on the other hand, exposure may be mitigated by

entering into master netting agreements and bilateral collateral arrangements with counterparties. Both the exposure measures used by the Group internally to control credit risk and the capital requirements imposed by regulators reflect these additional factors.

The replacement values presented on UBS's balance sheet and in the tables on the next page include netting in accordance with IFRS requirements (refer to Note 1a) 34)), which is more restrictive than netting in accordance with Swiss Federal Banking law. The main difference of Swiss Federal Banking law to IFRS is that Swiss Federal Banking law netting is generally based on close-out netting arrangements which are enforceable in case of insolvency. The Positive and Negative replacement values based on netting in accordance with Swiss Federal Banking law (factoring in cash collateral) are presented on the bottom of the tables on the next page.

The notional amounts presented in the tables indicate a nominal value of transactions outstanding at the reporting date but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or market risks.

Note 23 Derivative instruments and hedge accounting (continued)¹

As of	31.12.10					31.12.09 ⁸				
	Total PRV ²	Notional values related to PRVs	Total NRV ³	Notional values related to NRVs	Other notional values ⁴	Total PRV ²	Notional values related to PRVs	Total NRV ³	Notional values related to NRVs	Other notional values ⁴
<i>CHF billion</i>										
Interest rate contracts										
Over-the-counter (OTC) contracts										
Forward contracts	1.9	1,320.7	2.3	1,233.6	0.0	2.1	1,308.0	2.1	1,265.6	0.0
Swaps	170.4	7,527.0	154.3	7,423.7	13,076.0	186.2	7,110.7	171.4	6,802.7	15,949.2
Options	31.2	785.3	32.5	822.8	0.0	25.9	543.2	29.4	611.8	0.0
Exchange-traded contracts										
Futures					785.4					1,221.5
Options	0.0	61.7	0.0	69.7	0.0	0.0	1.3	0.0	1.3	0.0
Agency transactions ⁷	0.2		0.2			0.5		0.4		
Total	203.7	9,694.7	189.3	9,549.8	13,861.4	214.7	8,963.2	203.3	8,681.4	17,170.7
Credit derivative contracts										
Over-the-counter (OTC) contracts										
Credit default swaps	52.2	1,189.8	49.8	1,091.2	0.0	77.1	1,254.7	69.7	1,208.9	0.0
Total rate of return swaps	3.5	6.1	1.3	4.2	0.0	1.5	5.7	0.9	5.4	0.0
Options and warrants	0.1	11.9	0.1	9.5	0.0	0.0	9.3	0.0	6.6	0.0
Total	55.8	1,207.8	51.2	1,104.9	0.0	78.6	1,269.6	70.6	1,220.9	0.0
Foreign exchange contracts										
Over-the-counter (OTC) contracts										
Forward contracts	16.3	531.1	17.1	554.1	0.0	10.6	453.2	9.5	403.7	0.0
Interest and currency swaps	88.5	2,279.9	97.0	2,190.5	0.0	80.5	2,279.8	85.8	2,209.6	0.0
Options	8.7	515.1	8.8	483.4	0.0	5.9	347.7	5.7	350.7	0.0
Exchange-traded contracts										
Futures	0.0				9.0					1.5
Options	0.0	0.0	0.0	0.1	0.0		1.5		0.1	0.0
Agency transactions ⁷	0.0		0.0			0.1		0.1		
Total	113.5	3,326.1	123.0	3,228.1	9.0	97.1	3,082.2	101.1	2,964.1	1.5
Equity / index contracts										
Over-the-counter (OTC) contracts										
Forward contracts	2.6	32.2	4.0	46.3	0.0	2.7	26.0	3.4	28.1	0.0
Options	8.1	67.1	8.7	81.6	0.0	7.0	80.8	9.5	73.7	0.0
Exchange-traded contracts										
Futures					28.8					26.5
Options	3.8	106.7	3.7	111.0	0.0	4.6	108.5	4.7	120.5	0.0
Agency transactions ⁷	7.5		7.6			10.5		10.8		
Total	22.0	206.0	24.0	238.9	28.8	24.8	215.3	28.4	222.3	26.5
Commodities contracts										
Over-the-counter (OTC) contracts										
Forward contracts	2.7	18.8	2.7	15.9	0.0	2.0	20.6	2.0	15.0	0.0
Options	1.5	19.2	1.7	15.4	0.0	1.9	21.7	1.9	22.7	0.0
Exchange-traded contracts										
Futures					41.0					26.1
Options	0.0	0.7	0.0	1.2	0.0	0.0	1.9		1.9	0.0
Agency transactions ⁷	1.7		1.7			1.9		1.9		
Total	5.9	38.7	6.0	32.5	41.0	5.9	44.2	5.8	39.6	26.1
Unsettled purchases of financial assets⁵	0.2	36.5	0.1	18.8	0.0	0.4	35.9	0.2	25.4	
Unsettled sales of financial assets⁵	0.1	34.9	0.1	13.0	0.0	0.2	30.4	0.5	14.3	
Total derivative instruments, based on IFRS netting	401.1	14,544.6	393.8	14,186.0	13,940.2	421.7	13,640.8	409.9	13,168.1	17,224.9
Replacement value netting, based on capital adequacy rules	(301.5)		(301.5)			(313.2)		(313.2)		
Cash collateral netting	(36.5)		(23.9)			(37.2)		(32.7)		
Total derivative instruments, based on capital adequacy netting⁶	63.1		68.3			71.3		64.1		

¹ Bifurcated embedded derivatives are presented in the same balance sheet line as the host contract and are excluded from the table; these derivatives amount to a PRV of CHF 2.7 billion (related notional values of CHF 8.6 billion) and a NRV of CHF 1.3 billion (related notional values of CHF 10.4 billion). ² PRV: Positive replacement value. ³ NRV: Negative replacement value. ⁴ Receivables resulting from derivatives are recognized on UBS's balance sheet under Due from banks and Loans: CHF 0.7 billion (2009: CHF 1.6 billion). Payables resulting from these derivatives are recognized on UBS's balance sheet under Due to banks and Due to customers: CHF 2.7 billion (2009: CHF 1.6 billion). ⁵ Changes in the fair value of purchased and sold financial assets between trade date and settlement date are recognized as replacement values. ⁶ Includes the impact of netting agreements (including cash collateral) in accordance with Swiss Federal Banking law, based on the IFRS scope of consolidation. ⁷ Notional values of exchange-traded agency transactions are not disclosed due to their significantly different risk profile. ⁸ Notional values as of 31 December 2009 for Interest rate, Foreign exchange, Equity/index and Commodities contracts have been corrected.

Note 23 Derivative instruments and hedge accounting (continued)

On a notional value basis, credit protection bought and sold held as of 31 December 2010 matures in a range of approximately 10% within one year, approximately 70% within 1 to 5 years and approximately 20% after 5 years. The maturity profile of OTC interest rate contracts held as of 31 December 2010, based on notional values, is as follows: approximately 45% mature within

one year, 33% within 1 to 5 years and 22% over 5 years. Notional values of interest rate contracts cleared with The London Clearing House are presented under “other notional values” and are categorized into maturity buckets on the basis of contractual maturities of the cleared underlying derivative contracts.

Off-balance-sheet information

Note 24 Pledgeable off-balance-sheet securities

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

CHF million	31.12.10	31.12.09
Fair value of securities received which can be sold or repledged	573,852	528,856
<i>as collateral under reverse repurchase, securities borrowing and lending arrangements, derivative transactions and other transactions</i>	571,970	515,314
<i>in unsecured borrowings</i>	1,882	13,542
thereof sold or repledged	428,347	398,883
<i>in connection with financing activities</i>	352,668	335,371
<i>to satisfy commitments under short sale transactions</i>	54,975	47,469
<i>in connection with derivative and other transactions</i>	20,705	16,043

Note 25 Operating lease commitments

As of 31 December 2010, UBS was obligated under a number of non-cancellable operating leases for premises and equipment used primarily for banking purposes. The significant premises leases usually include renewal options and escalation clauses in line with general office rental market conditions, as well as rent adjustments based on price indices. However, the lease agree-

ments do not contain contingent rent payment clauses and purchase options, nor do they impose any restrictions on UBS's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

The minimum commitments for non-cancellable leases of premises and equipment are presented as follows:

CHF million	31.12.10
Operating leases due	
2011	862
2012	741
2013	646
2014	554
2015	464
2016 and thereafter	1,818
Subtotal commitments for minimum payments under operating leases	5,085
Less: Sublease rentals under non-cancellable leases	500
Net commitments for minimum payments under operating leases	4,585

CHF million	31.12.10	31.12.09	31.12.08
Gross operating lease expense	1,057	1,191	1,215
Sublease rental income	97	57	50
Net operating lease expense	960	1,134	1,165

Operating lease contracts include non-cancellable long-term leases of office buildings in most UBS locations. As of 31 December 2010, the minimum lease commitments for each of 12 office locations exceeded CHF 100 million.

Additional information

Note 26 Capital increase and mandatory convertible notes

Conversion of the mandatory convertible notes issued in March 2008

On 5 March 2010, the mandatory convertible notes (MCNs) with a notional value of CHF 13 billion issued in March 2008 to the Government of Singapore Investment Corporation Pte. Ltd. and an investor from the Middle East were converted into UBS

shares. The notes were converted at a price of CHF 47.68 per share. As a result, UBS issued 272,651,005 new shares with a nominal value of CHF 0.10 each from existing conditional capital. The MCNs were treated as equity instruments and recognized in *Share premium*. The conversion of the MCNs resulted in a reclassification of CHF 27 million from *Share premium* to *Share capital*.

Note 27 Fair value of financial instruments

a) Valuation principles

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Financial instruments classified as held for trading or designated as at fair value through profit or loss, and financial assets classified as available for sale are recognized in the financial statements at fair value. All derivatives are measured at fair value.

Fair values are determined from quoted prices in active markets for identical financial assets or financial liabilities where these are available. Fair value of a financial asset or financial liability in an active market is the current bid or offer price times the number of units of the instrument held. Where a trading portfolio contains both financial assets and financial liabilities with offsetting market risks, fair value is determined by valuing the gross long and short positions at current mid market prices, with an adjustment at portfolio level to the net open long or short position to amend the valuation to bid or offer as appropriate.

Where the market for a financial instrument is not active, fair value is established using a valuation technique or pricing model. These valuation techniques and models involve a degree of estimation, the extent of which depends on the instrument's complexity and the availability of market-based data. Valuation adjustments may be made to allow for additional factors including model risks, liquidity risk as reflected in the bid / offer and credit risk. Based on the established fair value and model governance policies and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value on the balance sheet.

When entering into a transaction where model inputs are not market observable, the financial instrument is initially recognized at the transaction price, which is generally the best indicator of fair

value. This may differ from the value obtained from the valuation model ("Deferred day 1 profit or loss"). The timing of the recognition in profit and loss of this initial difference in fair value depends on the individual facts and circumstances of each transaction but is never later than when the market data become observable.

Pricing models and valuation techniques

The most frequently applied pricing models and valuation techniques include discounted cash flow models, relative value models and option pricing models. Discounted cash flows determine the value by estimating the expected future cash flows from assets or liabilities discounted to their present value. Relative value models determine the value based on the market prices of similar assets or liabilities. Option pricing models include such probability-based techniques as binomial and Monte Carlo pricing.

UBS uses widely recognized valuation models for determining fair values of financial instruments of lower complexity like interest rate and currency swaps. For more complex instruments, UBS uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Such valuation models are used primarily to value derivatives transacted in the over-the-counter (OTC) market, unlisted equity and debt securities (including those with embedded derivatives), and other fair valued debt instruments for which markets were illiquid in 2010. Market-observable assumptions and inputs are used where available, and derived from similar assets in similar and active markets, from recent transaction prices for comparable items or from other observable market data. Little, if any, weight is placed on transaction prices when calculating the fair value if there is no active market and the transactions are not orderly (i.e., distressed or forced). For positions where observable reference data are not available for

Note 27 Fair value of financial instruments (continued)

some or all parameters, UBS calibrates the non-market-observable inputs used in its valuation models based on a combination of historical experience and knowledge of current market conditions. Assumptions and inputs used in valuation techniques and models include benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, equity index prices, foreign exchange rates and levels of market volatility and correlation.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions UBS holds. Valuations are therefore adjusted, where appropriate, to reflect close out costs, credit exposure, model uncertainty and trading restrictions.

Interest rate curves

UBS uses various interest rate curves for valuing its financial instruments. Financial liabilities designated at fair value are measured using UBS's funds transfer price curve. Financial assets designated at fair value are valued consistent with the curve used for the particular business. Uncollateralized credit exposure is reserved through normal credit rating and reserving methods. For the valuation of uncollateralized derivative instruments, UBS generally employs a LIBOR flat curve. For the valuation of collateralized derivatives, UBS generally employs the overnight indexed swap (OIS) curve.

Valuation curve changes

For collateralized derivatives, the valuation approach was amended at the beginning of the year to use the OIS curve rather than the LIBOR flat curve. This followed a change in the market convention for pricing collateralized derivatives, to reflect that the interest rate typically paid on cash collateral references the OIS curve. The transitional effect of this change in estimate was recognized prospectively and resulted in an immaterial pre-tax gain.

Counterparty credit risk in the valuation of OTC derivative instruments, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments

In order to arrive at fair value, credit valuation adjustments (CVA) are necessary to reflect the credit risk of the counterparty inherent in over-the-counter (OTC) derivatives transactions, derivatives embedded in funded assets designated at fair value and derivatives embedded in traded debt instruments. This amount represents the estimated market value of protection required to hedge credit risk from counterparties in UBS's OTC derivatives portfolio, derivatives embedded in funded assets designated at fair value and in traded debt instruments. CVA depends on expected future exposures, default probability and recovery rate. The calculation takes into account whether collateral or netting arrangements or break clauses are in place.

UBS's own credit risk in the valuations of derivative financial liabilities (Negative replacement values)

The Group estimates debit valuation adjustments (DVA) to incorporate own credit in the valuation of derivatives, predominately, to align it with the CVA methodology as described above. The calculation takes into account negative expected exposure profiles for the derivatives portfolio, collateral, netting agreements, expected future mark-to-market movements, and UBS's credit default spreads to determine the UBS counterparty exposure from the perspective of holders of UBS debt.

The debit valuation adjustments (DVA) so calculated represent the theoretical costs to counterparties of hedging their UBS credit risk exposure or the credit risk reserve that a counterparty could reasonably be expected to hold against their credit risk exposure to UBS, if they applied the same methodology as used to calculate UBS's CVA.

As of 31 December 2010, the CVA and DVA for derivative financial instruments (replacement values) were as follows:

	31.12.10	
	CVA ¹	DVA
<i>CHF billion</i>		
Life-to-date gain / (loss)	(2.2)	0.5
<i>of which: CVA on monoline credit protection – negative basis trades</i>	<i>(1.1)</i>	<i>N/A</i>
<i>of which: CVA on monoline credit protection – other</i>	<i>(0.1)</i>	<i>N/A</i>
<i>of which: CVA on other instruments</i>	<i>(1.0)</i>	<i>N/A</i>
Gain / (loss) for the year ended²	1.0	0.2
<i>of which: CVA on monoline credit protection – negative basis trades</i>	<i>0.7</i>	<i>N/A</i>
<i>of which: CVA on monoline credit protection – other</i>	<i>0.1</i>	<i>N/A</i>
<i>of which: CVA on other instruments</i>	<i>0.2</i>	<i>N/A</i>

¹ Amounts do not include reserves against defaulted counterparties. ² CVA amounts do not include commutations.

Note 27 Fair value of financial instruments (continued)

UBS's own credit risk in the valuations of financial liabilities designated at fair value

The Group's own credit changes are reflected in valuations for those financial liabilities designated at fair value, where the Group's own credit risk would be considered by market participants. Own credit effects are not reflected in the valuations of fully collateralized transactions and other instruments for which it is established market practice not to include them.

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

market participants require to acquire UBS MTNs. The FTP curve was implemented at the end of the year and has replaced the asset and liability management revaluation curve (ALMRC). The impact on the income statement at implementation was not material.

The ALMRC was implemented at the beginning of the year and replaced the senior debt curve (SDC). The ALMRC incorporated additional market information from recently issued UBS debt instruments and aligned the pricing and risk management of different liability instruments under a single curve. UBS also improved the estimation methodologies for the construction of interest rate curves in non-USD currencies and for long-term maturities (i.e. tenors over ten years). The transitional impact of this prospectively applied change in estimate was a pre-tax net loss of CHF 133 million.

As of 31 December 2010 and 2009, respectively, the own credit results for *Financial liabilities designated at fair value* (predominantly issued structured products) were as follows:

Own credit on financial liabilities designated at fair value

CHF million	As of or for the year ended		
	31.12.10	31.12.09	31.12.08
Total gain / (loss) for the year ended	(548)	(2,023)	2,032
of which: credit spread related only	(470)	(1,958)	3,993
Life-to-date gain	237	890	2,953

Year-to-date amounts represent the change during the year and life-to-date amounts reflect the cumulative change since initial recognition. The change in own credit for the period can be analyzed in two components: (1) changes in fair value that are attributable to the change in UBS's credit spreads during the period, and (2) the effect of volume changes, which is the change in fair values attributable to factors other than credit spreads, such as redemptions, effects from time decay, changes in interest rates and changes in the value of referenced instruments issued by third parties. The disclosed own credit amounts are also impacted by foreign currency movements.

A 1 basis point increase in the UBS credit spread over LIBOR is expected to result in an own credit gain of approximately USD 19.6 million (CHF 18.3 million).

Reflection of market liquidity risk in fair value determinations

Fair value estimates incorporate the effects of market liquidity risk in the relevant markets. Market liquidity risk is the risk that a loss is incurred in neutralizing the exposures within a position or portfolio by either liquidating the position or establishing an offsetting position. A liquidity adjustment is therefore raised to provide against the expected cost of covering open market risk positions within a portfolio or position. Liquidity adjustments are bid / offer adjustments taken where a net open risk position is retained and the model on which it is valued is calibrated to mid market. Valuations based on models incorporate liquidity or risk premiums either implicitly (e.g., by calibrating to market prices that incorporate such premiums) or explicitly.

Reflection of model uncertainty in fair value determinations

Uncertainties associated with the use of model-based valuations are predominantly addressed through the use of model reserves. These reserves reflect the amounts that UBS estimates are appropriate to deduct from the valuations produced directly by the models to reflect uncertainties in the relevant modeling assumptions and inputs used. In arriving at these estimates, UBS considers a range of market practice and how it believes other market participants would assess these uncertainties. Model reserves are periodically reassessed in light of information from market transactions, pricing utilities, and other relevant sources.

Valuation processes

UBS's fair value and model governance structure includes numerous controls and procedural safeguards that are intended to maximize the quality of fair value measurements reported in the financial statements. New products need to be reviewed and approved by all stakeholders relevant to risk and financial control. Responsibility for the ongoing measurement of financial instruments at fair value resides with the business but is independently validated by risk and financial control functions. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of available external market information and to provide justification and rationale for their fair value estimates. Independent price verification of financial instruments measured at fair value is undertaken by the product control function, which is independent from the risk taking businesses. The objective of the independent price verification process is to independently corroborate the busi-

Note 27 Fair value of financial instruments (continued)

ness' estimates of fair value against available market information. By benchmarking the business' fair value estimates with observable market prices or other independent sources, the degree of valuation uncertainty embedded in these measurements can be assessed and managed as required in the governance framework. A critical aspect of the independent price verification process is the evaluation of the appropriateness of modeling approaches and input assumptions which yield fair value estimates derived from valuation models. The output of modelling approaches is also compared to observed prices and market levels for the specific instrument being

priced. This calibration analysis is performed to assess the ability of the model and its inputs (which are frequently based upon a combination of price levels of observable hedge instruments and difficult to observe parameters) to price a specific product in its own specific market. An independent model review group reviews UBS's valuation models on a regular basis or if specific 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' estimate of fair value to either align with independent market information or financial accounting standards.

b) Fair value hierarchy

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

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

Determination of fair values from quoted market prices or valuation techniques¹

CHF billion	31.12.10				31.12.09			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets held for trading ²	77.8	60.8	10.0	148.5	94.1	65.5	11.6	171.2
Financial assets held for trading pledged as collateral	38.3	22.2	0.8	61.4	31.3	12.3	0.6	44.2
Positive replacement values	3.6	385.1	12.4	401.1	4.0	393.8	23.8	421.7
of which:								
Interest rate contracts	0.9	201.5	1.3	203.8	0.8	213.7	0.6	215.1
Credit derivative contracts		48.1	7.7	55.8		58.0	20.5	78.6
Foreign exchange contracts	0.3	112.2	1.0	113.5	0.3	95.9	0.9	97.1
Equity / index contracts	2.3	17.5	2.4	22.2	2.9	20.5	1.7	25.1
Commodities contracts	0.0	5.8	0.0	5.9	0.0	5.8	0.1	5.9
Financial assets designated at fair value	0.8	7.3	0.5	8.5	0.8	9.2	0.3	10.2
Financial investments available-for-sale	52.9	21.0	0.9	74.8	74.3	6.1	1.4	81.8
Total assets	173.4	496.4	24.5	694.3	204.5	487.0	37.6	729.1
Trading portfolio liabilities	42.9	11.8	0.3	55.0	33.5	13.6	0.4	47.5
Negative replacement values	3.5	379.9	10.4	393.8	3.7	389.2	17.0	409.9
of which:								
Interest rate contracts	1.0	187.8	0.7	189.4	0.7	203.1	0.0	203.7
Credit derivative contracts		44.9	6.2	51.1		55.8	14.7	70.6
Foreign exchange contracts	0.3	120.9	1.8	123.0	0.3	99.4	1.4	101.1
Equity / index contracts	2.2	20.5	1.5	24.2	2.8	25.0	1.0	28.7
Commodities contracts	0.0	5.8	0.1	6.0	0.0	5.8	0.0	5.8
Financial liabilities designated at fair value	0.0	86.7	14.0	100.8	0.0	102.4	10.3	112.7
Other liabilities – amounts due under unit-linked investment contracts ³		18.1		18.1		21.6		21.6
Total liabilities	46.4	496.5	24.7	567.6	37.2	526.8	27.7	591.7

¹ Bifurcated embedded derivatives, which are presented on the same balance sheet lines as host contracts, are excluded from this table. As of 31 December 2010, the fair value of the embedded derivative on Debt issued line were negative net CHF 1.7 billion classified as level 3 instruments and positive net CHF 0.3 billion classified as level 2 instruments respectively. ² Financial assets held for trading do not include precious metal and commodities. ³ From December 2010 onwards, the amounts due under unit-linked investment contracts are reported in Other liabilities in this table. The comparative period has been adjusted.

Detailed breakdowns of UBS's trading portfolio and financial investments available-for-sale by fair value hierarchy levels are shown in the Notes 11 and 13, respectively.

Note 27 Fair value of financial instruments (continued)

Transfers between level 1 and level 2 of the fair value hierarchy

Trading assets of approximately CHF 0.8 billion, of which CHF 0.6 billion are equity instruments, and trading liabilities of approximately CHF 0.2 billion, of which almost all are short sold equity instruments, were transferred from level 2 to level 1 due to increased trading activities and volumes, respectively.

Trading assets and liabilities with amounts of approximately CHF 1.5 billion and approximately CHF 0.6 billion were transferred from level 1 to level 2 respectively. The assets are largely related to equity instruments of CHF 0.8 billion and government bonds of CHF 0.2

billion. The trading liabilities transferred from level 1 to level 2 largely consist of short sold debt instruments of CHF 0.5 billion. These assets and liabilities transferred from level 1 to level 2 no longer met the average market activity UBS considers necessary when determining whether an instrument is traded in an active market.

Movements of level 3 instruments

The table below includes a roll-forward of the balance sheet amounts of the significant classes of financial instruments classified within level 3.

Movements of level 3 instruments and gains / losses for level 3 instruments held at the end of the reporting period

CHF billion	Financial assets held for trading (including those pledged as collateral) ¹	Derivative instruments ¹		Financial liabilities designated at fair value ¹
		Positive replacement values	Negative replacement values	
Balance at 31 December 2008	16.9	37.8	35.0	10.3
Total gains / (losses) included in the income statement	(3.9)	(13.0)	(15.4)	(1.7)
Net trading income	(3.7)	(12.8)	(15.0)	(1.1)
Other	(0.2)	(0.2)	(0.4)	(0.6)
Purchases, sales, issuances and settlements	(6.3)	(9.6)	(8.6)	(4.6)
Purchases	5.6	0.0	0.0	0.0
Sales	(11.9)	0.0	0.0	0.0
Issuances	0.0	7.3	5.3	2.7
Settlements	0.0	(16.9)	(13.9)	(7.3)
Transfers into or out of level 3	5.4	6.3	3.5	5.3
Transfers into level 3	12.5	26.0	22.7	8.0
Transfers out of level 3	(7.1)	(19.7)	(19.2)	(2.7)
Foreign currency translation	0.1	2.2	2.5	1.0
Balance at 31 December 2009	12.2	23.8	17.0	10.3
Total gains / (losses) for the period included in the income statement for level 3 instruments held at the end of the reporting period 2009	(0.5)	(9.3)	8.7	(0.7)
Net trading income	(1.0)	(9.4)	8.8	(0.7)
Other	0.5	0.1	(0.1)	0.0
Balance at 31 December 2009	12.2	23.8	17.0	10.3
Total gains / (losses) included in the income statement	0.2	1.2	1.8	0.3
Net trading income	(0.2)	1.1	1.8	0.1
Other	0.4	0.1	0.0	0.2
Purchases, sales, issuances and settlements	0.0	(7.0)	(5.4)	(1.4)
Purchases	3.7	0.0	0.0	0.0
Sales	(3.7)	0.0	0.0	0.0
Issuances	0.0	1.6	1.4	3.3
Settlements	0.0	(8.6)	(6.8)	(4.7)
Transfers into or out of level 3	(0.4)	(2.7)	(1.1)	4.7
Transfers into level 3	2.4	1.6	1.8	5.8
Transfers out of level 3	(2.8)	(4.3)	(2.9)	(1.1)
Foreign currency translation	(1.0)	(3.0)	(1.9)	0.1
Balance at 31 December 2010	10.8	12.4	10.4	14.0
Total gains / (losses) for the period included in the income statement for level 3 instruments held at the end of the reporting period 2010	0.2	1.2	(1.8)	(0.3)
Net trading income	(0.2)	1.1	(1.8)	(0.1)
Other	0.4	0.1	0.0	(0.2)

¹ Where financial instruments moved into or out of level 3 during the periods, this change is reflected as if the financial instrument had been in the new level as of the beginning of the year in which the movement took place.

Note 27 Fair value of financial instruments (continued)**Material changes in level 3 instruments**

As of 31 December 2010, financial instruments measured with valuation techniques using significant non-market observable inputs (level 3) mainly included the following:

- structured rates and credit trades, including bespoke collateralized debt obligations (CDOs) and collateralized loan obligations (CLOs)
- reference-linked notes
- financial instruments linked to the US sub-prime residential and US commercial real estate markets
- corporate bonds and corporate credit default swaps (CDS)
- equity linked notes issued by UBS
- traded loans

Financial assets held for trading

Trading portfolio assets transferred into and out of level 3 amounted to CHF 2.4 billion and CHF 2.8 billion, respectively. Transfers into level 3 of approximately CHF 1.1 billion were related to certain corporate bonds where no independent price verification was possible given the observability of the market. In addition, traded loans of CHF 0.6 billion were transferred into level 3 as trading activity diminished and independent sources became unavailable, sovereign bonds of CHF 0.4 billion were moved to level 3 as no independent price sources were available to verify fair values. Transfers out of level 3 were comprised of CHF 1.5 billion corporate bonds, of which CHF 1.3 billion were puttable bonds. Additionally, transfers out of level 3 included CLOs of CHF 0.7 billion and financial instruments linked to the Asian real estate market of CHF 0.2 billion as independent price sources became available and were used to verify fair values.

Level 3 trading assets purchased within the year amounted to CHF 3.7 billion. These purchases include traded loans of CHF 0.9 billion, corporate bonds of CHF 0.9 billion, financial instruments linked to the commercial real estate market of CHF 0.6 billion, equity instruments of CHF 0.4 billion, asset backed bonds of CHF 0.3 billion, and financial instruments linked to the European real estate market of CHF 0.2 billion.

Sales and settlements of level 3 trading assets amounted to CHF 3.7 billion, which included corporate bonds of CHF 1.1 billion, traded loans of CHF 0.8 billion, asset backed bonds of CHF 0.4 billion, financial instruments linked to the US real estate market of CHF 0.4 billion, financial instruments linked to the Asian real estate market of CHF 0.2 billion and those linked to commodities of approximately CHF 0.2 billion.

Derivative instruments

Derivative instruments transferred into level 3 include positive replacement values of CHF 1.6 billion and negative replacement values of CHF 1.8 billion. Transfers out of level 3 instruments included positive replacement values of CHF 4.3 billion and negative replacement values of CHF 2.9 billion.

Transfers into level 3 positive replacement values were comprised primarily of structured rates exotic trades of CHF 0.6 billion where skew and volatility could no longer be verified, structured credit bespoke CDO positions of CHF 0.5 billion, due to a sub-set of our portfolio being less comparable with available independent market data for correlation, and CDS positions of CHF 0.3 billion as credit curves and recovery rates could no longer be independently verified. Transfers into level 3 negative replacement values were comprised primarily of structured rates exotic trades of CHF 0.6 billion, structured credit bespoke CDO positions of CHF 0.3 billion, collateralized loan obligation CDS of CHF 0.3 billion, equity options of CHF 0.2 billion as volatility became unobservable for long-dated positions, and commercial mortgage-backed securities (CMBS) CDS of CHF 0.1 billion as reliability of independent market data for underlyings decreased.

Commencing 2010, UBS considers input data for a position observable when there is an equally offsetting transaction that nullifies substantially the price risk relating to that input of the instrument. As a consequence, positive replacement values of CHF 2.2 billion in total were transferred out of level 3. The following financial instruments were impacted: super senior subprime CDO positions of CHF 1.2 billion, subprime residential mortgage-backed securities (RMBS) CDS of CHF 0.6 billion, CDO positions of CHF 0.2 billion and CMBS CDS positions of CHF 0.1 billion. In addition, the following instruments were transferred out of level 3: subprime RMBS CDS positions of CHF 0.8 billion as reliability of independent market data on underlying positions increased, structured credit bespoke CDO positions of CHF 0.7 billion, due to a sub-set of our portfolio being more comparable with available independent market data for correlation, and corporate bonds CDS positions of CHF 0.3 billion where credit spreads and recovery rates could be independently verified. Transfers of negative replacement values out of level 3 include the effect of UBS's new view that offsetting transactions may give rise to a level 2 classification. The effect amounted to CHF 2.2 billion in total. The following financial instruments were impacted: super senior sub-prime CDO positions of CHF 1.2 billion, subprime RMBS CDS of CHF 0.6 billion, CDO positions of CHF 0.2 billion and CMBS CDS positions of CHF 0.1 billion. In addition, corporate bond CDS of CHF 0.3 billion were transferred out of level 3.

Net issuances and purchases of level 3 positive replacement values were 1.6 billion, which included equity options of CHF 0.8 billion, structured credit bespoke CDO positions of CHF 0.4 billion and structured rates positions of CHF 0.1 billion. Net issuances and purchases of level 3 negative replacement values were CHF 1.4 billion, which included structured credit bespoke CDO positions of CHF 0.9 billion, equity options of CHF 0.2 billion and structured rates of CHF 0.1 billion.

Net settlements of level 3 positive replacement values were CHF 8.6 billion, which consisted primarily of structured credit positions of CHF 3.0 billion, subprime super senior CDO positions of CHF 1.5 billion, asset-backed CDS positions of CHF 0.7 billion, subprime

Note 27 Fair value of financial instruments (continued)

RMBS CDS positions of CHF 0.6 billion, equity options of CHF 0.6 billion and US commercial real estate CMBS positions of approximately CHF 0.5 billion. Net sales and settlements of level 3 negative replacement values were CHF 6.8 billion, consist of structured credit bespoke CDO positions of CHF 2.7 billion, auction rate security forward purchase agreements of CHF 0.8 billion, corporate bond CDS positions of CHF 0.6 billion, structured rate trades of CHF 0.6 billion, subprime RMBS CDS positions of CHF 0.6 billion and subprime super senior CDO positions of CHF 0.5 billion.

Financial liabilities designated at fair value

Transfers of financial liabilities designated at fair value into level 3 were CHF 5.8 billion, consist primarily of secured funding notes of CHF 2.1 billion due to the lack of directly comparable transactional data, structured rate-linked notes of CHF 1.9 billion as the volatility of the embedded derivative could not be independently tested, equity linked notes of CHF 1.3 billion as the volatility of the embedded equity option could no longer be independently verified.

Transfers of financial liabilities designated at fair value out of level 3 were CHF 1.1 billion, which consisted of equity linked notes of CHF 0.5 billion and structured rate-linked notes of CHF 0.5 billion where the volatility of the embedded option was independently verified.

Net issuances of level 3 financial liabilities designated at fair value were CHF 3.3 billion, consisting primarily of equity linked notes of CHF 1.6 billion, structured rate-linked notes of CHF 1.2 billion and credit linked notes of CHF 0.4 billion. Net settlements of level 3 financial liabilities designated at fair value were CHF 4.7 billion, which consisted primarily of equity linked notes of CHF 2.4 billion, structured rate-linked notes of approximately CHF 1.4 billion and credit linked notes of CHF 0.4 billion.

Sensitivity information

Sensitivity of level 3 financial assets and liabilities

Included in the fair value estimates of financial instruments carried at fair value on the balance sheet are those estimated in

full or in part using valuation techniques based on assumptions that are not supported by market observable prices, rates, or other inputs. In addition, there may be uncertainty about a valuation which results from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a consequence of other elements affecting the valuation technique or model.

To show the effect when changing the unobservable inputs to a reasonably possible alternative assumption, UBS performed a sensitivity analysis of its financial instruments classified as level 3, which are valued using a model-based technique, and for which significant model inputs are unobservable in the markets in which the underlying products are transacted. For securities and loans which are not ascribed a value from a model-based technique, fair values as of 31 December were adjusted by two to 20 percent, as deemed adequate for the applicable product in the professional judgment of control functions, which perform procedures to establish the reasonableness of the Bank's valuation assertions at the balance sheet date. For all other level 3 financial instruments, the respective significant unobservable parameters were identified, and fair value estimates adjusted to alternative assumptions deemed reasonable in the markets in which the instruments may transact.

Cash instruments referred to in the below table relate to long and short inventory, if applicable, of the respective product type. For purposes of the below presentation, derivative instruments will include positive and negative replacement values, as well as issued notes with embedded equity or interest rate derivative features, which are presented on the UBS balance sheet as financial assets or liabilities designated at fair value. For all instruments, favorable changes are increases to asset values and decreases to liability values, as a consequence of applying the relevant sensitivity percentage. Unfavorable changes are decreases in asset values, and increases in liability values, as a consequence of applying the relevant sensitivity percentage for the respective financial instruments.

As of	31.12.10	
	Favorable changes	Unfavorable changes
CHF billion		
Cash instruments		
Mortgage securities	0.3	(0.3)
Debt securities	0.2	(0.2)
Traded loans	0.1	(0.1)
Total cash instruments	0.6	(0.6)
Derivatives instruments		
Equity derivatives	0.4	(0.4)
Interest rate derivatives	0.7	(0.7)
Credit derivatives	0.1	(0.1)
Total derivatives instruments	1.2	(1.2)

Note 27 Fair value of financial instruments (continued)

c) Valuation techniques by product

This section includes a description of main product categories, and related valuation techniques employed by the Bank.

Government and corporate bonds, bills and loans

Government bonds and bills are generally actively traded with quoted prices in liquid markets. Should market prices not be available, the securities are valued against yield curves implied from similar issuances.

Corporate bonds are priced at market levels, which are based on recent trades or broker and dealer quotes. In cases where no directly comparable price is available, the bonds are tested against yields derived from other securities by the same issuer or benchmarked against similar securities adjusting for seniority, maturity and liquidity. For illiquid securities credit modeling may be used, which considers the features of the security and discounts cash-flows using observable or implied credit spreads and prevailing interest rates.

Loans held at fair value are priced at market levels reflecting recent transactions or quoted dealer prices. For illiquid loans where no market price is available, alternative valuation techniques are used which may include relative value benchmarking using pricing derived from debt instruments in comparable entities.

The corporate lending portfolio is valued using either directly observed market prices typically from consensus providers or using a credit default swap pricing model, which requires credit spreads, recovery and interest rate inputs.

Equity securities, hedge fund and investment fund units, convertible bonds, and options

The majority of equity securities are traded on public stock exchanges where quoted prices are readily and regularly available.

Hedge funds are measured at fair value based on their published Net Asset Values (NAVs). The Bank will consider the availability of NAVs from the funds or restrictions imposed upon the redemption of these funds when determining the final fair value.

Convertible bonds are mostly valued using observable pricing sources, which are generally available given frequency of trading in the market.

Investment fund units are predominantly exchange traded, with quoted prices in liquid markets. Should market prices not be available these instruments may be valued based on their Net Asset Value (NAV).

UBS has positions in both Exchange Traded Options (ETO) and Over-the-Counter (OTC) options. ETOs generally have observable prices, and the Bank considers market prices for their fair value assessment. OTC options are measured using either industry standard models or internally developed proprietary models.

Residential Mortgage-Backed Securities (RMBS), Commercial Mortgage-Backed Securities (CMBS), Asset-Backed Securities (ABS) and Collateralized Debt Obligations (CDO)

Values of RMBS, CMBS, ABS and CDOs are determined by traded prices and independently verified market data when available. In the absence of direct market data, values will be derived from traded and quoted prices on the securities with similar characteristics or indices through benchmarking and the triangulation approaches.

Securities with plain vanilla structure but limited observable market data are valued through industry standard valuation models, while those with complex structures are valued through proprietary models. Key inputs to such models include management's quantitative and qualitative assessment on current and future economic conditions, of securities' projected performance under such conditions, as well as liquidity in the market, among other factors. When applicable, reserves including, but not limited to, model risk and liquidity risk as reflected in the bid / offer may also be taken into account to determine the final value.

Credit derivatives related to RMBS, CMBS, ABS and CDO

Credit derivatives are in the form of credit default swaps, total return swaps and balance guaranteed swaps either referencing an index, single name securities or a basket of references. Single name contracts are primarily priced using reliable market data or traded prices on identical or similar exposures to determine their value. More illiquid and bespoke credit derivatives are valued through proprietary models and inputs to such models are derived via market data and calibration to similar transactions, reference indices, and securities.

Credit derivatives

Single name and index credit default swaps, and any derivation or combination which can be classified as complex structured credit products, are valued by using market available credit spreads and recovery rates from either consensus pricing services or other market participants. This data is fed into industry standard models in order to derive fair value.

Complex structured credit products are valued using proprietary models, which are calibrated to data derived from consensus pricing services. Inputs to these models include single name credit spreads, recovery rates, implied correlations, credit volatilities, cash / synthetic basis spreads and quanto basis spreads.

Rates swaps and forwards

OTC swap products include interest rate swaps, basis swaps, cross currency swaps, inflation swaps and interest rate forwards, often referred to as forward rate agreements (FRAs). All of these products are valued by estimating future interest cash-flows (both

Note 27 Fair value of financial instruments (continued)

fixed and future index levels) and then discounting these flows using an interest rate that reflects the appropriate funding rate for that portion of the portfolio. Interest rates and future index levels used in the above calculations are generated from observing current market interest rates associated with typical OTC interest rate derivatives (swap rates, basis swap spreads, futures prices, FRA rates) and converting these into rates specific to the portfolio using market standard yield curve models.

Rates options

Interest rate caps and floors, swaptions, and other interest rate options are valued using market standard option models. These models use inputs that include (but are not limited to) interest rate yield curves, inflation curves, interest rates volatilities, FX rate volatilities, inflation volatilities, correlations (between different interest rates or between rates and FX or inflation). The models are calibrated so that they are able to recover market observed prices for standard option instruments trading within the market and the calibrated model is then used to revalue the portfolio.

FX spot and forward

Open spot and settled FX positions are valued using the observed market FX spot rate. Forward FX positions are valued using the spot rate adjusted for forward pricing points observed from standard market sources.

FX options

OTC options on FX rates are valued using market standard option models. These models include inputs that include (but are not limited to) FX spot rates, FX forward points, FX volatilities, interest rate yield curves, correlations between FX rates and interest rates. The models are calibrated so that they are able to recover market observed prices for standard option instruments trading within the market and the calibrated model is then used to revalue the portfolio.

→ Refer to the “Risk and treasury management” section for more information on certain financial instruments with significant valuation uncertainty (CVA monolines, US and non-US reference-linked notes, option to acquire equity of the SNB StabFund)

d) Deferred day 1 profit or loss

The table reflects financial instruments for which fair value is determined using valuation models where not all significant inputs are market observable. Such financial instruments are initially recognized at their transaction price, although the values obtained from the relevant valuation model on day 1 may differ. Day 1 reserves are released and P&L is recorded in trading profit or loss as

either the underlying parameters become observable or the transaction is closed out.

The table shows the aggregate difference yet to be recognized in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference (movement of deferred day 1 profit or loss).

Deferred day 1 profit or loss

<i>CHF million</i>	For the year ended	
	31.12.10	31.12.09
Balance at the beginning of the year	599	627
Deferred profit / (loss) on new transactions	282	231
Recognized (profit) / loss in the income statement	(260)	(240)
Foreign currency translation	(56)	(19)
Balance at the end of the year	565	599

On 31 December 2010, deferred day 1 profit or loss of approximately CHF 0.3 billion (31 December 2009: approximately CHF 0.3 billion) pertains largely to structured rates and credit trades, including bespoke CDOs and multi-name credit default swaps,

and of approximately CHF 0.3 billion (31 December 2009: approximately CHF 0.3 billion) to over-the-counter (OTC) equity options. Both instruments are presented as replacement values on UBS's balance sheet.

Note 27 Fair value of financial instruments (continued)

e) Financial instruments accounted for at amortized cost

The following table reflects the estimated fair values for UBS's instruments accounted for at amortized cost. Refer to Note 29 for an overview of financial assets classified as "loans and receivables" and financial liabilities accounted for at amortized cost.

CHF billion	31.12.10		31.12.09	
	Carrying value	Fair value	Carrying value	Fair value
Assets				
Due from banks	17.1	17.1	16.8	16.8
Loans	261.3	263.4	264.7	265.6
Cash collateral on securities borrowed	62.5	62.5	63.5	63.5
Reverse repurchase agreements	142.8	142.8	116.7	116.7
Cash collateral receivables on derivative instruments	38.1	38.1	53.8	53.8
Accrued income and prepaid expenses, other assets	20.6	20.6	21.4	21.4
Liabilities				
Due to banks	41.5	41.5	31.9	31.8
Due to customers	332.3	332.5	339.3	339.3
Cash collateral on securities lent	6.7	6.7	8.0	8.0
Repurchase agreements	74.8	74.7	64.2	64.2
Cash collateral payables on derivative instruments	58.9	58.9	66.1	66.1
Debt issued	131.6	131.4	134.5	133.6
Accrued expenses and deferred income, other liabilities	49.2	49.2	54.3	54.3
Commitments				
Loan commitments ¹	0.4	1.9	0.3	1.2
Guarantees and similar instruments ²	0.1	0.3	0.1	0.4

¹ Loan commitments include derivative loan commitments, loan commitments accounted for as financial liabilities designated at fair value and other loan commitments not recognized on balance sheet, unless a provision is required. ² The fair value of financial guarantees is positive as the present value of the expected fees exceeds the present value of the expected outflows.

Loans include Wealth Management assets, mainly mortgage loans, where fair values exceed related carrying values by CHF 3.4 billion, and Investment Bank assets where fair values fall below related carrying values by CHF 1.2 billion.

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

- For financial instruments with remaining maturities greater than three months, the fair value was determined from quoted market prices, where available.
- Where quoted market prices were not available, the fair values were estimated by discounting contractual cash flows using

current market interest rates or appropriate yield curves for instruments with similar credit risk and maturity. These estimates generally include adjustments for counterparty credit or UBS's own credit.

- For short-term financial instruments with remaining maturities of three months or less, the carrying amount, which is net of credit loss allowances, is generally considered a reasonable estimate of fair value. The following financial instruments accounted for at amortized cost have remaining maturities of three months or less: 94% of amounts due from banks; 100% of cash collateral on securities borrowed; 95% of reverse repurchase agreements; 100% of cash collateral receivables on derivatives; 42% of loans; 94% of amounts due to banks; 100% of cash collateral on securities lent; 93% of repurchase agreements; 100% of cash collateral payable on derivatives; 97% of amount due to customers; and 30% of debt issued.
- The fair value of variable interest-bearing financial instruments accounted for at amortized cost is assumed to be approximated by their carrying amounts, which are net of credit loss al-

Note 27 Fair value of financial instruments (continued)

- lowances, and does not reflect fair value changes in the credit quality of counterparties or UBS's own credit movements.
- The fair value estimates for repurchase and reverse repurchase agreements with variable and fixed interest rates, for all maturities, include the valuation of the interest rate component of these instruments. Credit and debit valuation adjustments
 - have not been included in the valuation due to the short term nature of these instruments.
 - The estimated fair values of off balance sheet financial instruments are based on market prices for similar facilities and guarantees. Where this information is not available, fair value is estimated using discounted cash flow analysis.

Note 28 Pledged assets and transferred financial assets which do not qualify for derecognition

Financial assets are mainly pledged in securities borrowing and lending transactions, in repurchase and reverse repurchase transactions, under collateralized credit lines with central banks, against loans from mortgage institutions, in connection with derivative transactions, as security deposits for stock exchanges and clearinghouse memberships, or transferred for security purposes in connection with the issuance of covered bonds.

Assets pledged

	Carrying amount	
<i>CHF million</i>	31.12.10	31.12.09
Financial assets held for trading portfolio assets pledged to third parties	79,742	64,748
<i>of which: pledged to third parties with right of rehypothecation</i>	61,352	44,221
Financial investments available-for-sale pledged to third parties	38,106	53,222
Mortgage loans	27,119	21,741
Other loans and receivables	10,235	12,553
<i>of which: pledged to third parties with right of rehypothecation</i>	559	192
Total financial assets pledged	155,202	152,264

The following table presents details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition. Criteria for derecognition are discussed in Note 1a) 5).

Transfer of financial assets which do not qualify for derecognition

	Continued asset recognition in full – Total assets	
<i>CHF billion</i>	31.12.10	31.12.09
Nature of transaction		
Securities lending agreements	30.9	17.1
Repurchase agreements	28.6	24.6
Other financial asset transfers	96.6	110.9
Total	156.1	152.6

The transactions are mostly conducted under standard agreements employed by financial market participants and are undertaken with counterparties subject to UBS's normal credit risk control processes. The resulting credit risk exposures are controlled by daily monitoring and collateralization of the positions. The financial assets which continue to be recognized are typically transferred in exchange for cash or other financial assets. The associated liabilities can therefore be assumed to be approximately the carrying amount of the transferred financial assets except for certain positions pledged with central banks.

UBS retains substantially all risks and rewards of the transferred assets in each situation of continued recognition. These include credit risk, settlement risk, country risk and market risk.

Repurchase agreements and securities lending agreements are discussed in Notes 1a) 13) and 1a) 14). Other financial asset transfers include sales of financial assets while concurrently entering into a total rate of return swap with the same counterparty and sales of financial assets involving guarantees.

Transferred financial assets which are subject to partial continuing involvement were immaterial in 2010 and 2009.

Note 29 Measurement categories of financial assets and financial liabilities

a) Measurement categories of financial assets and financial liabilities

The following table provides information about the carrying amounts of individual classes of financial instruments within the measurement categories of financial assets and financial liabilities as defined in IAS 39. Only those assets and liabilities which are deemed to be financial instruments are included in the table be-

low, which causes certain balances to differ from those presented on the balance sheet.

→ Refer to “Note 27 Fair value of financial instruments” for more information on how fair value of financial instruments is determined

	31.12.10	31.12.09
Financial assets¹		
Held for trading		
Trading portfolio assets	148,521	171,173
Trading portfolio assets pledged as collateral	61,352	44,221
Debt issued ²	2,665	3,109
Positive replacement values	401,146	421,694
Total	613,684	640,197
Fair value through profit or loss		
Financial assets designated at fair value	8,504	10,223
Financial assets at amortized cost		
Cash and balances with central banks	26,939	20,899
Due from banks	17,133	16,804
Cash collateral on securities borrowed	62,454	63,507
Reverse repurchase agreements	142,790	116,689
Cash collateral receivables on derivative instruments	38,071	53,774
Loans	261,263	264,710
Accrued income and prepaid expenses	1,404	1,465
Other assets	19,175	19,941
Total	569,229	557,789
Available-for-sale		
Financial investments available-for-sale	74,768	81,757
Total financial assets	1,266,185	1,289,966
Financial liabilities		
Held for trading		
Trading portfolio liabilities	54,975	47,469
Debt issued ²	1,308	8
Negative replacement values	393,762	409,943
Total	450,045	457,420
Fair value through profit or loss, other		
Financial liabilities designated at fair value	100,756	112,653
Amounts due under unit-linked contracts	18,125	21,740
Total	118,881	134,393
Financial liabilities at amortized cost		
Due to banks	41,490	31,922
Cash collateral on securities lent	6,651	7,995
Repurchase agreements	74,796	64,175
Cash collateral payables on derivative instruments	58,924	66,097
Due to customers	332,301	339,263
Accrued expenses and deferred income	7,581	8,522
Debt issued	131,628	134,453
Other liabilities	41,622	45,774
Total	694,993	698,201
Total financial liabilities	1,263,918	1,290,014

¹ CHF 127 billion of Loans, CHF 26 billion of Financial investments available-for-sale and CHF 7 billion of Financial assets designated at fair value are expected to be recovered or settled after twelve months. ² Embedded derivatives presented on the balance sheet line Debt issued.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

b) Reclassification of financial assets

The reclassification of financial assets reflected UBS's change in intent and ability to hold these financial assets for the foreseeable future rather than for trading in the near term. The foreseeable future is interpreted to mean a period of approximately 12 months following the date of reclassification. The financial assets were reclassified using their fair value on the date of the reclassification, which became their new cost basis at that date.

In fourth quarter 2008 and first quarter 2009, financial assets with fair values on their reclassification dates of CHF 26 billion and CHF 0.6 billion, respectively, were reclassified out of *Trading portfolio assets* to *Loans*.

The table below shows the carrying values and fair values of these financial assets.

Trading portfolio assets reclassified to loans

CHF billion	31.12.10	31.12.09
Carrying value	11.9	19.9
Fair value	12.1	19.0
Pro-forma fair value gain / (loss)	0.2	(0.9)

In 2010, carrying values decreased by CHF 8.0 billion mainly due to sales of CHF 6.3 billion. Redemptions of CHF 0.7 billion and the appreciation of the Swiss franc against the US dollar of CHF 1.4 billion resulted in further decreases. The decrease was partially offset by the accretion of interest of approximately CHF 0.4 billion from the amortization of the discount between carrying values and the expected recoverable amounts.

Fair values of reclassified financial assets decreased as well by CHF 6.9 billion in 2010. The decreases included sales of CHF 6.3

billion, redemptions of CHF 0.7 billion, fair value changes of CHF 0.4 billion and the appreciation of the Swiss franc against the US dollar of CHF 1.4 billion, partially offset by fair value gains of CHF 1.8 billion.

The table below provides notional values, fair values, and carrying values by product category, as well as the ratio of carrying value to notional value.

Reclassified financial assets impacted UBS's income statement as presented in the table below.

Reclassified assets

CHF billion	Notional value	Fair value	Carrying value	Ratio of carrying to notional value
US student loan and municipal auction rate securities	5.1	4.4	4.5	88%
Monoline-protected assets	6.1	5.4	5.3	86%
Leveraged finance	0.5	0.4	0.4	75%
CMBS / CRE (excluding interest-only strips)	0.2	0.1	0.1	81%
US reference-linked notes	0.6	0.6	0.5	83%
Other assets	0.9	0.8	0.7	82%
Total (excluding CMBS interest-only strips)	13.5	11.7	11.6	86%
CMBS interest-only strips		0.4	0.3	
Total reclassified assets	13.5	12.1	11.9	

Contribution of the reclassified assets to the income statement

CHF billion	For the year ended	
	31.12.10	31.12.09
Net interest income	0.5	1.5
Credit loss (expense) / recovery	(0.1)	(1.0)
Other income ¹	0.1	0.1
Impact on operating profit before tax	0.5	0.6

¹ Includes net gains on the disposal of reclassified assets.

Note 29 Measurement categories of financial assets and financial liabilities (continued)

c) Maximum exposure to credit risk and credit quality information

The table below presents the Group's maximum exposure to credit risk without taking account of any collateral held or other credit enhancements. The amounts included in the table represent the carrying amounts of financial instruments subject to credit risk, which were determined under the guidance of IFRS. Financial in-

struments have been netted only if and to the extent a) legally enforceable rights to offset exist, and b) UBS has the intention to settle the underlying transactions on a net basis. As such, the amounts disclosed in the table below should not necessarily be considered a "risk measure".

Maximum exposure to credit risk

CHF million	31.12.10					31.12.09				
	WM&SB	WMA	IB	Other ¹	UBS	WM&SB	WMA	IB	Other ¹	UBS
Balances with central banks	10,727	0	13,732	0	24,459	8,589	0	9,525		18,114
Due from banks	2,654	2,157	12,007	315	17,133	2,647	1,074	12,802	282	16,804
Loans	199,591	22,470	39,044	158	261,263	194,410	21,492	48,722	86	264,710
Cash collateral on securities borrowed			62,454		62,454			63,507		63,507
Reverse repurchase agreements		3,615	123,574	15,601	142,790	1,107	4,302	109,896	1,384	116,689
Cash collateral receivables on derivative instruments	4		38,052	15	38,071	4		53,755	15	53,774
Accrued income, other assets and debt underwriting commitments subject to credit risk	1,187	163	18,437	804	20,591	1,319	147	18,783	1,185	21,434
Financial instruments recognized at amortized cost on balance sheet	214,163	28,405	307,300	16,893	566,762	208,076	27,015	316,989	2,952	555,032
Positive replacement values	2,688	600	396,018	1,840	401,146	2,534	520	416,862	1,778	421,694
Trading portfolio assets (including pledged positions) – debt instruments	10,707	613	122,986	5	134,310	16,341	1,107	117,047	1,739	136,234
Financial assets designated at fair value – debt instruments	30		7,359		7,389	65		9,317		9,383
Financial investments available-for-sale – debt instruments	27	11,585	3,426	58,371	73,409	5,393	16,515	52,183	6,315	80,406
Financial instruments recognized at fair value on balance sheet	13,453	12,798	529,789	60,215	616,255	24,333	18,142	595,409	9,832	647,717
Credit guarantees, performance guarantees, documentary credits and similar instruments ²	10,449	370	5,467	119	16,405	11,888	385	4,569	137	16,979
Loan commitments	7,276	1,066	48,509		56,851	7,236	498	51,593		59,328
Irrevocable commitments to acquire ARS			140		140			8,700		8,700
Irrevocable forward starting reverse repos agreements			39,036		39,036			43,020		43,020
Irrevocable forward starting securities borrowing agreements			454		454			904		904
Commitments	17,724	1,436	93,607	119	112,887	19,124	883	108,786	137	128,931
Total at the year-end	245,340	42,640	930,695	77,228	1,295,903	251,533	46,040	1,021,184	12,921	1,331,680

¹ Other includes Global Asset Management and treasury activities and other corporate items. ² The related provision of CHF 130 million (CHF 90 million for 2009) has been deducted.

The table above does not include written credit protection, which is generally recognized on UBS's balance sheet under *Negative replacement values*. It also excludes UBS's potential obligations under the Swiss Deposit Insurance (2010: CHF 961 million, 2009: 1,030 million).

The maximum exposure to credit risk determined under IFRS guidance and disclosed in the table above is actively managed and subject to credit risk management, such as collateralization and hedging. Collateral held and credit risk mitigation is described in the section "Risk management and control".

Note 29 Measurement categories of financial assets and financial liabilities (continued)

Financial assets subject to credit risk by rating category

<i>CHF million</i>		31.12.10						
Rating category ¹	0-1	2-3	4-5	6-8	9-13	defaulted	not rated ⁴	Total
Balances with central banks	14,636	9,800	23					24,459
Due from banks	326	11,728	2,555	2,349	174	2		17,133
Loans	11,845	75,638	76,200	79,785	16,216	1,580		261,263
Cash collateral on securities borrowed and reverse repurchase agreements	59,372	112,871	23,093	8,229	1,675	4		205,244
Positive replacement values	15,220	331,725	38,372	12,567	2,187	1,074		401,146
Cash collateral receivables on derivative instruments	6,207	22,591	4,470	4,475	320	8		38,071
Trading portfolio assets (including pledged) – debt instruments	52,541	59,353	10,162	5,544	6,415	296		134,310
Financial investments available-for-sale – debt instruments	66,804	6,559		40	6			73,409
Other financial instruments	104	5,853	3,734	16,349	1,646	294		27,980
Commitments²								
Guarantees and similar instruments ³	131	7,183	4,528	3,149	1,386	159		16,535
Undrawn irrevocable credit facilities	671	32,793	10,310	4,821	8,109	147		56,851
Irrevocable forward starting reverse repos							39,036	39,036
Irrevocable forward starting securities borrowing							454	454
Total	227,856	676,094	173,446	137,308	38,134	3,564	39,490	1,295,893

<i>CHF million</i>		31.12.09						
Rating category ¹	0-1	2-3	4-5	6-8	9-13	defaulted	not rated ⁴	Total
Balances with central banks	14,491	3,615	9					18,114
Due from banks	312	14,092	1,517	596	176	111		16,804
Loans	15,738	68,854	76,986	84,120	16,295	2,716		264,710
Cash collateral on securities borrowed and reverse repurchase agreements	47,928	100,127	24,108	7,444	537	52		180,196
Positive replacement values	18,138	357,590	31,511	10,316	2,682	1,456		421,694
Cash collateral receivables on derivative instruments	7,956	37,621	3,563	3,835	606	194		53,774
Trading portfolio assets (including pledged) – debt instruments	60,216	56,032	9,871	4,429	4,985	701		136,234
Financial investments available-for-sale – debt instruments	75,363	5,007	3	25	8			80,406
Other financial instruments	177	7,407	5,001	15,528	2,380	323		30,816
Commitments²								
Guarantees and similar instruments ³	87	8,391	4,129	2,931	1,475	56		17,070
Undrawn irrevocable credit facilities	962	40,682	8,441	3,357	5,463	422		59,328
Irrevocable forward starting reverse repos							43,020	43,020
Irrevocable forward starting securities borrowing							904	904
Total	241,368	699,417	165,140	132,582	34,608	6,032	43,924	1,323,070

¹ Details on rating categories are available in table "UBS internal rating scale and mapping of external ratings" within section "Risk and treasury management". ² Excludes commitments to acquire ARS of CHF 140 million for 2010 (CHF 8,700 million 2009). ³ The provisions of CHF 130 million for 2010 (CHF 90 million 2009) are not deducted from the notional value of Guarantees and similar instruments. ⁴ These ratings are not available for 2010 and 2009 respectively.

Note 30 Pension and other post-employment benefit plans

CHF million	31.12.10	31.12.09	31.12.08
Net periodic pension cost for defined benefit plans	477	742	660
of which: related to major plans (Note 30a)	430	694	672
of which: related to post-retirement medical and life insurance plans (Note 30b)	22	9	9
of which: related to remaining plans	25	39	(21)
Pension cost for defined contribution plans (Note 30c)	246	246	312
Total pension and other post-employment benefit plans (Note 6)	724	988	972

a) Defined benefit plans

UBS has established various pension plans inside and outside of Switzerland. The major plans are located in Switzerland, the UK, the US and Germany. Independent actuarial valuations are performed for the plans in these countries. The measurement date of these plans is 31 December for each year presented.

The overall investment policy and strategy for UBS's defined benefit pension plans are guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. Depending on the country the pension fund trustees and/or UBS are responsible for the determination of the mix of asset types and target allocations. Actual asset allocation is determined by a variety of current economic and market conditions and in consideration of specific asset class risk.

The expected long-term rates of return on plan assets are based on long-term expected inflation, interest rates, risk premiums and targeted asset class allocations. These estimates take into consideration historical asset class returns and are determined together with the plans' investment and actuarial advisors.

Swiss pension plan

The Swiss pension plan covers all UBS employees in Switzerland and exceeds the minimum benefit requirements under Swiss law. The Swiss plan allows employees a choice in the level of annual contributions paid by the employee. The pension plan provides benefits which are based on annual contributions as a percentage of salary and accrue at an interest rate that is defined annually by the Pension Foundation Board.

Contributions to the pension plan are paid by employees and the employer. The employee contributions are calculated as a percentage of covered salary and are deducted monthly. The percentages deducted from salary for the standard level of benefit coverage depend on age and vary between 1% and 9% of covered base salary and 3% and 8% of covered variable compensation. The employer pays a contribution that ranges between 100% and 375% of employees' contributions for the standard level of benefit coverage. The benefits covered include retirement benefits; disability, death and survivor pensions; and employment termination benefits.

The employer contributions expected to be made in 2011 to the Swiss pension plan are CHF 530 million.

International pension plans

The international locations of UBS operate various pension plans in accordance with local regulations and practices. The locations with defined benefit plans of a significant nature are in the UK, the US and Germany. The UK and the US defined benefit plans are closed to new entrants who are covered by defined contribution plans. The amounts shown for international plans reflect the net funded positions of the significant international plans.

The pension plans provide benefits in the event of retirement, death or disability. The level of benefits provided depends on the defined rate of benefit accrual and level of compensation. The plans are funded entirely by UBS. The employer contributions expected to be made in 2011 to these pension plans are CHF 96 million. The funding policy for these plans is consistent with local government and tax requirements.

The assumptions used in international plans are based on local economic conditions.

→ Refer also to Note 1a) 23).

Note 30 Pension and other post-employment benefit plans (continued)

Defined benefit plans

<i>CHF million</i>	Swiss			International		
For the year ended	31.12.10	31.12.09	31.12.08	31.12.10	31.12.09	31.12.08
Defined benefit obligation at the beginning of the year	(21,119)	(21,311)	(20,877)	(4,353)	(3,642)	(4,928)
Service cost	(384)	(432)	(336)	(41)	(41)	(63)
Interest cost	(657)	(672)	(710)	(237)	(230)	(251)
Plan participant contributions	(197)	(195)	(233)			
Actuarial gain/(loss)	(149)	231	(288)	(119)	(471)	318
Benefits paid	1,252	1,314	1,158	148	153	148
Termination benefits	(45)	(54)	(25)			
Foreign currency translation				549	(122)	1,134
Defined benefit obligation at the end of the year	(21,299)	(21,119)	(21,311)	(4,053)	(4,353)	(3,642)
Fair value of plan assets at the beginning of the year	20,286	19,029	22,181	3,517	2,866	4,579
Expected return on plan assets	850	846	990	237	202	282
Actuarial gain/(loss)	54	963	(3,820)	163	266	(1,027)
Employer contributions	510	513	578	86	232	194
Employer contributions – termination benefits	45	54	25			0
Plan participant contributions	197	195	233			
Benefits paid	(1,252)	(1,314)	(1,158)	(148)	(153)	(148)
Foreign currency translation				(449)	104	(1,014)
Fair value of plan assets at the end of the year	20,690	20,286	19,029	3,406	3,517	2,866
Funded status	(609)	(833)	(2,282)	(647)	(836)	(776)
Unrecognized net actuarial (gains)/losses	3,028	2,996	4,405	1,183	1,475	1,324
(Accrued)/prepaid pension cost	2,418	2,163	2,123	536	639	548
Movement in the net (liability) or asset						
(Accrued)/prepaid pension cost at the beginning of the year	2,163	2,123	2,123	639	548	626
Net periodic pension cost	(300)	(527)	(603)	(130)	(167)	(69)
Employer contributions	510	513	578	86	232	194
Employer contributions – termination benefits	45	54	25			0
Foreign currency translation				(59)	26	(203)
(Accrued)/prepaid pension cost	2,418	2,163	2,123	536	639	548
Amounts recognized in the balance sheet						
Prepaid pension cost	2,418	2,163	2,123	756	890	798
Accrued pension liability				(220)	(251)	(250)
(Accrued)/prepaid pension cost	2,418	2,163	2,123	536	639	548
Components of net periodic pension cost						
Service cost	384	432	336	41	41	63
Interest cost	657	672	710	237	230	251
Expected return on plan assets	(850)	(846)	(990)	(237)	(202)	(282)
Amortization of unrecognized net (gains)/losses	64	215	0	89	98	37
Immediate recognition of net actuarial (gains)/losses in current period			1,826			
Termination benefits	45	54	25			
Limit of defined benefit asset			(1,304)			
Net periodic pension cost	300	527	603	130	167	69

Note 30 Pension and other post-employment benefit plans (continued)

Defined benefit plans (continued)

Funded and unfunded plans

CHF million	Swiss				
	31.12.10	31.12.09	31.12.08	31.12.07	31.12.06
Defined benefit obligation from funded plans	(21,299)	(21,119)	(21,311)	(20,877)	(21,506)
Plan assets	20,690	20,286	19,029	22,181	21,336
Surplus / (deficit)	(609)	(833)	(2,282)	1,304	(170)
Experience gains / (losses) on plan liabilities	253	214	0		
Experience gains / (losses) on plan assets	54	963	(3,820)		

CHF million	International				
	31.12.10	31.12.09	31.12.08	31.12.07	31.12.06
Defined benefit obligation from funded plans	(3,813)	(4,078)	(3,402)	(4,654)	(5,002)
Defined benefit obligation from unfunded plans	(240)	(275)	(240)	(274)	(205)
Plan assets	3,406	3,517	2,866	4,579	4,602
Surplus / (deficit)	(647)	(836)	(776)	(349)	(605)
Experience gains / (losses) on plan liabilities	(17)	(12)	62		
Experience gains / (losses) on plan assets	163	266	(1,027)		

	Swiss			International		
	31.12.10	31.12.09	31.12.08	31.12.10	31.12.09	31.12.08
Principal weighted average actuarial assumptions used (%)						
Assumptions used to determine defined benefit obligations at the end of the year						
Discount rate	2.8	3.3	3.3	5.4	5.7	6.0
Expected rate of salary increase	2.5	2.5	2.5	4.9	5.0	4.5
Rate of pension increase	0.3	0.5	0.5	2.3	2.5	1.9

Assumptions used to determine net periodic pension cost for the year ended						
Discount rate	3.3	3.3	3.5	5.7	6.0	5.8
Expected rate of return on plan assets	4.3	4.5	4.5	6.9	6.6	7.1
Expected rate of salary increase	2.5	2.5	2.5	5.0	4.5	4.8
Rate of pension increase	0.5	0.5	0.8	2.5	1.9	2.4

Plan assets (weighted average)

Actual plan asset allocation (%)						
Equity instruments	32	35	26	45	46	46
Debt instruments	54	51	55	38	35	35
Real estate	13	13	13	3	3	3
Other	1	1	6	14	16	16
Total	100	100	100	100	100	100

Long-term target plan asset allocation (%)						
Equity instruments	15-39	18-44	20-48	40-42	42-45	45-48
Debt instruments	44-68	41-65	37-63	38-44	37-44	37-38
Real estate	10-18	9-17	10-20	3-6	3-7	3-7
Other	0-5	0-5	0-5	11-15	11-12	10-12
Actual return on plan assets (%)	4.6	9.7	(12.8)	11.7	15.5	(18.2)

Additional details to fair value of plan assets

UBS financial instruments and UBS bank accounts	258	205	782
UBS AG shares ¹	25	66	55
Derivative financial instruments, counterparty UBS	298	25	41
Other assets used by UBS	188	193	107

¹ The number of UBS AG shares was 1,638,000, 4,095,850 and 3,734,000 as of 31 December 2010, 31 December 2009 and 31 December 2008, respectively.

Note 30 Pension and other post-employment benefit plans (continued)

Mortality tables and life expectancies for major plans

Country	Mortality table	Life expectancy at age 65 for a male member currently					
		31.12.10	aged 65		31.12.10	aged 45	
			31.12.09	31.12.08		31.12.09	31.12.08
Switzerland	BVG 2005	17.9	17.9	17.8	17.9	17.9	17.8
UK	PA 2000 G, medium cohort with adjustment	23.0	22.8	22.7	25.9	25.7	25.6
Germany	Dr. K. Heubeck 2005 G	19.3	19.1	19.0	22.0	21.9	21.8
US	PPA mandated mortality table per IRC 1.430(h)(3)	19.0	18.4	18.4	19.0	18.4	18.4

Country	Mortality table	Life expectancy at age 65 for a female member currently					
		31.12.10	aged 65		31.12.10	aged 45	
			31.12.09	31.12.08		31.12.09	31.12.08
Switzerland	BVG 2005	21.0	21.0	21.1	21.0	21.0	21.1
UK	PA 2000 G, medium cohort with adjustment	24.7	24.6	24.5	26.6	26.5	26.4
Germany	Dr. K. Heubeck 2005 G	23.4	23.3	23.1	26.0	25.8	25.7
US	PPA mandated mortality table per IRC 1.430(h)(3)	20.9	20.6	20.6	20.9	20.6	20.6

Note 30 Pension and other post-employment benefit plans (continued)

b) Post-retirement medical and life insurance plans

In the US and the UK, UBS offers retiree medical benefits that contribute to the health care coverage of certain employees and beneficiaries after retirement. The UK plan is closed to new entrants. In addition to retiree medical benefits, UBS in the US also provides retiree life insurance benefits to certain employees. The benefit obligation in excess of the fair value of plan assets for these plans amounts to CHF 209 million as of 31 December 2010 (2009: CHF 186 million; 2008: CHF 159 million) and the total accrued post-retirement cost amounts to CHF 158 million as of 31

December 2010 (2009: CHF 163 million; 2008: CHF 164 million). The periodic post-retirement costs for the years ended 31 December 2010, 31 December 2009, and 31 December 2008 were CHF 22 million (net of a curtailment gain of CHF 0 million), CHF 9 million (net of a curtailment gain of CHF 8 million), and CHF 9 million (net of a curtailment gain of CHF 11 million), respectively.

The employer contributions expected to be made in 2011 to the post-retirement medical and life insurance plans are CHF 7 million.

Post-retirement medical and life insurance plans

CHF million	31.12.10	31.12.09	31.12.08		
Post-retirement benefit obligation at the beginning of the year	(186)	(159)	(190)		
Service cost	(9)	(7)	(8)		
Interest cost	(11)	(10)	(11)		
Plan participant contributions	(2)	(2)	0		
Actuarial gain / (loss)	(35)	(31)	14		
Benefits paid	10	10	7		
Curtailments		9	9		
Foreign currency translation	24	4	20		
Post-retirement benefit obligation at the end of the year	(209)	(186)	(159)		
Fair value of plan assets at the beginning of the year	0	0	0		
Employer contributions	8	8	6		
Plan participant contributions	2	2	1		
Benefits paid	(10)	(10)	(7)		
Fair value of plan assets at the end of the year	0	0	0		
CHF million	31.12.10	31.12.09	31.12.08	31.12.07	31.12.06
Defined benefit obligation	(209)	(186)	(159)	(190)	(219)
Plan asset	0	0	0	0	0
Surplus / (deficit)	(209)	(186)	(159)	(190)	(219)
Experience gains / (losses) on plan liabilities	6	8	3		

The post-retirement benefit expense is determined by using the assumed average health care cost trend rate. The rate for 2011 is assumed to be 8% and is assumed to decrease gradually to 5% by 2018. On a country-by-country basis, the same discount rate is used for the calculation of the post-retirement benefit obligation from medical and life plans as for the defined benefit obligations arising from pension plans.

Assumed average health care cost trend rates have a significant effect on the amounts reported for health care plans. A one percentage point change in the assumed health care cost trend rates would change the US post-retirement benefit obligation and the service and interest cost components of the periodic post-retirement benefit costs as follows:

CHF million	1% increase	1% decrease
Effect on total service and interest cost	5	(4)
Effect on the post-retirement benefit obligation	35	(27)

Note 30 Pension and other post-employment benefit plans (continued)

c) Defined contribution plans

UBS also sponsors a number of defined contribution plans in its international locations. The locations with defined contribution plans of a significant nature are in the UK and the US. Certain plans permit employees to make contributions and earn matching

or other contributions from UBS. The employer contributions to these plans recognized as expense for the years ended 31 December 2010, 31 December 2009, and 31 December 2008 were CHF 246 million, CHF 246 million, and CHF 312 million, respectively.

d) Related party disclosure

UBS is the principal bank for the pension fund of UBS in Switzerland. In this function, UBS is engaged to execute most of the pension fund's banking activities. These activities can include, but are not limited to, trading and securities lending and borrowing. All transactions have been executed at arm's length conditions.

The international UBS pension funds do not have a similar banking relationship with UBS, but they may hold and trade UBS shares and/or securities.

In 2008, UBS sold certain bank-occupied properties to the Swiss pension fund. UBS and the Swiss pension fund entered si-

multaneously into lease-back arrangements for some of the properties with 25-year lease terms and two renewal options for ten years each. During 2009, UBS renegotiated one of the lease contracts which reduced UBS's remaining lease commitment.

As of 31 December 2010, the minimum commitment towards the Swiss pension fund under the related leases is approximately CHF 21 million (2009: CHF 27 million). The total rent paid by UBS (including the lease-back arrangements) amounted to CHF 11 million in 2010, CHF 12 million in 2009, and CHF 7 million in 2008.

The following amounts have been received or paid by UBS:

Related party disclosure

<i>CHF million</i>	For the year ended		
	31.12.10	31.12.09	31.12.08
Received by UBS			
Fees	21	34	44
Paid by UBS			
Rent	11	12	7
Interest	3	2	1
Dividends and capital repayments	0	0	4

The transaction volumes in UBS shares and other UBS securities are as follows:

Transaction volumes – related parties

	For the year ended		
	31.12.10	31.12.09	31.12.08
Financial instruments bought by pension funds			
UBS AG shares (in thousands of shares)	2,684	3,869	6,925
UBS financial instruments (nominal values in CHF million)	40	35	78
Financial instruments sold by pension funds or matured			
UBS AG shares (in thousands of shares)	4,735	4,116	1,881
UBS financial instruments (nominal values in CHF million)	10	14	10

UBS did not hold financial instruments issued by UBS pension plans as of 31 December 2010, 31 December 2009 and 31 December 2008, respectively.

Details to the fair value of plan assets of the defined pension plans are disclosed in Note 30a. Furthermore, UBS defined

contribution pension funds hold 17,665,621 UBS shares with a market value of CHF 272 million as of 31 December 2010 (2009: 17,259,203 shares with a market value of CHF 278 million; 2008: 17,866,949 shares with a market value of CHF 272 million).

Note 31 Equity participation and other compensation plans

a) Plans offered

UBS has established several equity participation and other compensation plans to further align the interests of executives, managers and staff with the interests of shareholders. The plans are offered to eligible employees in approximately 50 countries and are designed to meet the complex legal, tax and regulatory requirements of each country in which they are offered. UBS's compensation plans are mandatory, discretionary or voluntary. The explanations below provide a general description of the terms of the most significant plans offered, however specific plan rules may vary by country. Refer to Note 1a) 24) for a description of the accounting policy related to equity participation and other compensation plans.

Mandatory share-based compensation plans

Equity Ownership Plan (EOP): Selected employees receive a portion of their annual performance-related compensation, above a certain threshold, in the form of an EOP award of UBS shares, notional UBS shares, UBS performance shares, or Alternative Investment Vehicles (AIVs)¹, on a mandatory basis. The awards granted in UBS shares or notional UBS shares are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Awards granted in the form of AIVs are settled in cash. The majority of EOP awards continue to be granted in UBS shares and notional UBS shares. EOP awards generally vest in increments over a three-year vesting period. The awards are generally forfeitable upon voluntary termination of employment with UBS. Compensation expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, compensation expense is recognized from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee, on a tiered basis for share-settled awards and on a straight-line basis for cash-settled awards. During 2009, UBS only granted EOP awards to certain employees for which it had a contractual commitment. The awards granted in UBS performance shares are settled by delivering UBS shares but the vesting of these awards is subject to the fulfillment of specific performance conditions. Deferred performance shares will only vest in full if the participant's division is profitable (for Corporate Center participants, the Group as a whole needs to be profitable). Compensation expense is recognized in-line with the other EOP awards.

Senior Executive Equity Ownership Plan (SEEOP): Group Executive Board (GEB) members receive a portion of their mandatory deferral in UBS shares or notional UBS shares. The shares vest in one-fifth increments over a five-year vesting period and are forfeitable if certain conditions are not met. During 2010 and 2009, UBS only granted SEEOP awards to certain senior executives to whom it had a contractual commitment. Since 2010, awards granted under SEEOP are settled by delivering UBS shares, but the

vesting of these awards is subject to the fulfillment of specific performance conditions. Compensation expense is recognized on the same basis as for other share-settled EOP awards.

Incentive Performance Plan (IPP): In 2010 GEB members and certain other senior employees received as part of their annual incentive in the form of restricted performance shares granted under the IPP. Each performance share is a contingent right to receive between one and three UBS shares at vesting for each performance share granted, depending on the achievement of share price targets. IPP awards cliff-vest after approximately five years and are subject to continued employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee. IPP was a forward looking one-time plan granted in 2010 only.

Performance Equity Plan (PEP): In 2010 GEB members received as part of their annual incentive in the form of restricted performance shares. Each performance share is a contingent right to receive between zero and two UBS shares at vesting for each performance share granted, depending on the achievement of Economic Profit (EP) and Total Shareholder Return (TSR) targets. PEP awards cliff-vest after approximately three years. EP is a risk-adjusted profit measure that explicitly takes into account the cost of risk capital. TSR measures the total return to UBS shareholders (in form of share price appreciation and dividends) as compared to the constituents of a banking index. Vesting is subject to continued employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee.

Mandatory deferred cash compensation plans

Conditional Variable Compensation Plan (CVCP): In 2009 certain employees received as part of their mandatory deferral a cash award that is subject to a performance condition. The award consists of a contingent right to receive cash payments at vesting subject to forfeiture provisions. The awards are forfeitable upon termination of employment and additionally require profitability and recapitalization performance hurdles to be met. The awards vest in one-third increments over a three-year vesting period. Compensation expense is recognized on a straight-line basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee. CVCP was a one-time plan granted in 2009 only.

WMUS Partner Plus Plan: Wealth Management Americas operates a mandatory deferred cash compensation plan for selected employees based in the US. Amounts are based on a predefined formula during the performance year. Participants are also allowed to voluntarily contribute additional amounts earned during the year into the plan up to a percentage of UBS's contributions. The amounts awarded earn an above-market rate of interest during

¹ Selected employees are granted a contingent right to receive a cash payment, the value of which is based on the value of underlying investment funds or cash, rather than the value of UBS's equity.

Note 31 Equity participation and other compensation plans (continued)

the initial four-year period and a market rate of interest thereafter. The awards vest in 20% increments six to ten years following grant date. Interest earned on UBS contributions is forfeitable under certain circumstances. Compensation expense is recognized on a straight-line basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee.

WMUS advances related to recruited financial advisors: The Company has entered into various agreements with certain of its financial advisors whereby these financial advisors receive a compensatory advance in the form of an employee loan. These employee loans have been capitalized and are being expensed on a straight-line basis over the terms specified in each agreement.

Cash Balance Plan (CBP): In 2010 Group Executive Board (GEB) members received as part of their mandatory deferral a cash award that allows for a maximum payout of 60% of a GEB member's variable cash incentive at the beginning of the following year, subject to a total cash awards limitation. A minimum of 40% of the GEB member's cash incentive awarded is deferred and paid out during the two following years subject to "malus", i.e. the entire cash incentive is paid out over a three-year period. The "malus" allows for unvested awards to be reduced (including to nil) in the event of termination for cause, financial losses in subsequent years, material restatement of the financial statements, harm to UBS's reputation, breaches of legal or regulatory requirements or of risk/compliance policies, and a number of other events. Compensation expense is recognized in the performance year, which is generally the period prior to the grant date.

Discretionary share-based compensation plans

Key Employee Stock Appreciation Rights Plan (KESAP) and Key Employee Stock Option Plan (KESOP): Until 2009 key and high potential employees were granted discretionary share-settled Stock Appreciation Rights (SARs) or UBS options with a strike price not less than the fair market value of a UBS share on the date the SAR or option is granted. A SAR gives employees the right to receive such number of UBS shares equal to the value of any appreciation in the market price of a UBS share between the grant date and the exercise date. One option gives the right to acquire one registered UBS share at the option's strike price. These awards are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Options granted prior to 2008 generally vested in one-third increments over a three-year vesting period and generally expired ten years from the grant date. SARs¹ and options granted from 2008 onwards vested in full following a three-year vesting period and generally expired ten years from the grant date. These awards are generally forfeitable upon termination of employment with UBS. Compensation expense is recognized on a tiered basis from the grant date to the earliest of the vesting date or the retirement

eligibility date of the employee. No KESAP or KESOP awards were granted in 2010.

Senior Executive Stock Appreciation Rights Plan (SESAP) and Senior Executive Stock Option Plan (SESOP): Until 2008 senior executives were granted discretionary SARs or UBS options with a strike price set at 110% of the fair market value of a UBS share on the date the SAR or option is granted. A SAR gives an employee the right to receive such number of UBS shares equal to the value of any appreciation over 110% of the market price of a UBS share between grant date and the exercise date. One option gives the right to acquire one registered UBS share at the option's strike price. SESAP and SESOP awards are settled by delivering UBS shares. These awards vest in full following a three-year vesting period and generally expire ten years from the grant date. These awards are forfeitable if certain conditions are not met. Compensation expense for all SESAP and SESOP awards is recognized during the performance year, which is generally the period prior to the grant date. During 2009, UBS granted SESOP awards only to certain employees for which it had a contractual commitment. No SESOP awards were granted in 2010.

Voluntary share-based compensation plans

Equity Plus Plan (Equity Plus): This is a voluntary plan that gives eligible employees the opportunity to purchase UBS shares at fair market value and generally receive at no additional cost one free notional UBS share for every three shares purchased, up to a maximum annual limit. Share purchases can be made annually from bonus compensation and / or quarterly based on regular deductions from salary. Shares purchased under Equity Plus are restricted from sale for a maximum of three years from the time of purchase. Prior to 2010, each participant generally received at no additional cost two UBS options for each share purchased under this plan. The options had a strike price equal to the fair market value of a UBS share on the grant date, had a two-year vesting period and generally expired ten years from the grant date. The options are forfeitable in certain circumstances and are settled by delivering UBS shares, except in countries where this is not permitted for legal reasons. Compensation expense for the Equity Plus plans is recognized on a tiered basis from the grant date to the earliest of the vesting date or the retirement eligibility date of the employee.

UBS satisfies share delivery obligations under its share, option and SAR plans either by purchasing UBS shares in the market or through the issuance of new shares. As of 31 December 2010, UBS was holding approximately 26 million shares in treasury and approximately 150 million unissued shares in conditional share capital, which are available and can be used to satisfy awards of notional shares and performance shares and for future employee option and SAR exercises. The shares available cover all vested (i.e. exercisable) employee options, SARs and notional shares.

¹ The first grants made under KESAP were in 2009.

Note 31 Equity participation and other compensation plans (continued)

b) Effect on income statement

Effect on income statement for the financial year and future periods

The following table summarizes the compensation expenses recognized for the years ended 31 December 2010 and the compensation expenses, which will be recognized as an expense in the

income statements 2011 and later. The deferred compensation expenses in the table also include non-vested awards granted in February and March 2011, which relate to the compensation core cycle 2010.

Personnel expenses – recognized and deferred¹

CHF million	Personnel expenses for the year ended 2010			Personnel expenses deferred to 2011 and later		
	Expenses relating to awards for 2010	Expenses relating to awards for prior years	Total	Relating to awards for 2010	Relating to awards for prior years	Total
Variable bonus awards						
Cash discretionary bonus	2,079	5	2,084	0	0	0
Conditional Variable Compensation Plan (CVCP)	0	179	179	0	292	292
Cash Balance and other cash plans	64	71	135	236	19	255
Total deferred cash plans	64	250	314	236	311	547
Equity Ownership Plan (EOP/SEEOP/Performance) – UBS shares	434	852	1,286	1,249	515	1,764
Performance Equity Plan (PEP)	6	5	11	16	2	18
Incentive Performance Plan (IPP)	0	131	131	6	221	227
Total UBS share plans	440	988	1,428	1,271	738	2,009
UBS share option plans (KESAP/KESOP)		145	145		114	114
Equity Ownership Plan (EOP) – AIVs	28	83	111	67	57	124
Total discretionary bonus	2,611	1,471	4,082	1,574	1,220	2,794
Variable compensation						
Variable compensation – other ²	399	(89)	310	337	20	357
Financial advisor compensation – cash payments	1,813	0	1,813	0	0	0
Compensation commitments and advances related to recruited financial advisors	29	570	599	388	2,186	2,574
Partner Plus and other deferred cash plans	127	35	162	221	302	523
UBS share plans	11	82	93	89	266	355
Wealth Management Americas financial advisor compensation ³	1,980	687	2,667	698	2,754	3,452
Total	4,990	2,069	7,059	2,609	3,994	6,603

¹ Total share-based personnel expenses recognized for the year ended 31 December 2010 of CHF 1,843 million is comprised of UBS share plans of CHF 1,428 million, UBS share option plans of CHF 145 million, Equity Ownership Plan – AIVs of CHF 111 million, related social security costs of CHF 90 million and other variable compensation of CHF 69 million. ² Includes replacement awards of CHF 107 million, forfeiture credits of CHF (167) million, guaranteed bonuses of CHF 135 million, severance payments of CHF 69 million and UBS's Equity Plus Plan of CHF 80 million.

³ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements.

Note 31 Equity participation and other compensation plans (continued)

Personnel expenses – recognized and deferred¹

CHF million	Personnel expenses for the year ended 2009			Personnel expenses deferred to 2010 and later		
	Expenses relating to awards for 2009	Expenses relating to awards for prior years	Total	Relating to awards for 2009	Relating to awards for prior years	Total
Variable bonus awards						
Cash discretionary bonus	2,245	(169)	2,076	0	0	0
Conditional Variable Compensation Plan (CVCP)	0	19	19	0	558	558
Cash Balance and other cash plans	44	0	44	45	12	57
Total deferred cash plans	44	19	63	45	570	615
Equity Ownership Plan (EOP/SEEOP) – UBS shares	276	283	559	1,352	97	1,449
Performance Equity Plan (PEP)	0	0	0	8	0	8
Incentive Performance Plan (IPP)	0	0	0	467	0	467
Total UBS share plans	276	283	559	1,827	97	1,924
UBS share option plans (KESAP/KESOP)	33	23	56	34	286	320
Equity Ownership Plan (EOP) – AIVs	34	21	55	134	13	147
Total discretionary bonus	2,632	177	2,809	2,040	966	3,006
Variable compensation						
Variable compensation – other ²	816	14	830	61	27	88
Financial advisor compensation – cash payments	1,712	0	1,712	0	0	0
Compensation commitments and advances related to recruited financial advisors	127	471	598	1,198	1,744	2,942
Partner Plus and other deferred cash plans	28	(7)	21	124	241	365
UBS share plans	0	95	95	110	236	346
Wealth Management Americas financial advisor compensation ³	1,867	559	2,426	1,432	2,221	3,653
Total	5,315	750	6,065	3,533	3,214	6,747

¹ Total share-based personnel expenses recognized for the year ended 31 December 2009 of CHF 913 million is comprised of UBS share plans of CHF 559 million, UBS share option plans of CHF 56 million, Equity Ownership Plan – AIVs of CHF 55 million, related social security costs of CHF 16 million and other variable compensation of CHF 227 million. ² Includes replacement awards of CHF 41 million, forfeiture credits of CHF (81) million, guaranteed bonuses of CHF 56 million, severance payments of CHF 433 million and UBS's Equity Plus Plan of CHF 132 million. ³ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated based on financial advisor productivity, firm tenure and other variables. It also includes costs related to compensation commitments and advances granted to financial advisors at the time of recruitment, which are subject to vesting requirements.

Additional disclosures on mandatory, discretionary and voluntary share-based compensation plans (including AIVs granted under EOP)

The total share-based personnel expenses recognized for the years ended 31 December 2010, 2009 and 2008 were CHF 1,843 million, CHF 913 million and negative CHF 94 million, respectively. These expenses include social security costs, and current performance year awards for core cycle awards granted in the period following the performance year where the employee meets the retirement eligibility requirements at the date of grant.

The total compensation expenses for non-vested awards granted up to 31 December 2010 to be recognized in future

periods is CHF 1,382 million and will be recognized in *Personnel expenses* over a weighted average period of 2.5 years. Deferred compensation amounts included in the table above differ from this amount as they include non-vested awards granted in February and March 2011 related to the compensation core cycle 2010.

Actual payments to participants of cash-settled share-based plans, including amounts granted as AIVs issued under EOP, for the years ended 31 December 2010, 2009 and 2008 were CHF 79 million, CHF 83 million and CHF 80 million, respectively. The total carrying amount of the liability related to unvested cash-settled share-based compensation plans was CHF 54 million at 31 December 2010.

Note 31 Equity participation and other compensation plans (continued)

c) Movements during the year

UBS share and performance share awards

Movements in UBS share and notional share awards were as follows:

UBS share awards

	Number of shares 2010	Weighted average grant date fair value CHF	Number of shares 2009	Weighted average grant date fair value CHF	Number of shares 2008	Weighted average grant date fair value CHF
Outstanding, at the beginning of the year	86,888,626	31	84,736,935	53	59,102,580	66
Shares awarded during the year	125,133,310	15	39,067,130	12	90,895,594	32
Distributions during the year	(29,669,688)	42	(31,293,824)	66	(60,105,109)	61
Forfeited during the year	(11,267,108)	21	(5,621,615)	38	(5,156,131)	54
Outstanding, at the end of the year	171,085,140	18	86,888,626	31	84,736,935	53
<i>of which: shares vested for accounting purposes</i>	47,366,286		40,148,461		65,767,017	

The market value of shares that became legally vested during the years ended 31 December 2010, 2009, and 2008 was CHF 421 million, CHF 346 million, and CHF 1,385 million, respectively.

Movements in IPP units are as follows:

Incentive Performance Plan

	Number of performance shares 2010	Weighted average fair value of IPP performance shares at grant date CHF ¹	Representative of UBS shares 2010 ²
Forfeitable, at the beginning of the year	0	0	0
Awarded during the year	19,629,916	22	19,629,916
Distributions during the year	0	0	0
Forfeited / cancelled during the year	(1,472,674)	22	(1,472,674)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	0
Forfeitable, at the end of the year	18,157,242	22	18,157,242
<i>of which: performance shares vested for accounting purposes</i>	4,073,546		4,073,546

¹ Valuations were carried out and take into account the relevant performance conditions, targets set, and the range of possible outcomes for these. ² Based on conditions existing at the representative balance sheet date.

Movements in PEP units are as follows:

Performance Equity Plan

	Number of performance shares 2010	Weighted average fair value of PEP performance shares at grant date CHF ¹	Representative of UBS shares 2010 ²
Forfeitable, at the beginning of the year	0	0	0
Awarded during the year	545,642	16	545,642
Distributions during the year	0	0	0
Forfeited during the year	(26,805)	16	(26,805)
Increase / decrease of UBS shares to be delivered upon vesting, based on conditions at the end of the year	N/A	N/A	(251,636)
Forfeitable, at the end of the year	518,837	16	267,201
<i>of which: performance shares vested for accounting purposes</i>	221,638		114,143

¹ Valuations were carried out and take into account the relevant performance conditions, targets set, and the range of possible outcomes for these. ² Based on conditions existing at the representative balance sheet date.

Note 31 Equity participation and other compensation plans (continued)

UBS option awards

Movements in option awards were as follows:

UBS option awards

	Number of options 2010	Weighted average exercise price CHF ²	Number of options 2009	Weighted average exercise price CHF ²	Number of options 2008 ¹	Weighted average exercise price CHF ^{1,2}
Outstanding, at the beginning of the year	228,623,886	43	236,055,545	47	198,213,092	52
Granted during the year	0	0	22,525,624	13	62,973,879	30
Exercised during the year	(40,894)	14	(48,241)	16	(3,673,657)	26
Forfeited during the year	(5,814,986)	33	(7,245,512)	37	(6,732,080)	52
Expired unexercised	(17,222,431)	54	(22,663,530)	48	(14,725,689)	46
Outstanding, at the end of the year	205,545,575	42	228,623,886	43	236,055,545	47
Exercisable, at the end of the year	155,302,104	48	137,797,186	51	124,054,442	46

¹ As a result of the rights offering in June 2008, UBS adjusted the number of options and exercise price for vested and unvested employee options, which were unexercised at the date of the rights offering. This was done to prevent any dilution impact to holders of these options. No additional compensation expense was recognized. This resulted in an increase to the number of options awarded in 2008 of 3,881,320 and an increase to the prior year outstanding balance of 2,400,143. ² Some of the options in this table have exercise prices denominated in USD, which have been converted into CHF at the year-end spot exchange rate for the purposes of this table.

The following table provides additional information about option exercises, grants and intrinsic values:

	31.12.10	31.12.09	31.12.08
Weighted average share price of options exercised (CHF)	16	18	34
Intrinsic value of options exercised during the year (CHF million)	0.06	0.20	29
Weighted average grant date fair value of options granted (CHF)	N/A	6.00	7.53

The following table provides additional information about options outstanding and options exercisable as of 31 December 2010:

Range of exercise prices	Options outstanding				Options exercisable			
	Number of options outstanding	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)	Number of options exercisable	Weighted average exercise price (CHF / USD)	Aggregate intrinsic value (CHF / USD million)	Weighted average remaining contractual term (years)
CHF awards								
10.21–15.00	17,491,529	11.31	70.6	8.1	3,739,473	14.47	3.3	7.9
15.01–25.00	10,805,461	18.72	0.0	8.3	3,480,569	22.45	0.0	7.7
25.01–35.00	43,010,690	31.12	0.0	6.4	22,141,540	29.88	0.0	5.6
35.01–45.00	22,801,529	38.91	0.0	4.1	14,768,284	40.65	0.0	2.4
45.01–55.00	19,987,650	49.37	0.0	4.4	19,801,910	49.33	0.0	4.4
55.01–65.00	4,867,956	60.23	0.0	6.0	4,867,956	60.23	0.0	6.0
65.01–75.00	57,874,089	67.71	0.0	5.7	57,872,067	67.71	0.0	5.7
10.21–75.00	176,838,904	44.25	70.6	5.9	126,671,799	51.97	3.3	5.2
USD awards								
15.51–25.00	10,429,351	20.19	0.0	1.8	10,409,351	20.19	0.0	1.8
25.01–35.00	7,011,857	31.68	0.0	3.3	7,011,557	31.68	0.0	3.3
35.01–45.00	11,256,014	38.61	0.0	4.1	11,200,872	38.62	0.0	4.2
45.01–46.91	9,449	46.81	0.0	4.6	8,525	46.91	0.0	5.1
15.51–46.91	28,706,671	30.23	0.0	3.1	28,630,305	30.22	0.0	3.1

Note 31 Equity participation and other compensation plans (continued)

UBS SARs awards

Movements in SARs granted under the equity participation plans are as follows:

UBS SAR awards

	Number of SARs 2010	Weighted average exercise price CHF	Number of SARs 2009	Weighted average exercise price CHF
Outstanding, at the beginning of the year	60,907,175	12	0	0
Granted during the year	0	0	66,126,830	12
Exercised during the year	(160,334)	12	0	0
Forfeited during the year	(2,721,700)	11	(5,219,655)	11
Expired unexercised	(10,100)	11	0	0
Outstanding, at the end of the year	58,015,041	12	60,907,175	12
Exercisable, at the end of the year	4,005,317	10	4,000,000	10

The following table provides additional information about SARs exercises, grants and intrinsic values:

	31.12.10	31.12.09
Weighted average share price of SARs exercised (CHF)	15.8	N/A
Intrinsic value of SARs exercised during the year (CHF million)	0.6	N/A
Weighted average grant date fair value of SARs granted (CHF)	N/A	5.0

The following table provides additional information about SARs outstanding as of 31 December 2010:

Range of exercise prices	SARs outstanding				SARs exercisable			
	Number of SARs outstanding	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF million)	Weighted average remaining contractual term (years)	Number of SARs exercisable	Weighted average exercise price (CHF)	Aggregate intrinsic value (CHF million)	Weighted average remaining contractual term (years)
CHF								
9.35–12.50	56,450,205	11.26	231.2	7.8	4,000,000	10.10	21.0	3.2
12.51–15.00	51,410	14.56	0.0	8.5	0	0.00	0.0	0.0
15.01–17.50	217,496	16.52	0.0	8.4	5,317	16.80	0.0	8.4
17.51–20.00	390,930	19.25	0.0	8.7	0	0.00	0.0	0.0
35.01–40.00	905,000	40.00	0.0	8.2	0	0.00	0.0	0.0
9.35–40.00	58,015,041	11.78	231.2	7.8	4,005,317	10.11	21.0	3.2

Note 31 Equity participation and other compensation plans (continued)

d) Valuation

UBS share awards

UBS measures compensation expense based on the average market price of the UBS share on the grant date as quoted on the SIX Swiss Exchange less a discount for post-vesting sale and hedge restriction, in accordance with IFRS 2 *Share-based Payment: Vesting Conditions and Cancellations*. The fair value of the share awards subject to post-vesting sale and hedge restrictions is discounted based upon the duration of the post-vesting restriction and is referenced to the cost of purchasing an at-the-money plain vanilla European put option for the term of the transfer restriction. The weighted average discount for share and performance share awards granted during 2010 is approximately 20.6% of the market price of the UBS share. The grant date fair value of notional UBS shares without dividend entitlements also includes a deduction for the present value of future expected dividends to be paid between grant date and distribution.

UBS options and SARs awards

Since 2010, the fair values of options and SARs have been determined using a standard closed-formula option valuation model. The expected term of each instrument is calculated based on historical employee exercise behavior patterns, taking into account the share price, strike

price, vesting period and the contractual life of the instrument. Similar to 2009 and 2008, the term structure of volatility is derived from the implied volatilities of traded UBS options in combination with the observed long-term historical share price volatility. Expected future dividends are derived from traded UBS options or from the historical dividend pattern. No options or SARs were granted in 2010.

In 2009 and 2008, the fair value of options and SARs was determined by means of a Monte Carlo simulation. The simulation technique used a mix of implied and historical volatility and specific employee exercise behaviour patterns based on statistical data, taking into account the specific terms and conditions under which the instrument was granted, such as the vesting period, forced exercises during the lifetime, and gain- and time-dependent exercise behaviour. The expected term of each instrument was calculated as the probability-weighted average period of the time between grant and exercise. The term structure of volatility was derived from the implied volatilities of traded UBS options in combination with the observed long-term historical share price volatility. Expected future dividends were derived from traded UBS options or from the historical dividend pattern. The fair values of options and SARs granted during 2009 and 2008 were determined using the following assumptions:

	31.12.09		
	CHF awards	range low	range high
Expected volatility (%)	48.22	40.91	53.47
Risk-free interest rate (%)	2.16	1.50	2.57
Expected dividend (CHF)	0.27	0.00	0.29
Strike price (CHF)	11.88	9.35	40.00
Share price (CHF)	11.64	9.35	19.27

	31.12.08		
	CHF awards	range low	range high
Expected volatility (%)	33.86	30.00	49.32
Risk-free interest rate (%)	2.83	1.74	3.27
Expected dividend (CHF)	1.85	1.10	2.57
Strike price (CHF)	30.11	14.47	46.02
Share price (CHF)	28.05	14.47	43.61

UBS performance share awards (IPP, PEP)

For performance share awards granted in 2010, UBS obtained independent third party valuations based on the market conditions at the date of grant. The valuation methodology applied was a Monte Carlo simulation. The approach to determining in-

put parameters and valuing the post-vesting transfer restriction is in line with that used for options. The fair value of IPP and PEP units granted during 2010 was determined using the following assumptions:

	31.12.10	
	IPP CHF awards	PEP CHF awards
Expected TSR volatility (%)	38.07	63.00
Expected EP volatility (%)	N/A	57.00
Risk-free interest rate (%)	1.06	0.60
Expected dividend (CHF)	0.12	0.10
Share price (CHF)	14.80	14.80

Note 32 Related parties

The Group defines related parties as associated companies (entities which are significantly influenced by UBS), post-employment benefit plans for the benefit of UBS employees, key management personnel, close family members of key management personnel and entities which are, directly or indirectly, controlled or jointly

controlled by key management personnel or their close family members. Key management personnel is defined as members of the Board of Directors (BoD) and Group Executive Board (GEB). This definition is based on the revised requirements of IAS 24 *Related Party Disclosures* issued in November 2009.

a) Remuneration of key management personnel

The non-independent members of the BoD have top management employment contracts and receive pension benefits upon retirement. Total remuneration of the non-independent members of the BoD and GEB including those who stepped down during 2010¹ is as follows:

Remuneration of key management personnel

CHF million	31.12.10	31.12.09	31.12.08
Base salaries and other cash payments	16	16	12
Incentive awards – cash	30 ³	64	0
Employer's contributions to retirement benefit plans	1	2	2
Benefits in kind, fringe benefits (at market value)	1	1	1
Equity compensation benefits ²	48 ⁴	29	0
Total	96	112	15

¹ During 2010, Francesco Morra stepped down from the GEB. ² Expense for shares and options granted is measured at grant date and allocated over the vesting period, generally 3 years for options and 5 years for shares. ³ In 2010, incentive awards include immediate and deferred cash. ⁴ In 2010, equity compensation benefits include PEP, SEEO and blocked shares.

The independent members of the BoD do not have employment or service contracts with UBS, and thus are not entitled to benefits upon termination of their service on the BoD. Payments to these

individuals for their services as external board members amounted to CHF 6.7 million in 2010, CHF 6.4 million in 2009 and CHF 6.4 million in 2008.

b) Equity holdings

	31.12.10	31.12.09	31.12.08
Number of stock options from equity participation plans held by non-independent members of the BoD and the GEB ¹	9,085,194	9,410,280	8,458,037
Number of shares held by members of the BoD, GEB and parties closely linked to them	4,850,196	4,180,154	5,869,952

¹ Refer to "Note 31 Equity participation and other compensation plans" in this section for more information.

Of the share totals above, as of 31 December 2010, 31 December 2009 and 31 December 2008, 5,597 shares, 0 shares and 15,878 shares respectively were held by close family members of key management personnel and 0 shares, 0 shares and 103,841 shares respectively were held by entities which are directly or indirectly con-

trolled or jointly controlled by key management personnel or their close family members. Refer to "Note 31 Equity participation and other compensation plans" in this section for more information. No member of the BoD or GEB is the beneficial owner of more than 1% of the Group's shares at 31 December 2010.

Note 32 Related parties (continued)

c) Loans, advances and mortgages to key management personnel

Non-independent members of the BoD and GEB members have been granted loans, fixed advances and mortgages on the same terms and conditions that are available to other employees, based on terms and conditions granted to third parties adjusted for re-

duced credit risk. Independent BoD members are granted loans and mortgages at general market conditions.

Movements in the loan, advances and mortgage balances are as follows:

Loans, advances and mortgages to key management personnel

<i>CHF million</i>	31.12.10	31.12.09
Balance at the beginning of the year	18	11
Additions	8	12
Reductions	(4)	(5)
Balance at the end of the year	22	18

No unsecured loans were granted to key management personnel as of 31 December 2010 and 31 December 2009.

d) Associated companies

All loans to associated companies are transacted at arm's length:

<i>CHF million</i>	31.12.10	31.12.09
Balance at the beginning of the year	373	301
Additions	2	295
Reductions	(118)	(222)
Credit loss (expense) / recovery	0	(1)
Foreign currency translation	2	0
Balance at the end of the year	259	373
<i>of which: unsecured loans</i>	39	42
<i>of which: allowances for credit losses</i>	1	1

Other transactions with associated companies transacted at arm's length:

<i>CHF million</i>	As of or for the year ended		
	31.12.10	31.12.09	31.12.08
Payments to associates for goods and services received	139	130	90
Fees received for services provided to associates	1	2	6
Commitments and contingent liabilities to associates	68	156	40

Note 34 provides a list of significant associates.

Note 32 Related parties (continued)

e) Other related party transactions

During 2010 and 2008, UBS entered into transactions at arm's length with entities which are directly or indirectly controlled or jointly controlled by UBS's key management personnel or their close family members. In 2010, UBS provided services for H21 Macro Fund Ltd (Cayman Islands). In 2009, UBS did not enter into any such transactions and in 2008, these entities included: Aebi +

Co. AG (Switzerland), Kedge Capital Selected Funds Ltd. (Jersey), Löwenfeld AG (Switzerland), Martown Trading Ltd. (Isle of Man), Omega Fund I Ltd (Jersey), Omega Fund IV Ltd (Jersey), Stadler Rail Group (Switzerland), Team Alinghi (Switzerland) and Team Alinghi (Spain).

Movements in loans to other related parties are as follows:

Other related party transactions

<i>CHF million</i>	31.12.10	31.12.09	31.12.08
Balance at the beginning of the year	0	6	158
Additions	0	0	0
Reductions	0	(6)	(152)
Balance at the end of the year ¹	0	0	6

¹ In 2008 includes loans, guarantees and contingent liabilities of CHF 6 million and unused committed facilities of CHF 0 million but excludes unused uncommitted working capital facilities and unused guarantees of CHF 320 million.

Other transactions with these related parties include:

<i>CHF million</i>	31.12.10	31.12.09	31.12.08
Goods sold and services provided to UBS	0	0	1
Fees received for services provided by UBS	1	0	11

As part of its sponsorship of Team Alinghi, UBS paid CHF 828,090 (EUR 538,000) in basic sponsoring fees for 2008. Team Alinghi's controlling shareholder is UBS former Board member Ernesto Bertarelli.

f) Additional information

UBS also engages in trading and risk management activities (e.g. swaps, options and forwards) with various related parties mentioned in previous sections. These transactions may give rise to credit risk either for UBS or for a related party towards UBS. As

part of its normal course of business, UBS is also a market maker in equity and debt instruments and at times may hold positions in instruments of related parties.

Note 33 Events after the reporting period

Subsequent to the publication of the unaudited fourth quarter 2010 financial report on 8 February 2011, management decided to adjust the annual financial statements 2010. The net impact of these adjustments on net profit attributable to UBS shareholders was a gain of CHF 373 million, which increased basic and diluted earnings per share by CHF 0.10.

The principal change relates to an adjustment of the investment carrying amount of a subsidiary held by UBS AG for purposes of the Parent Bank's 2010 statutory financial statements prepared pursuant to Swiss Federal banking law. The adjustment, a reduction in the subsidiary carrying amount of CHF 1,609 million, decreases the level of Swiss taxable profit reported for the year 2010. The adjustment resulted in an increase in the deferred tax benefit for the year reflected in the Income statement of CHF 298 million.

In addition, other adjustments made to the Income statement that forms part of the audited annual financial statements 2010 include a refinement in the 2010 variable compensation accrual at year-end of CHF 74 million (credit to the Income statement) across the business divisions, a litigation matter resulting in a CHF 40 million charge affecting Wealth Management, a credit valuation adjustment gain of CHF 19 million affecting the Investment Bank, and a tax benefit of CHF 22 million to the Income statement in relation to these other items.

On 3 March 2011, the Board of Directors reviewed the financial statements and authorized them for issue. These financial statements will be submitted to the Annual General Meeting of shareholders on 28 April 2011 for approval.

Note 34 Significant subsidiaries and associates

The legal entity group structure of UBS is designed to support the Group's businesses within an efficient legal, tax, regulatory and funding framework. Neither the business divisions of UBS (namely Investment Bank, Wealth Management Americas, Wealth Management & Swiss Bank and Global Asset Management) nor the Corporate Center are replicated in their own individual legal entities, but rather they generally operate out of UBS AG (Parent Bank) through its Swiss and foreign branches.

The parent bank structure allows UBS to capitalize on the advantages offered by the use of one legal platform by all the busi-

ness divisions. It provides for the most cost efficient and flexible structure and facilitates efficient allocation and use of capital, comprehensive risk management and control and straightforward funding processes.

Where, usually due to local legal, tax or regulatory rules or due to additional legal entities joining the UBS Group via acquisition, it is either not possible or not efficient to operate out of the parent bank, then local subsidiary companies host the businesses. The significant operating subsidiary companies in the Group are listed below:

Significant subsidiaries

Company	Jurisdiction of incorporation	Business division ¹	Share capital in millions	Equity interest accumulated in %
CCR Asset Management S.A.	Paris, France	Global AM	EUR 5.3	100.0
Ellington Co., Ltd.	Tokyo, Japan	IB	JPY 10.0	100.0
Fondcenter AG	Zurich, Switzerland	Global AM	CHF 0.1	100.0
OOO UBS Bank	Moscow, Russia	IB	RUB 1,250.0	100.0
PT UBS Securities Indonesia	Jakarta, Indonesia	IB	IDR 118,000.0	98.6
Topcard Service AG	Glattbrugg, Switzerland	WM&SB	CHF 0.2	100.0
UBS (Bahamas) Ltd.	Nassau, Bahamas	WM&SB	USD 4.0	100.0
UBS (France) S.A.	Paris, France	WM&SB	EUR 125.7	100.0
UBS (Grand Cayman) Limited	George Town, Cayman Islands	IB	USD 25.0	100.0
UBS (Italia) S.p.A.	Milan, Italy	WM&SB	EUR 60.0	100.0
UBS (Luxembourg) S.A.	Luxembourg, Luxembourg	WM&SB	CHF 150.0	100.0
UBS (Luxembourg) SA Austria Branch	Vienna, Austria	WM&SB	CHF 0.0	100.0
UBS (Monaco) S.A.	Monte Carlo, Monaco	WM&SB	EUR 9.2	100.0
UBS Alternative and Quantitative Investments Limited	London, Great Britain	Global AM	GBP 0.3	100.0
UBS Alternative and Quantitative Investments LLC	Delaware, USA	Global AM	USD 0.1	100.0
UBS Americas Inc	Delaware, USA	IB	USD 0.0	100.0

¹ WMA: Wealth Management Americas; WM&SB: Wealth Management & Swiss Bank; Global AM: Global Asset Management; IB: Investment Bank; CC: Corporate Center.

Note 34 Significant subsidiaries and associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business division ¹		Share capital in millions	Equity interest accumulated in %
UBS Asesores SA	Panama, Panama	WM&SB	USD	0.0	100.0
UBS Bank (Canada)	Toronto, Canada	WMA	CAD	8.5	100.0
UBS Bank (Netherlands) B.V.	Amsterdam, the Netherlands	WM&SB	EUR	0.2	100.0
UBS Bank Mexico, S.A. Institucion de Banca Multiple, UBS Grupo Financiero	Mexico City, Mexico	IB	MXN	706.4	100.0
UBS Bank USA	Utah, USA	WMA	USD	1,880.0 ²	100.0
UBS Bank, S.A.	Madrid, Spain	WM&SB	EUR	82.2	100.0
UBS Belgium SA/NV	Brussels, Belgium	WM&SB	EUR	28.0	100.0
UBS Brasil Administradora de Valores Mobiliarios Ltda	São Paulo, Brazil	WM&SB	BRL	0.0	100.0
UBS Capital Securities (Jersey) Limited	St. Helier, Jersey	CC	EUR	0.0	100.0
UBS Card Center AG	Glattbrugg, Switzerland	WM&SB	CHF	0.1	100.0
UBS Casa de Bolsa, S.A. de C.V.	Mexico City, Mexico	IB	MXN	114.9	100.0
UBS Custody Services Singapore Pte. Ltd.	Singapore, Singapore	WM&SB	SGD	5.5	100.0
UBS Derivatives Hong Kong Limited	Hong Kong, China	IB	HKD	880.0	100.0
UBS Deutschland AG	Frankfurt am Main, Germany	WM&SB	EUR	176.0	100.0
UBS Fiduciaria S.p.A.	Milan, Italy	WM&SB	EUR	0.2	100.0
UBS Finance (Curaçao) N.V.	Willemstad, Netherlands Antilles	CC	USD	0.1	100.0
UBS Finance (Delaware) LLC	Delaware, USA	IB	USD	37.3 ²	100.0
UBS Financial Services Inc.	Delaware, USA	WMA	USD	3,875.0 ²	100.0
UBS Financial Services Incorporated of Puerto Rico	Hato Rey, Puerto Rico	WMA	USD	31.0 ²	100.0
UBS Fund Advisor, L.L.C.	Delaware, USA	WMA	USD	0.0 ²	100.0
UBS Fund Management (Luxembourg) SA	Luxembourg, Luxembourg	Global AM	EUR	10.0	100.0
UBS Fund Management (Switzerland) AG	Basel, Switzerland	Global AM	CHF	1.0	100.0
UBS Fund Services (Cayman) Ltd	George Town, Cayman Islands	Global AM	USD	5.6	100.0
UBS Fund Services (Ireland) Limited	Dublin, Ireland	Global AM	EUR	1.3	100.0
UBS Fund Services (Luxembourg) S.A.	Luxembourg, Luxembourg	Global AM	CHF	2.5	100.0
UBS Fund Services (Luxembourg) S.A. Poland Branch	Zabierzow, Poland	CC	PLN	0.1	100.0
UBS Futures Singapore Ltd.	Singapore, Singapore	IB	USD	39.8 ²	100.0
UBS Global Asset Management (Americas) Inc	Delaware, USA	Global AM	USD	0.0	100.0
UBS Global Asset Management (Australia) Ltd	Sydney, Australia	Global AM	AUD	8.0	100.0
UBS Global Asset Management (Canada) Co	Toronto, Canada	Global AM	CAD	117.0 ²	100.0
UBS Global Asset Management (Deutschland) GmbH	Frankfurt am Main, Germany	Global AM	EUR	7.7	100.0
UBS Global Asset Management (Hong Kong) Limited	Hong Kong, China	Global AM	HKD	25.0	100.0
UBS Global Asset Management (Italia) SGR SpA	Milan, Italy	Global AM	EUR	5.1	100.0
UBS Global Asset Management (Japan) Ltd	Tokyo, Japan	Global AM	JPY	2,200.0	100.0
UBS Global Asset Management (Singapore) Ltd	Singapore, Singapore	Global AM	SGD	4.0	100.0
UBS Global Asset Management (Taiwan) Ltd	Taipei, Taiwan	Global AM	TWD	340.0	100.0
UBS Global Asset Management (UK) Ltd	London, Great Britain	Global AM	GBP	125.0	100.0
UBS Global Asset Management (US) Inc	Delaware, USA	Global AM	USD	17.2 ²	100.0
UBS Global Asset Management Funds Ltd	London, Great Britain	Global AM	GBP	26.0	100.0
UBS Global Asset Management Holding Ltd	London, Great Britain	Global AM	GBP	151.4	100.0
UBS Global Asset Management Life Ltd	London, Great Britain	Global AM	GBP	15.0	100.0
UBS Global Life AG	Vaduz, Liechtenstein	WM&SB	CHF	5.0	100.0
UBS Global Trust Corporation	St. John, Canada	WM&SB	CAD	0.1	100.0
UBS Hana Asset Management Company Ltd	Seoul, South Korea	Global AM	KRW	45,000.0	51.0
UBS Hypotheken AG	Zurich, Switzerland	WM&SB	CHF	0.1	98.0
UBS International Holdings B.V.	Amsterdam, the Netherlands	CC	EUR	6.8	100.0
UBS International Hong Kong Limited	Hong Kong, China	WMA	USD	1.7	100.0
UBS International Life Limited	Dublin, Ireland	WM&SB	EUR	1.0	100.0

¹ WMA: Wealth Management Americas; WM&SB: Wealth Management & Swiss Bank; Global AM: Global Asset Management; IB: Investment Bank; CC: Corporate Center. ² Share capital and share premium.

Note 34 Significant subsidiaries and associates (continued)

Significant subsidiaries (continued)

Company	Jurisdiction of incorporation	Business division ¹	Share capital in millions	Equity interest accumulated in %
UBS Investment Management Canada Inc.	Toronto, Canada	WMA	CAD 0.0	100.0
UBS Investments Philippines, Inc.	Makati City, Philippines	IB	PHP 360.0	99.4
UBS Italia SIM SpA	Milan, Italy	IB	EUR 15.1	100.0
UBS Leasing AG	Zurich, Switzerland	WM&SB	CHF 10.0	100.0
UBS Life AG	Zurich, Switzerland	WM&SB	CHF 25.0	100.0
UBS Life Insurance Company USA	California, USA	WMA	USD 39.3 ²	100.0
UBS Limited	London, Great Britain	IB	GBP 153.7	100.0
UBS Loan Finance LLC	Delaware, USA	IB	USD 16.7 ²	100.0
UBS Menkul Degerler AS	Istanbul, Turkey	IB	TRY 30.0	100.0
UBS New Zealand Limited	Auckland, New Zealand	IB	NZD 7.5	100.0
UBS O'Connor Limited	London, Great Britain	Global AM	GBP 8.8	100.0
UBS O'Connor LLC	Delaware, USA	Global AM	USD 1.0	100.0
UBS Preferred Funding (Jersey) Limited	St. Helier, Jersey	CC	EUR 0.0	100.0
UBS Preferred Funding Company LLC II	Delaware, USA	CC	USD 0.0	100.0
UBS Preferred Funding Company LLC IV	Delaware, USA	CC	USD 0.0	100.0
UBS Preferred Funding Company LLC V	Delaware, USA	CC	USD 0.0	100.0
UBS Real Estate Kapitalanlagegesellschaft mbH	Munich, Germany	Global AM	EUR 7.5	94.9
UBS Real Estate Securities Inc	Delaware, USA	IB	USD 1,300.4 ²	100.0
UBS Realty Investors LLC	Massachusetts, USA	Global AM	USD 9.3	100.0
UBS Saudi Arabia	Riyadh, Saudi Arabia	IB	SAR 110.0	73.0
UBS Sauerborn Private Equity Komplementär GmbH	Bad Homburg, Germany	WM&SB	EUR 0.0	100.0
UBS Securities (Thailand) Ltd	Bangkok, Thailand	IB	THB 400.0	100.0
UBS Securities Asia Limited	Hong Kong, China	IB	HKD 20.0	100.0
UBS Securities Australia Ltd	Sydney, Australia	IB	AUD 209.8 ²	100.0
UBS Securities Canada Inc	Toronto, Canada	IB	CAD 10.0	100.0
UBS Securities España Sociedad de Valores SA	Madrid, Spain	IB	EUR 15.0	100.0
UBS Securities France S.A.	Paris, France	IB	EUR 22.9	100.0
UBS Securities Hong Kong Limited	Hong Kong, China	IB	HKD 430.0	100.0
UBS Securities India Private Limited	Mumbai, India	IB	INR 140.0	100.0
UBS Securities International Limited	London, Great Britain	IB	GBP 18.0	100.0
UBS Securities Israel Limited	Herzliya Pituach, Israel	IB	ILS 0.0	100.0
UBS Securities Japan Ltd	George Town, Cayman Islands	IB	JPY 60,000.0	100.0
UBS Securities LLC	Delaware, USA	IB	USD 22,205.6 ²	100.0
UBS Securities Malaysia Sdn. Bhd.	Kuala Lumpur, Malaysia	IB	MYR 80.0	100.0
UBS Securities Philippines Inc	Makati City, Philippines	IB	PHP 190.0	100.0
UBS Securities Pte. Ltd.	Singapore, Singapore	IB	SGD 311.5	100.0
UBS Securities Pte. Ltd. Seoul Branch	Seoul, South Korea	IB	KRW 150,000.0	100.0
UBS Service Centre (Poland) Sp. z o.o.	Krakow, Poland	CC	PLN 1.4	100.0
UBS South Africa (Proprietary) Limited	Sandton, South Africa	IB	ZAR 0.0	100.0
UBS Swiss Financial Advisers AG	Zurich, Switzerland	WM&SB	CHF 1.5	100.0
UBS Trust Company National Association	New York, USA	WMA	USD 55.0 ²	100.0
UBS Trustees (Bahamas) Ltd	Nassau, Bahamas	WM&SB	USD 2.0	100.0
UBS Trustees (Cayman) Ltd	George Town, Cayman Islands	WM&SB	USD 2.0	100.0
UBS Trustees (Jersey) Ltd.	St. Helier, Jersey	WM&SB	GBP 0.0	100.0
UBS Trustees (Singapore) Ltd	Singapore, Singapore	WM&SB	SGD 3.3	100.0
UBS UK Properties Limited	London, Great Britain	IB	GBP 132.0	100.0
UBS Wealth Management (UK) Ltd	London, Great Britain	WM&SB	GBP 2.5	100.0
UBS Wealth Management Australia Ltd	Sydney, Australia	WM&SB	AUD 53.9	100.0
UBS Wealth Management Israel Ltd	Herzliya Pituach, Israel	WM&SB	ILS 3.5	100.0

¹ WMA: Wealth Management Americas; WM&SB: Wealth Management & Swiss Bank; Global AM: Global Asset Management; IB: Investment Bank; CC: Corporate Center. ² Share capital and share premium.

Note 34 Significant subsidiaries and associates (continued)**Changes in the consolidation scope 2010**

Newly significant, fully consolidated companies

Ellington Co., Ltd. – Tokyo, Japan
UBS Brasil Administradora de Valores Mobiliarios Ltda – Sao Paulo, Brazil
UBS Fund Management (Luxembourg) SA – Luxembourg, Luxembourg
UBS International Hong Kong Limited – Hong Kong, China
UBS Saudi Arabia – Riyadh, Saudi Arabia
UBS Securities Israel Limited – Herzliya Pituach, Israel
UBS Wealth Management Israel Ltd – Herzliya Pituach, Israel

Significant deconsolidated companies

	Reason for deconsolidation
Caisse Centrale de Réécompte – Paris, France	Merged
UBS Convertible Securities (Jersey) Limited – St. Helier, Jersey	Liquidated
UBS Fund Holding (Luxembourg) S.A. – Luxembourg, Luxembourg	Liquidated
UBS Fund Holding (Switzerland) AG – Basel, Switzerland	Merged
UBS Preferred Funding Company LLC I – Delaware, USA	Liquidated

Significant associates

Company	Industry	Equity interest in %
SIX Group AG – Zurich, Switzerland ¹	Financial	17.3
UBS Securities Co. Limited – Beijing, China	Financial	20.0

¹ UBS is represented in the Board of Directors.

Note 35 Invested assets and net new money

Invested assets include all client assets managed by or deposited with UBS for investment purposes. Invested assets include managed fund assets, managed institutional assets, discretionary and advisory wealth management portfolios, fiduciary deposits, time deposits, savings accounts and wealth management securities or brokerage accounts. All assets held for purely transactional purposes and custody-only assets, including corporate client assets held for cash management and transactional purposes, are excluded from invested assets as the Group only administers the assets and does not offer advice on how the assets should be invested. Also excluded are non-bankable assets (e. g. art collections) and deposits from third-party banks for funding or trading purposes.

Discretionary assets are defined as client assets which UBS decides how to invest. Other invested assets are those where the client ultimately decides how the assets are invested. When a single product is created in one business division and sold in another, it is counted in both the business division that manages the investment and the one that distributes it. This results in double counting within UBS total invested assets, as both business divisions are providing a service independently to their respective clients, and both add value and generate revenue.

Net new money in a period is the net amount of invested assets that are entrusted to UBS by new and existing clients less those withdrawn by existing clients and clients who terminated their relationship with UBS.

Net new money is calculated using the direct method, by which inflows and outflows to /from invested assets are determined at the client level based on transactions. Interest and dividend income from invested assets is not counted as net new money inflow. Market and currency movements as well as fees, commissions and interest on loans charged are excluded from net new money, as are the effects resulting from any acquisition or divestment of a UBS subsidiary or business. Reclassifications between invested assets and custody-only assets as a result of a change in the service level delivered are treated as net new money flows.

The Investment Bank does not track invested assets and net new money. However, when a client is transferred from the Investment Bank to another business division, this produces net new money even though client assets were already with UBS.

Net new money for 2010 includes inflows of CHF 3.7 billion resulting from transfers of Investment Bank clients to Wealth Management, as part of the Global Family Office initiative.

Note 35 Invested assets and net new money (continued)

<i>CHF billion</i>	As of or for the year ended	
	31.12.10	31.12.09
Fund assets managed by UBS	282	319
Discretionary assets	596	590
Other invested assets	1,274	1,325
Total invested assets (double counts included)	2,152	2,233
<i>of which: double count</i>	225	254
<i>of which: acquisitions (divestments)</i>	0.0	(48.2)
Net new money (double counts included)	(14.3)	(147.3)

Note 36 Business combinations

Business combinations completed in 2010

In 2010 no significant business combinations were completed.

Business combinations completed in 2009

**Acquisition of the commodity index business of
AIG Financial Products Corp.**

In May 2009, UBS completed the acquisition of the commodity index business of AIG Financial Products Corp., including AIG's rights to the DJ-AIG Commodity index. This commodity index busi-

ness comprises a product platform of commodity index swaps and funded notes based on the benchmark Dow Jones-AIG Commodity Index (DJ-AIGCI). The cost of the business combination, including directly attributable transaction costs, amounted to CHF 74 million (USD 65 million) of which CHF 17 million (USD 15 million) was paid in cash upon closing. The remaining payments, based upon future earnings of the purchased business, were made in 2010. The cost of the business combination was allocated to Intangible assets of CHF 40 million (USD 35 million) and Goodwill of CHF 34 million (USD 30 million). The business of AIG was integrated into UBS's Investment Bank.

AIG Commodity Index 2009

<i>CHF million</i>	Book value	Step-up to fair value	Fair value
Assets			
Intangible assets	0	40	40
Goodwill	0	34	34
All other assets	598	0	598
Total assets	598	74	672
Liabilities and equity			
Liabilities	598		598
Equity		74	74
Total liabilities and equity	598	74	672

Pro-forma information (unaudited)

The following pro-forma information shows UBS's total operating income, net profit attributable to UBS shareholders and basic earnings per share as if all of the acquisitions completed

in 2009 had been made as of 1 January 2008. Adjustments have been made to reflect additional amortization and depreciation of assets and liabilities, which have been assigned fair values different from their carryover basis in purchase accounting.

Pro-forma information (unaudited)

<i>CHF million, except where indicated</i>	For the year ended	
	31.12.09	31.12.08
Total operating income	22,606	910
Net profit	(2,737)	(21,251)
Basic earnings per share (CHF)	(0.75)	(7.61)

Note 37 Discontinued operations

2010

In 2010, private equity investments sold in prior years contributed a subsequent gain of CHF 2 million to UBS's net profit from discontinued operations.

2009

In 2009, private equity investments sold in prior years contributed a subsequent loss of CHF 7 million to UBS's net profit from discontinued operations.

2008

Industrial holdings

In 2008, private equity investments, including the sale of one equity investment and subsequent gains on private equity investments sold in prior years, contributed CHF 155 million to UBS's net profit from discontinued operations, which included after-tax gains on sale of CHF 120 million and an after-tax operating profit of CHF 34 million. The cash consideration received for the equity investment sold in 2008 amounted to CHF 141 million. These private equity investments were held within the Industrial Holdings segment, integrated within the Corporate Center since the beginning of 2008, and were sold in line with UBS's strategy to exit the private equity business.

CHF million	For the year ended 31.12.08	
	Private Banks & GAM ^{1, 2}	Industrial Holdings ²
Operating income	0	19
Operating expenses	0	(15)
Operating profit from discontinued operations before tax	0	34
Pre-tax gain on sale	44	120
Profit from discontinued operations before tax	44	155
Tax expense on operating profit from discontinued operations before tax	0	0
Tax expense on gain from sale	1	0
Tax expense from discontinued operations	1	0
Net profit from discontinued operations	43	155
Net cash flows from		
operating activities	0	(1)
investing activities	0	3
financing activities	0	0

¹ Gain resulting from a purchase price adjustment related to the sale of Private Banks & GAM in 2005. ² Included in Treasury activities and other corporate items in Note 2a.

Note 38 Reorganizations and disposals

Sale of investment in New York office building

In January 2010, UBS closed the sale of its investments in several associated entities owning office space in New York. A significant portion of the office space is leased by UBS Group until 2018. The sales price was CHF 187 million with a resulting gain on sale of CHF 180 million.

Restructuring 2010

During 2010, UBS incurred net restructuring charges of CHF 113 million. Wealth Management Americas recognized CHF 90 million for real-estate related costs in *General and administrative expenses* and CHF 37 million for impairment in *Depreciation of property and equipment*. In addition, the business division incurred personnel related restructuring charges of CHF 35 million. The Investment Bank released personnel related restructuring provisions of CHF 25 million.

Note 39 Currency translation rates

The following table shows the main rates used to translate the financial information of UBS's foreign operations into Swiss francs:

	Spot rate		Average rate		
	As of		Year ended		
	31.12.10	31.12.09	31.12.10	31.12.09	31.12.08
1 USD	0.93	1.04	1.04	1.08	1.06
1 EUR	1.25	1.48	1.37	1.51	1.58
1 GBP	1.46	1.67	1.62	1.70	1.96
100 JPY	1.15	1.11	1.18	1.16	0.98

Note 40 Swiss banking law requirements

The consolidated Financial Statements of UBS are prepared in accordance with International Financial Reporting Standards (IFRS). The Guidelines of the Swiss Financial Market Supervisory Authority (FINMA) require banks which present their financial statements under IFRS to provide a narrative explanation of the main differences between IFRS and Swiss GAAP (FINMA circular 08/2) and the Banking Ordinance. Included in this note are the significant differences in regard to recognition and measurement between IFRS and the provisions of the Banking Ordinance and the Guidelines of the FINMA governing financial statement reporting pursuant to Article 23 through Article 27 of the Banking Ordinance. The differences outlined in points two through nine also apply to the Parent Bank statutory accounts.

1. Consolidation

Under IFRS, all entities which are controlled by the Group are consolidated.

Under Swiss law, only entities that are active in the field of banking and finance and real estate entities are subject to consolidation. Entities which are held temporarily are generally recorded as financial investments.

2. Financial investments available-for-sale

Under IFRS, Financial investments available-for-sale are carried at fair value. Changes in fair value are recorded directly in equity until an investment is sold, collected or otherwise disposed of, or until an investment is determined to be impaired. At the time an available-for-sale investment is determined to be impaired, the cumulative unrealized loss previously recognized in equity is included in net profit or loss for the period. On disposal of a financial investment available-for-sale, the cumulative unrecognized gain or loss previously recognized in equity is recognized in the income statement.

Under Swiss law, financial investments are carried either at the lower of cost or market or at amortized cost less impairment with changes in measurement recorded in the income statement. Re-

ductions to market value below cost and reversals of such reductions up to original cost as well as gains and losses on disposal are included in *Other income*. Permanent equity investments are classified on the balance sheet as *Investments in associated companies* and are measured at cost less impairment with impairment losses recorded in the income statement.

3. Cash flow hedges

The Group uses derivative instruments to hedge the exposure from varying cash flows. Under IFRS, when hedge accounting is applied the fair value gain or loss on the effective portion of the derivative designated as a cash flow hedge is recognized in equity. When the hedged cash flows materialize, the accumulated unrecognized gain or loss is realized and released to income.

Under Swiss law, the effective portion of the fair value change of the derivative instrument used to hedge cash flow exposures is deferred on the balance sheet as other assets or other liabilities. The deferred amounts are released to income when the hedged cash flows materialize.

4. Investment property

Under IFRS, investment property is carried at fair value, with changes in fair value recognized in the income statement.

Under Swiss law, investment property is carried at amortized cost less any accumulated depreciation less impairment losses unless the investment property is classified as held for sale. Investment property classified as held for sale is carried at the lower of cost or market.

5. Fair value option

Under IFRS, the Group applies the fair value option to certain financial assets and financial liabilities, mainly to hybrid debt instruments. Hybrid instruments are accounted for at fair value with changes in fair value reflected in *Net trading income*. Furthermore, UBS designated certain loans, loan commitments and fund

Note 40 Swiss banking law requirements (continued)

investments as financial assets designated at fair value through profit and loss.

Under Swiss accounting rules, the fair value option is not available except for issued structured products that consist of a debt host contract and a bifurcated embedded derivative(s). However, changes in fair value attributable to changes in own credit are not recognized in the income statement.

6. Goodwill and intangible assets

Under IFRS, goodwill acquired in a business combination is not amortized but tested annually for impairment. Intangible assets acquired in a business combination with an indefinite useful life are also not amortized but tested annually for impairment.

Under Swiss law, goodwill and intangible assets with indefinite useful lives are amortized over a period not exceeding five years, unless a longer useful life, which may not exceed twenty years, can be justified.

7. Discontinued operations

Under certain conditions, IFRS requires that non-current assets or disposal groups be classified as held for sale. Disposal groups that meet the criteria of discontinued operations are presented in the income statement in a single line as net income from discontinued operations.

Under Swiss law, no such reclassification takes place.

8. Extraordinary income and expense

Certain items of income and expense are classified as extraordinary items under Swiss law, whereas in the Group Income Statement the amounts are classified as operating income or expense or are included in net profit from discontinued operations, if required.

9. Netting of replacement values

Under IFRS, replacement values are reported on a gross basis, unless certain restrictive requirements are met. Under Swiss law, replacement values and the related cash collateral are reported on a net basis, provided the master netting and the related collateral agreements are legally enforceable.

Note 41 Supplemental guarantor information required under SEC rules

Guarantee of PaineWebber securities

Following the acquisition of Paine Webber Group Inc., UBS made a full and unconditional guarantee of the senior and subordinated notes and trust preferred securities ("Debt Securities") of PaineWebber. Prior to the acquisition, PaineWebber was a SEC registrant. Upon the acquisition, PaineWebber was merged into UBS Americas Inc., a wholly-owned subsidiary of UBS.

Under the guarantee, if UBS Americas Inc. fails to make any timely payment under the Debt Securities agreements,

the holders of the Debt Securities or the Debt Securities trustee may demand payment from UBS without first proceeding against UBS Americas Inc. UBS's obligations under the subordinated note guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS.

The information presented in this note is prepared in accordance with IFRS and should be read in conjunction with the Consolidated Financial Statements of UBS of which this information is a part.

Supplemental guarantor consolidated income statement

CHF million

For the year ended 31 December 2010

	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	15,732	3,388	2,723	(2,971)	18,872
Interest expense	(12,153)	(1,409)	(2,067)	2,971	(12,657)
Net interest income	3,579	1,980	656	0	6,215
Credit loss (expense) / recovery	(2)	(16)	(48)	0	(66)
Net interest income after credit loss expense	3,577	1,964	608	0	6,149
Net fee and commission income	7,293	6,465	3,401	0	17,160
Net trading income	6,979	(117)	609	0	7,471
Income from subsidiaries	1,384	0	0	(1,384)	0
Other income	1,515	1,296	(1,597)	0	1,214
Total operating income	20,749	9,608	3,022	(1,384)	31,994
Operating expenses					
Personnel expenses	9,220	5,850	1,850	0	16,920
General and administrative expenses	2,729	2,691	1,164	0	6,585
Depreciation of property and equipment	628	172	117	0	918
Impairment of goodwill	0	0	0	0	0
Amortization of intangible assets	3	90	24	0	117
Total operating expenses	12,581	8,804	3,154	0	24,539
Operating profit from continuing operations before tax	8,168	804	(132)	(1,384)	7,455
Tax expense / (benefit)	633	(1,150)	136	0	(381)
Net profit from continuing operations	7,534	1,954	(268)	(1,384)	7,836
Net profit from discontinued operations	0	0	2	(1,384)	2
Net profit	7,534	1,954	(266)	(1,384)	7,838
Net profit attributable to non-controlling interests	0	0	304	0	304
Net profit attributable to UBS shareholders	7,534	1,954	(570)	(1,384)	7,534

¹ UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated balance sheet

CHF million

As of 31 December 2010

	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	26,372	69	498	0	26,939
Due from banks	30,941	5,038	68,198	(87,044)	17,133
Cash collateral on securities borrowed	39,315	61,314	9,572	(47,746)	62,454
Reverse repurchase agreements	130,977	53,203	85,331	(126,721)	142,790
Trading portfolio assets	108,678	22,853	37,652	(1,719)	167,463
Trading portfolio assets pledged as collateral	61,428	9,412	2,162	(11,649)	61,352
Positive replacement values	393,565	8,624	115,618	(116,661)	401,146
Cash collateral receivables on derivative instruments	42,940	5,010	23,861	(33,740)	38,071
Financial assets designated at fair value	4,778	4,788	8,850	(9,911)	8,504
Loans	258,378	37,828	12,778	(46,107)	262,877
Financial investments available-for-sale	59,269	11,647	3,853	0	74,768
Accrued income and prepaid expenses	1,450	3,612	942	(538)	5,466
Investments in associates	62,095	6	0	(61,311)	790
Property and equipment	4,493	614	360	0	5,467
Goodwill and intangible assets	448	8,150	1,224	0	9,822
Deferred tax assets	6,054	2,897	571	0	9,522
Other assets	18,504	5,938	1,914	(3,675)	22,681
Total assets	1,249,683	241,001	373,384	(546,822)	1,317,247
Liabilities					
Due to banks	79,842	47,430	1,261	(87,044)	41,490
Cash collateral on securities lent	20,374	23,613	10,410	(47,746)	6,651
Repurchase agreements	40,713	79,920	80,883	(126,721)	74,796
Trading portfolio liabilities	45,191	13,433	1,215	(4,865)	54,975
Negative replacement values	383,892	8,667	117,863	(116,661)	393,762
Cash collateral payables on derivative instruments	45,024	10,543	37,097	(33,740)	58,924
Financial liabilities designated at fair value	94,864	295	18,457	(12,859)	100,756
Due to customers	301,976	29,266	47,166	(46,107)	332,301
Accrued expenses and deferred income	5,071	2,433	773	(538)	7,738
Debt issued	125,113	398	10,315	(5,555)	130,271
Other liabilities	23,286	20,580	23,529	(3,675)	63,719
Total liabilities	1,165,349	236,578	348,968	(485,511)	1,265,384
Equity attributable to UBS shareholders	84,334	4,408	19,388	(61,311)	46,820
Equity attributable to non-controlling interests	0	15	5,028	0	5,043
Total equity	84,334	4,423	24,416	(61,311)	51,863
Total liabilities and equity	1,249,683	241,001	373,384	(546,822)	1,317,247

¹ UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million

For the year ended 31 December 2010

	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	7,233	4,036	695	11,963
Cash flow from / (used in) investing activities				
Purchase of subsidiaries and associates	(75)	0	0	(75)
Disposal of subsidiaries and associates	307	0	0	307
Purchase of property and equipment	(367)	(88)	(86)	(541)
Disposal of property and equipment	196	22	24	242
Net (investment in) / divestment of financial investments available-for-sale	(17,374)	1,150	(9,407)	(25,631)
Net cash flow from / (used in) investing activities	(17,312)	1,084	(9,471)	(25,698)
Cash flow from / (used in) financing activities				
Net money market papers issued / (repaid)	3,241	0	1,218	4,459
Net movements in treasury shares and own equity derivative activity	(1,456)	0	0	(1,456)
Capital issuance	(113)	0	0	(113)
Issuance of long-term debt, including financial liabilities designated at fair value	75,842	8	2,568	78,418
Repayment of long-term debt, including financial liabilities designated at fair value	(65,968)	(82)	(11,447)	(77,497)
Increase in non-controlling interests	0	0	6	6
Dividends paid to / decrease in non-controlling interests	0	(6)	(2,047)	(2,053)
Net activity in investments in subsidiaries	(122)	235	(113)	0
Net cash flow from / (used in) financing activities	11,424	154	(9,815)	1,764
Effects of exchange rate differences	(10,218)	1,482	(3,444)	(12,181)
Net increase / (decrease) in cash and cash equivalents	(8,873)	6,756	(22,034)	(24,151)
Cash and cash equivalents at the beginning of the year	123,580	5,238	36,154	164,973
Cash and cash equivalents at the end of the year	114,707	11,994	14,120	140,822
Cash and cash equivalents comprise:				
Cash and balances with central banks	26,372	69	498	26,939
Money market papers ²	65,688	3,737	8,573	77,998
Due from banks with original maturity of less than three months ³	22,647	8,188	5,050	35,885
Total	114,707	11,994	14,120	140,822

¹ UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

² Money market papers are included in the balance sheet under Trading portfolio assets, Trading portfolio assets pledged as collateral and Financial investments available-for-sale. CHF 39,768 million were pledged as of 31 December 2010. ³ Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

CHF million

For the year ended 31 December 2009

	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Operating income					
Interest income	18,798	4,432	6,715	(6,484)	23,461
Interest expense	(16,860)	(1,982)	(4,657)	6,484	(17,016)
Net interest income	1,939	2,450	2,058	0	6,446
Credit loss (expense) / recovery	(937)	(897)	2	0	(1,832)
Net interest income after credit loss expense	1,002	1,553	2,060	0	4,614
Net fee and commission income	7,912	6,025	3,774	0	17,712
Net trading income	(1,487)	(423)	1,586	0	(324)
Income from subsidiaries	1,114	0	0	(1,114)	0
Other income	550	(872)	921	0	599
Total operating income	9,092	6,282	8,341	(1,114)	22,601
Operating expenses					
Personnel expenses	8,577	5,566	2,400	0	16,543
General and administrative expenses	2,351	2,512	1,385	0	6,248
Depreciation of property and equipment	686	171	191	0	1,048
Impairment of goodwill	0	0	1,123	0	1,123
Amortization of intangible assets	3	96	101	0	200
Total operating expenses	11,617	8,345	5,200	0	25,162
Operating profit from continuing operations before tax	(2,526)	(2,063)	3,141	(1,114)	(2,561)
Tax expense / (benefit)	210	(549)	(104)	0	(443)
Net profit from continuing operations	(2,736)	(1,514)	3,245	(1,114)	(2,118)
Net profit from discontinued operations	0	0	(7)	0	(7)
Net profit	(2,736)	(1,514)	3,238	(1,114)	(2,125)
Net profit attributable to non-controlling interests	0	(3)	613	0	610
Net profit attributable to UBS shareholders	(2,736)	(1,511)	2,625	(1,114)	(2,736)

¹ UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated balance sheet

CHF million

As of 31 December 2009

	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
Assets					
Cash and balances with central banks	15,177	75	5,647	0	20,899
Due from banks	27,861	4,476	84,363	(99,896)	16,804
Cash collateral on securities borrowed	39,807	56,402	10,700	(43,402)	63,507
Reverse repurchase agreements	113,891	37,914	82,474	(117,590)	116,689
Trading portfolio assets	122,801	18,224	48,739	(1,727)	188,037
Trading portfolio assets pledged as collateral	47,954	11,422	859	(16,014)	44,221
Positive replacement values	413,822	8,260	145,265	(145,654)	421,694
Cash collateral receivables on derivative instruments	56,477	5,787	23,340	(31,830)	53,774
Financial assets designated at fair value	5,831	5,876	11,283	(12,768)	10,223
Loans	265,689	41,871	15,955	(57,039)	266,477
Financial investments available-for-sale	63,459	15,441	2,857	0	81,757
Accrued income and prepaid expenses	1,664	3,880	1,100	(828)	5,816
Investments in associates	61,551	24	49	(60,754)	870
Property and equipment	4,920	791	501	0	6,212
Goodwill and intangible assets	494	9,101	1,413	0	11,008
Deferred tax assets	6,352	2,037	479	0	8,868
Other assets	21,241	4,352	2,169	(4,078)	23,682
Total assets	1,268,991	225,933	437,194	(591,580)	1,340,538
Liabilities					
Due to banks	79,245	51,091	1,482	(99,896)	31,922
Cash collateral on securities lent	17,662	22,993	10,742	(43,402)	7,995
Repurchase agreements	38,563	66,545	76,657	(117,590)	64,175
Trading portfolio liabilities	41,884	10,792	610	(5,817)	47,469
Negative replacement values	400,432	8,173	146,992	(145,654)	409,943
Cash collateral payables on derivative instruments	49,328	9,847	38,752	(31,830)	66,097
Financial liabilities designated at fair value	100,768	276	27,953	(16,344)	112,653
Due to customers	300,123	31,840	64,340	(57,039)	339,263
Accrued expenses and deferred income	5,155	2,269	2,093	(828)	8,689
Debt issued	126,965	493	12,242	(8,348)	131,352
Other liabilities	31,151	18,823	26,449	(4,078)	72,344
Total liabilities	1,191,276	223,142	408,312	(530,826)	1,291,905
Equity attributable to UBS shareholders	77,715	2,770	21,283	(60,754)	41,013
Equity attributable to non-controlling interests	0	21	7,599	0	7,620
Total equity	77,715	2,791	28,882	(60,754)	48,633
Total liabilities and equity	1,268,991	225,933	437,194	(591,580)	1,340,538

¹ UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million

For the year ended 31 December 2009

	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	4,841	(6,469)	56,126	54,497
Cash flow from / (used in) investing activities				
Purchase of subsidiaries and associates	(42)	0	0	(42)
Disposal of subsidiaries and associates	296	0	0	296
Purchase of property and equipment	(656)	(124)	(75)	(854)
Disposal of property and equipment	104	53	6	163
Net (investment in) / divestment of financial investments available-for-sale	(22,319)	(12,484)	14,677	(20,127)
Net cash flow from / (used in) investing activities	(22,616)	(12,555)	14,608	(20,563)
Cash flow from / (used in) financing activities				
Net money market papers issued / (repaid)	(7,020)	(1,596)	(51,424)	(60,040)
Net movements in treasury shares and own equity derivative activity	673	0	0	673
Capital issuance	3,726	0	0	3,726
Issuance of long-term debt, including financial liabilities designated at fair value	64,956	0	2,106	67,062
Repayment of long-term debt, including financial liabilities designated at fair value	(55,616)	(1,548)	(7,861)	(65,024)
Increase in non-controlling interests	0	0	3	3
Dividends paid to / decrease in non-controlling interests	0	(8)	(576)	(583)
Net activity in investments in subsidiaries	(4,032)	2,419	1,614	0
Net cash flow from / (used in) financing activities	2,686	(733)	(56,136)	(54,183)
Effects of exchange rate differences	5,886	574	(933)	5,529
Net increase / (decrease) in cash and cash equivalents	(9,202)	(19,183)	13,664	(14,721)
Cash and cash equivalents at the beginning of the year	132,782	24,421	22,490	179,693
Cash and cash equivalents at the end of the year	123,580	5,238	36,154	164,973
Cash and cash equivalents comprise:				
Cash and balances with central banks	15,177	75	5,647	20,899
Money market papers ²	78,025	3,714	16,694	98,432
Due from banks with original maturity of less than three months ³	30,378	1,450	13,814	45,642
Total	123,580	5,238	36,154	164,973

¹ UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

² Money market papers are included in the balance sheet under Trading portfolio assets, Trading portfolio assets pledged as collateral and Financial investments available-for-sale. CHF 57,116 million were pledged as of 31 December 2009. ³ Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated income statement

<i>CHF million</i>	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	Consolidating entries	UBS Group
For the year ended 31 December 2008					
Operating income					
Interest income	49,699	21,343	27,354	(32,717)	65,679
Interest expense	(48,686)	(17,436)	(26,282)	32,717	(59,687)
Net interest income	1,013	3,907	1,072	0	5,992
Credit loss (expense) / recovery	(861)	(2,050)	(85)	0	(2,996)
Net interest income after credit loss expense	152	1,857	987	0	2,996
Net fee and commission income	9,709	7,910	5,310	0	22,929
Net trading income	(8,129)	(19,847)	2,156	0	(25,820)
Income from subsidiaries	(19,882)	0	0	19,882	0
Other income	2,836	1,058	(3,202)	0	692
Total operating income	(15,314)	(9,022)	5,251	19,882	796
Operating expenses					
Personnel expenses	8,738	5,169	2,355	0	16,262
General and administrative expenses	3,918	4,604	1,976	0	10,498
Depreciation of property and equipment	770	205	266	0	1,241
Impairment of goodwill	0	341	0	0	341
Amortization of intangible assets	1	93	119	0	213
Total operating expenses	13,427	10,412	4,716	0	28,555
Operating profit from continuing operations before tax	(28,741)	(19,434)	535	19,882	(27,758)
Tax expense / (benefit)	(7,407)	(4)	574	0	(6,837)
Net profit from continuing operations	(21,335)	(19,430)	(39)	19,882	(20,922)
Net profit from discontinued operations	43	0	155	0	198
Net profit	(21,292)	(19,430)	116	19,882	(20,724)
Net profit attributable to non-controlling interests	0	(9)	577	0	568
Net profit attributable to UBS shareholders	(21,292)	(19,421)	(461)	19,882	(21,292)

¹ UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million

For the year ended 31 December 2008

	UBS AG Parent Bank ¹	UBS Americas Inc.	Subsidiaries	UBS Group
Net cash flow from / (used in) operating activities	69,799	(438)	7,646	77,007
Cash flow from / (used in) investing activities				
Purchase of subsidiaries and associates	(1,502)	0	0	(1,502)
Disposal of subsidiaries and associates	1,686	0	0	1,686
Purchase of property and equipment	(819)	(258)	(140)	(1,217)
Disposal of property and equipment	37	27	5	69
Net (investment in) / divestment of financial investments available-for-sale	330	156	(1,198)	(712)
Net cash flow from / (used in) investing activities	(268)	(75)	(1,333)	(1,676)
Cash flow from / (used in) financing activities				
Net money market papers issued / (repaid)	(52,815)	914	11,264	(40,637)
Net movements in treasury shares and own equity derivative activity	623	0	0	623
Capital issuance	23,135	0	0	23,135
Issuance of long-term debt, including financial liabilities designated at fair value	91,961	0	11,126	103,087
Repayment of long-term debt, including financial liabilities designated at fair value	(62,822)	(14,500)	(15,572)	(92,894)
Increase in non-controlling interests	0	842	819	1,661
Dividends paid to / decrease in non-controlling interests	0	(112)	(420)	(532)
Net activity in investments in subsidiaries	(11,978)	21,816	(9,838)	0
Net cash flow from / (used in) financing activities	(11,896)	8,960	(2,621)	(5,557)
Effects of exchange rate differences	(33,963)	442	(5,665)	(39,186)
Net increase / (decrease) in cash and cash equivalents	23,672	8,889	(1,973)	30,588
Cash and cash equivalents at the beginning of the year	109,110	15,532	24,463	149,105
Cash and cash equivalents at the end of the year	132,782	24,421	22,490	179,693
Cash and cash equivalents comprise:				
Cash and balances with central banks	27,030	332	5,382	32,744
Money market papers ²	62,777	19,875	4,080	86,732
Due from banks with original maturity of less than three months ³	42,975	4,214	13,028	60,217
Total	132,782	24,421	22,490	179,693

¹ UBS AG Parent Bank prepares its financial statements in accordance with Swiss banking law requirements. For the purpose of this disclosure, the accounts have been adjusted to IFRS.

² Money market papers are included in the balance sheet under Trading portfolio assets, Trading portfolio assets pledged as collateral and Financial investments available-for-sale. CHF 19,912 million were pledged as of 31 December 2008. ³ Includes positions recognized in the balance sheet under Due from banks and Cash collateral receivables on derivative instruments.

Note 41 Supplemental guarantor information required under SEC rules (continued)

Guarantee of other securities

UBS AG, acting through wholly-owned US-domiciled finance subsidiaries, issued the following trust preferred securities:

<i>USD billion, unless otherwise indicated</i>	Issuing entity	Type of security	Outstanding as of 31.12.10		
			Date issued	Interest (%)	Amount
	UBS Preferred Funding Trust II	Trust preferred securities ¹	June 2001	7.247	0.5
	UBS Preferred Funding Trust IV	Floating rate non-cumulative trust preferred securities	May 2003	one-month LIBOR + 0.7%	0.3
	UBS Preferred Funding Trust V	Trust preferred securities	May 2006	6.243	1.0

¹ In June 2006, USD 300 million (at 7.25%) of Trust preferred securities also issued in June 2001 were redeemed.

UBS AG has fully and unconditionally guaranteed these securities. UBS's obligations under the trust preferred securities guarantee are subordinated to the prior payment in full of the deposit liabilities of UBS and all other liabilities of UBS. At 31 December 2010, the amount of senior liabilities of UBS to which the holders of the subordinated debt securities would be subordinated is approximately CHF 1,256 billion.

Guarantee to UBS Ltd.

UBS AG issued a guarantee to each counterparty of UBS Ltd. Under the guarantee UBS AG irrevocably and unconditionally guarantees, for the benefit of each counterparty, each and every obligation that UBS Ltd. entered into. UBS AG promises to pay to that counterpart on demand any unpaid balance of such liabilities under the terms of the guarantee.

CERTIFICATION UNDER SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Sergio P. Ermotti, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 20-F for the year ended 31 December 2010 of UBS AG;
2. Based on my knowledge, this Amendment No. 1 does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Amendment No. 1;
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this Amendment No. 1;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others in those entities, particularly during the period covered by the Annual Report on Form 20-F;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Annual Report on Form 20-F based on such evaluation; and
 - d. Disclosed in this Amendment No. 1 any change in the company's internal control over financial reporting that occurred during the period covered by the Annual Report on Form 20-F that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting for the period covered by the Annual Report on Form 20-F, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 9, 2011

/s/ Sergio P. Ermotti

Name: Sergio P. Ermotti

Title: Group Chief Executive Officer

CERTIFICATION UNDER SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Tom Naratil, certify that:

1. I have reviewed this Amendment No. 1 to the Annual Report on Form 20-F for the year ended 31 December 2010 of UBS AG;
2. Based on my knowledge, this Amendment No. 1 does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Amendment No. 1;
3. Based on my knowledge, the financial statements, and other financial information included in this Amendment No. 1, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this Amendment No. 1;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others in those entities, particularly during the period covered by the Annual Report on Form 20-F;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the Annual Report on Form 20-F based on such evaluation; and
 - d. Disclosed in this Amendment No. 1 any change in the company's internal control over financial reporting that occurred during the period covered by the Annual Report on Form 20-F that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting for the period covered by the Annual Report on Form 20-F, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: November 9, 2011

/s/ Tom Naratil

Name: Tom Naratil

Title: Group Chief Financial Officer

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of UBS AG, a Swiss banking corporation (the "Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2010 (the "Report") of the Company, as amended by this Amendment No. 1, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §§ 78m or 78o(d)) and information contained in the Report, as so amended, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2011

/s/ Sergio P. Ermotti

Name: Sergio P. Ermotti

Title: Group Chief Executive Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or this Amendment No. 1 or as a separate disclosure document.

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of UBS AG, a Swiss banking corporation (the "Company"), hereby certifies, to such officer's knowledge, that:

The Annual Report on Form 20-F for the year ended December 31, 2010 (the "Report") of the Company, amended by this Amendment No. 1, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. §§ 78m or 78o(d)) and information contained in the Report, as so amended, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 9, 2011

/s/ Tom Naratil

Name: Tom Naratil

Title: Group Chief Financial Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, Chapter 63 of Title 18, United States Code) and is not being filed as part of the Report or this Amendment No. 1 or as a separate disclosure document.

Zurich, 10 November 2011

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in each of the following registration statements of UBS AG:

- (1) on Form F-3 (Registration Numbers 333-156695; 333-156695-01 to —17; and 333-153882), and each related prospectus currently outstanding under any of the aforementioned registration statements,
- (2) on Form S-8 (Registration Numbers 333-57878; 333-50320; 333-49216; 333-49214; 33-49212; 333-49210; 333-103956; 333-127180; 333-127182; 333-127183; 333-127184; 333-162798; 333-162799; and 333-162800), and each related prospectus currently outstanding under any of the aforementioned registration statements,
- (3) the base prospectus of Corporate Asset Backed Corporation (CABCO) dated 23 June 2004 (Registration Number 333-111572),
- (4) the Form 8-K of CABCO dated 23 June 2004 (SEC File Number 001-13444), and
- (5) the Prospectus Supplements relating to the CABCO Series 2004-101 Trust dated 10 May 2004 (Registration Number 033-91744) and 13 May 2004 (Registration Number 033-91744-05),

of our report dated 3 March 2011 (except for the matter described in the seventh paragraph of our report on the effectiveness of internal control over financial reporting, as to which the date is 10 November 2011) with respect to the consolidated financial statements of UBS AG, and our report dated 3 March 2011 (except for the matter described in the sixth paragraph of our report, as to which the date is 10 November 2011) with respect to the effectiveness of internal control over financial reporting of UBS AG, included in its Annual Report (Form 20-F), as amended by Amendment No. 1 (Form 20-F/A), for the year ended 31 December 2010, filed with the Securities and Exchange Commission.

Ernst & Young Ltd

Jonathan Bourne

Andreas Loetscher

Licensed Audit Expert

Licensed Audit Expert