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| <p>Supplement No. 3 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>dated 25 August 2016 to the Registration Document of UBS AG dated 24 February 2016</p> |
| <p>Supplement No. 7 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>dated 25 August 2016 to the already published Base Prospectus dated 11 May 2015 for the issue of Warrants</p> |
| <p>Supplement No. 7 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>dated 25 August 2016 to the already published Base Prospectus dated 1 June 2015 for the issue of Securities</p> |
| <p>Supplement No. 5 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>dated 25 August 2016 to the already published Base Prospectus dated 1 September 2015 for the issue of Securities</p> |
| <p>Supplement No. 4 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>dated 25 August 2016 to the already published Base Prospectus dated 15 December 2015 for the issue of UBS Performance Securities</p> |
| <p>Supplement No. 4 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>dated 25 August 2016 to the already published tripartite Prospectus comprising the Summary and Securities Note dated 15 January 2016 and the Registration Document of UBS AG dated 24 February 2016 for the issuance of Strategy Certificates on China Consumer Basket (ISIN CH0301001746)</p> |
| <p>Supplement No. 4 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>Dated 25 August 2016 to the already published Base Prospectus dated 26 January 2016 for the issue of Warrants</p> |
| <p>Supplement No. 4 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>dated 25 August 2016 to the already published Base Prospectus dated 26 January 2016 for the issue of Securities</p> |
| <p>Supplement No. 4 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>dated 25 August 2016 to the already published tripartite Prospectus comprising the Summary and Securities Note dated 2 February 2016 and the Registration Document of UBS AG dated 24 February 2016 for the issuance of UBS Broad Peak Developed Markets Basket Certificates (ISIN CH0298156362)</p> |
| <p>Supplement No. 1 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>Dated 25 August 2016 to the already published Base Prospectus dated 30 May 2016 for the issue of Securities</p> |
| <p>Supplement No. 1 pursuant to § 16 (1) of the German Securities Prospectus Act</p> <p>Dated 25 August 2016 to the already published Base Prospectus dated 30 June 2016 for the Issuance of Fixed Income Securities (Cash)</p> |

Supplement No. 1 pursuant to § 16 (1) of the German Securities Prospectus Act

dated 25 August 2016 to the already published tripartite Prospectus comprising the Summary and Securities Note dated 6 July 2016 and the Registration Document of UBS AG dated 24 February 2016 for the issuance of Gelfarth Select Strategy Certificates (ISIN CH0326223960)

Supplement No. 1 pursuant to § 16 (1) of the German Securities Prospectus Act

Dated 25 August 2016 to the already published Base Prospectus dated 21 July 2016 for the issue of Warrants

This supplement serves as update to the Registration Document, the Base Prospectuses and the Prospectuses mentioned above in connection to the following occurrence:

The publication of the second quarter report as per 30 June 2016 of UBS Group AG on 29 July 2016 and UBS AG on 4 August 2016 and the change of certain UBS' ratings.

UBS AG has also taken the occasion to update in this Supplement certain sections included in the Registration Document which have been updated after the date of the Registration Document, the Base Prospectuses and the Prospectuses, as mentioned above.

The following table shows the updated information that has become available after the date of the Registration Document, Base Prospectuses and Prospectuses, as mentioned above, and the revisions that have been made as a result thereof.

| Updated information | Revisions |
|---|---|
| Certain information regarding UBS AG have been updated. | The information in the Elements B.4b, B.10, B.12 and B.15 of the Summary as well as the relevant sections/paragraphs of the Registration Document have been updated pursuant to the second quarter 2016 reports. |
| Certain information regarding rating agencies have been updated. | The information in Element B.17 as well as the relevant sections/paragraphs of the Registration Document and the Base Prospectuses have been updated due to the revision of the ratings provided by Standard & Poor's, Moody's and Scope. |
| Certain information regarding UBS AG in the Registration Document have been updated | The sections headed "Information about UBS AG", "Business Overview", "Administrative, Management and Supervisory Bodies of UBS AG", "Financial Information concerning the Issuer's Assets and Liabilities, Financial Position and Profits and Losses", "Litigation, Regulatory and Similar Matters", "Significant Changes in the Financial or Trading Position; Material Adverse Changes in Prospects" and "Documents on Display" have been updated pursuant to the second quarter report. Furthermore, the Registration Document dated 24 February 2016 has been updated regarding the above mentioned second quarter reports. |

The attention of the investors is in particular drawn to the following: Investors who have already agreed to purchase or subscribe for the Notes, Certificates, Bonds or Securities, as the case may be, before this supplement is published have, pursuant to § 16 (3) of the German Securities Prospectus Act, the right, exercisable within a time limit of two working days after the publication of this supplement, to withdraw their acceptances, provided that the new circumstances or the incorrectness causing the supplement occurred before the closing of the public

offering and before the delivery of the securities. A withdrawal, if any, of an order must be communicated in writing to the Issuer at its registered office specified in the address list hereof.

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- 1) In relation to the Registration Document as listed introductory on page 1 the following adjustments have been made:

In the section headed "IV. Information about UBS AG" (page 24 of the Registration Document) in the first subparagraph the first sentence has been completely replaced as follows:

"UBS AG with its subsidiaries (together, "**UBS AG (consolidated)**", or "**UBS AG Group**"; together with UBS Group AG, which is the holding company of UBS AG, and its subsidiaries, "**UBS Group**", "**Group**", "**UBS**" or "**UBS Group AG (consolidated)**") provides financial advice and solutions to private, institutional and corporate clients worldwide, as well as private clients in Switzerland."

In the section headed "IV. Information about UBS AG" (page 24 of the Registration Document) the second and third subparagraphs have been completely replaced as follows:

"On 30 June 2016, UBS Group AG (consolidated) common equity tier1 ("**CET1**") capital ratio¹ was 14.2% on a fully applied basis and 17.1% on a phase-in basis, invested assets stood at CHF 2,677 billion, equity attributable to UBS Group AG shareholders was CHF 52,876 million and market capitalization was CHF 48,398 million. On the same date, UBS employed 60,093 people².

On 30 June 2016, UBS AG (consolidated) CET1 capital ratio¹ was 15% a fully applied basis and 17.9% on a phase-in basis, invested assets stood at CHF 2,677 billion and equity attributable to UBS AG shareholders was CHF 53,353 million. On the same date, UBS AG Group employed 57,387 people²."

In the section headed "IV. Information about UBS AG" (page 24 of the Registration Document) the fourth subparagraph has been completely replaced as follows:

The rating agencies Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"), Moody's Investors Service Ltd. ("**Moody's**"), Fitch Ratings Limited ("**Fitch Ratings**") and Scope Ratings AG ("**Scope Ratings**") have published solicited credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfill in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings, Standard & Poor's and Scope Ratings may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has a long-term counterparty credit rating of A+ (outlook: stable) from Standard & Poor's, long-term senior debt rating of A1 (outlook: stable) from Moody's, long-term issuer default rating of A+ (outlook: stable) from Fitch Ratings and issuer credit-strength rating of A+ (outlook: positive) from Scope Ratings.

¹ Based on the Basel III framework as applicable to Swiss systemically relevant banks. The common equity tier 1 capital ratio is the ratio of common equity tier 1 capital to risk-weighted assets. The information provided on a fully applied basis entirely reflects the effects of prudential filters for the calculation of capital and does not include ineligible capital instruments. The information provided on a phase-in basis gradually reflects those effects and the phase-out of ineligible capital instruments during the transition period. For information as to how common equity tier 1 capital is calculated, refer to the table "Reconciliation IFRS equity to Swiss SRB capital" in the section "Capital management" of the UBS Group second quarter 2016 report and the UBS AG second quarter 2016 report, respectively).

² Full-time equivalents.

In the section headed "IV. Information about UBS AG" (starting on page 24 of the Registration Document) the table on page 25 of the Registration Document has been replaced as follows:

| Standard & Poor's | | Moody's | | Fitch Ratings | | Scope Ratings | |
|--------------------------------|--|------------------|---|---------------------------------|--------------------------|--------------------------------|--|
| Long-Term Issuer credit rating | | Long-Term rating | | Long-Term Issuer Default Rating | | Long-Term Issuer credit rating | |
| AAA | Extremely strong capacity to meet financial commitments | Aaa | Highest quality | AAA | Highest credit quality | AAA | Exceptionally strong credit quality with the lowest risk of a default-like event |
| AA+ | Very strong capacity to meet financial commitments | Aa1 | High quality | AA+ | Very high credit quality | AA+ | Very strong credit quality with an extremely low risk of a default-like event |
| AA | | Aa2 | | AA | | AA | |
| AA- | | Aa3 | | AA- | | AA- | |
| A+ | Strong capacity to meet its financial commitments | A1 | Upper-medium grade | A+ | High credit quality | A+ | Strong credit quality with a very low risk of a default-like event |
| A | | A2 | | A | | A | |
| A- | | A3 | | A- | | A- | |
| BBB+ | Adequate capacity to meet its financial commitments | Baa1 | Medium grade | BBB+ | Good credit quality | BBB+ | Good credit quality with a low risk of a default-like event. |
| BBB | | Baa2 | | BBB | | BBB | |
| BBB- | | Baa3 | | BBB- | | BBB- | |
| BB+ | Less vulnerable in the near term than other lower-rated obligors | Ba1 | Speculative, subject to substantial credit risk | BB+ | Speculative | BB+ | Moderate-to-modest credit quality with a moderate risk of a default-like event |
| BB | | Ba2 | | BB | | BB | |
| BB- | | Ba3 | | BB- | | BB- | |
| B+ | More vulnerable than the obligors rated 'BB' | B1 | Speculative, subject to high credit risk | B+ | Highly speculative | B+ | Weak credit quality with a material risk of a default-like event |
| B | | B2 | | B | | B | |
| B- | | B3 | | B- | | B- | |
| B- | Significant speculative characteristics | Caa1 | Speculative, of poor standing and subject to very high credit risk | CCC | Substantial credit risk | CCC | Very weak credit quality with a significant risk of a default-like-event |
| CCC+ | | Caa2 | | CC | | CC | |
| CCC | | Caa3 | | C | | C | |
| CCC- | Currently vulnerable | Ca | Highly speculative, likely in, or very near, default with some prospect of recovery of principal and interest | RD | Restricted default | | |
| CC | | | | | | | |
| R | Under regulatory supervision | C | Typically in default, with little prospect for | D | Default | D | Credit default-like event |

| Standard & Poor's | | Moody's | | Fitch Ratings | | Scope Ratings | |
|-------------------|-------------------|---------|-----------------------------------|---------------|--|---------------|--|
| | | | recovery of principal or interest | | | | |
| SD | Selective Default | | | | | | |
| D | Default | | | | | | |

In the section headed "V. Business Overview" (starting on page 26 of the Registration Document) the subsection headed "Recent Developments" (page 28 et seq. of the Registration Document) is completely replaced by the following text:

"Recent Developments

1. *UBS AG (consolidated) key figures*

UBS AG took the selected consolidated financial information included in the table below for the years ended 31 December 2015, 2014 and 2013, except where indicated, from the Annual Report 2015, which contains the audited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the year ended 31 December 2015 and comparative figures for the years ended 31 December 2014 and 2013. The selected consolidated financial information included in the table below for the six months ended 30 June 2016 and 30 June 2015 was taken from the UBS AG second quarter 2016 report, which contains the unaudited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the six months ended 30 June 2016 and comparative figures for the six months ended 30 June 2015. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board ("**IASB**") and stated in Swiss francs ("**CHF**"). Information for the years ended 31 December 2015, 2014 and 2013 which is indicated as being unaudited in the table below was included in the Annual Report 2015 but has not been audited on the basis that the respective disclosures are not required under IFRS, and therefore are not part of the audited financial statements.

| | As of or for the six months ended | | As of or for the year ended | | |
|---|-----------------------------------|---------|--|----------|----------|
| | 30.6.16 | 30.6.15 | 31.12.15 | 31.12.14 | 31.12.13 |
| <i>CHF million, except where indicated</i> | | | | | |
| | <i>unaudited</i> | | <i>audited, except where indicated</i> | | |
| Results | | | | | |
| Operating income | 14,254 | 16,644 | 30,605 | 28,026 | 27,732 |
| Operating expenses | 11,818 | 12,254 | 25,198 | 25,557 | 24,461 |
| Operating profit / (loss) before tax | 2,436 | 4,391 | 5,407 | 2,469 | 3,272 |
| Net profit / (loss) attributable to UBS AG shareholders | 1,723 | 3,201 | 6,235 | 3,502 | 3,172 |
| Key performance indicators | | | | | |
| Profitability | | | | | |
| Return on tangible equity (%) ¹ | 7.3 | 14.1 | 13.5* | 8.2* | 8.0* |
| Return on assets, gross (%) ² | 2.9 | 3.2 | 3.1* | 2.8* | 2.5* |
| Cost / income ratio (%) ³ | 82.9 | 73.5 | 82.0* | 90.9* | 88.0* |
| Growth | | | | | |
| Net profit growth (%) ⁴ | (46.2) | 73.4 | 78.0* | 10.4* | - |
| Net new money growth for combined wealth management businesses (%) ⁵ | 3.8 | 2.6 | 2.2* | 2.5* | 3.4* |

| Resources | | | | | |
|--|---------|---------|----------|-----------|------------|
| Common equity tier 1 capital ratio (fully applied, %) ^{6,7} | 15.0 | 15.6 | 15.4* | 14.2* | 12.8* |
| Leverage ratio (phase-in, %) ^{8,9} | 5.5 | 5.1 | 5.7* | 5.4* | 4.7* |
| Additional information | | | | | |
| Profitability | | | | | |
| Return on equity (RoE) (%) | 6.3 | 12.1 | 11.7* | 7.0* | 6.7* |
| Return on risk-weighted assets, gross (%) ¹⁰ | 13.4 | 15.5 | 14.3* | 12.6* | 11.6* |
| Resources | | | | | |
| Total assets | 990,135 | 951,528 | 943,256 | 1,062,327 | 1,013,355 |
| Equity attributable to UBS AG shareholders | 53,353 | 51,685 | 55,248 | 52,108 | 48,002 |
| Common equity tier 1 capital (fully applied) ⁷ | 32,184 | 32,834 | 32,042 | 30,805 | 28,908 |
| Common equity tier 1 capital (phase-in) ⁷ | 38,913 | 39,169 | 41,516 | 44,090 | 42,179 |
| Risk-weighted assets (fully applied) ⁷ | 214,210 | 210,400 | 208,186* | 217,158* | 225,153* |
| Common equity tier 1 capital ratio (phase-in, %) ^{6,7} | 17.9 | 18.5 | 19.5* | 19.9* | 18.5* |
| Total capital ratio (fully applied, %) ⁷ | 21.2 | 20.2 | 21.0* | 19.0* | 15.4* |
| Total capital ratio (phase-in, %) ⁷ | 23.5 | 23.8 | 24.9* | 25.6* | 22.2* |
| Leverage ratio (fully applied, %) ^{8,9} | 5.0 | 4.5 | 4.9* | 4.1* | 3.4* |
| Leverage ratio denominator (fully applied) ⁹ | 899,075 | 946,457 | 898,251* | 999,124* | 1,015,306* |
| Other | | | | | |
| Invested assets (CHF billion) ¹¹ | 2,677 | 2,628 | 2,689 | 2,734 | 2,390 |
| Personnel (full-time equivalents) | 57,387 | 59,648 | 58,131* | 60,155* | 60,205* |

* unaudited

¹ Net profit attributable to UBS AG shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to UBS AG shareholders less average goodwill and intangible assets of UBS AG. ² Operating income before credit loss (expense) or recovery (annualized as applicable) / average total assets. ³ Operating expenses / operating income before credit loss (expense) or recovery. ⁴ Change in net profit attributable to UBS AG shareholders from continuing operations between current and comparison periods / net profit attributable to UBS AG shareholders from continuing operations of comparison period. Not meaningful and not included if either the reporting period or the comparison period is a loss period. ⁵ Combined Wealth Management and Wealth Management Americas' net new money for the period (annualized as applicable) / invested assets at the beginning of the period. Figures for the first six months of 2015 and the year ended 31 December 2015 are based on adjusted net new money, which excludes the negative effect on net new money of CHF 6.6 billion in the second quarter of 2015 and of CHF 9.9 billion in 2015, respectively from UBS's balance sheet and capital optimization program. ⁶ Common equity tier 1 capital / risk-weighted assets. ⁷ Based on the Basel III framework as applicable to Swiss systemically relevant banks. ⁸ Common equity tier 1 capital and loss-absorbing capital / leverage ratio denominator. ⁹ Calculated in accordance with Swiss SRB rules. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ¹⁰ Based on fully-applied risk-weighted assets for all periods presented. This metric was previously based on phase-in risk-weighted assets. This unaudited consolidated financial information was derived from the UBS AG second quarter 2016 report and UBS AG's accounting records. ¹¹ Includes invested assets for Personal & Corporate Banking.

2. Revised requirements for Swiss systemically relevant banks effective 1 July 2016

In May 2016, the Swiss Federal Council adopted amendments to the TBTF provisions, based on the cornerstones announced by the Swiss Federal Council in October 2015. The revised Capital Adequacy Ordinance forms the basis of a revised Swiss SRB framework, which became effective on 1 July 2016. Refer to the section "Capital management" of the UBS Group second quarter 2016 report published on 29 July 2016 (the "UBS Group Second Quarter 2016 Report"), for more information.

3. Swiss corporate tax reform III

In June 2016, the Swiss Parliament approved legislation to reform the Swiss corporate tax code. The reform aims to align the individual cantonal corporate tax regimes with international standards, which would involve the elimination of reduced holding company tax rates and other corporate tax privileges. The new federal law is expected to become effective as of January 2017 and be fully implemented in 2019, following a transitional period for cantons to adjust their tax legislation. A referendum on the law would delay the effective date by approximately one year. The cantons will be required to implement the revised tax laws. To mitigate the impact on corporate tax burden, the federal law provides a set of optional and mandatory measures for the cantons. In their legislative process, the cantons will then decide which of these measures they will implement. The impact on UBS can only be assessed once there is more clarity on the measures that will be implemented on a cantonal level.

4. US incentive compensation regulation

In May 2016, US federal financial regulators, including the Board of Governors of the Federal Reserve System, jointly proposed regulations that would, among other things, (i) prescribe mandatory deferral amounts and periods for incentive compensation based on the size of the financial institution and (ii) require downward adjustment, forfeiture and/or clawback of incentive compensation in certain circumstances. The proposal would apply to incentive compensation plans of UBS's principal operating entities in the US and would prescribe specific deferral and forfeiture requirements for executive officers, highly compensated employees and significant risk takers as defined in the proposal. If implemented as proposed, these regulations would require changes to UBS's incentive compensation programs for employees.

5. UK referendum on EU membership

A referendum on the UK's membership in the EU was held on 23 June 2016 with the majority voting for the UK's exit from the EU. It is currently expected that the UK government will exercise its right under Article 50 of the Lisbon Treaty to leave the EU. The timing and the manner of the UK's withdrawal from the EU and the terms of any successor arrangements between the UK and the EU are currently unknown and may not become clear in the short term. UBS maintains significant operations in the UK. Limitations on providing financial services into the EU from UBS's UK operations that could arise following the UK's exit from the EU could require UBS to make potentially significant changes to its operations in the UK and its legal structure.

In the section headed "VIII. Administrative, Management and Supervisory Bodies of UBS AG" (starting on page 33 of the Registration Document) the following paragraphs will be replaced in the section headed "Members of Board of Directors" (page 33 et seq. of the Registration Document):

Members of the Board of Directors

| Member and business address | Title | Term of office | Current principal positions outside UBS AG |
|--|--------|----------------|--|
| Reto Francioni UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2017 | Member of the Board of Directors of UBS Group AG. Professor, University of Basel; Board member of Coca-Cola HBC AG; member of the Board of Francioni AG.; Chairman of the Board of Swiss International Air Lines and; member of the Board of MedTech Innovation Partners AG. |
| Joseph Yam UBS AG, Bahnhofstrasse 45, CH-8001 Zurich | Member | 2017 | Member of the Board of Directors of UBS Group AG. Executive Vice President of the China Society for Finance and Banking. Member of the Board of Johnson Electric Holdings Limited and of UnionPay International Co.. International Advisory Council member of China Investment Corporation; Distinguished Research Fellow at the Institute of Global Economics and Finance at the Chinese University of Hong Kong. |

In the section headed "X. Financial Information concerning the Issuer's Assets and Liabilities, Financial Position and Profits and Losses" (starting on page 36 of the Registration Document) the section headed "Interim Financial Information" (page 37 of the Registration Document) is completely replaced by the following text:

"Interim Financial Information

Reference is also made to the UBS Group first quarter 2016 report and the UBS AG first quarter 2016 report, which contain information on the financial condition and results of operations, including the consolidated financial statements, of UBS Group AG (consolidated) and UBS AG (consolidated), respectively, as of and for the period ended 31 March 2016. Reference is also made to the UBS Group Second Quarter 2016 Report and to the UBS AG second quarter 2016 report published on 4 August 2016 ("UBS AG Second Quarter 2016 Report"), which contain information on the financial condition and results of operations, including the consolidated financial statements, of UBS Group AG (consolidated) and UBS AG (consolidated), respectively, as of and for the period ended 30 June 2016. The interim consolidated financial statements are not audited."

The section headed "XI. Litigation, Regulatory and Similar Matters" (starting on page 38 et seq., of the Registration Document) is completely replaced by the following:

XI. Litigation, Regulatory and Similar Matters

"UBS operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, UBS (which for purposes of this section 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 matters are subject to many uncertainties and the outcome and the timing of resolution are often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. UBS makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that 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, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against UBS, but are nevertheless expected to be, based on UBS's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

Specific litigation, regulatory and other matters are described below, including all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects. The amount of damages claimed, the size of a transaction or other information is provided where available and appropriate in order to assist users in considering the magnitude of potential exposures.

In the case of certain matters below, UBS states that it has established a provision, and for the other matters it makes no such statement. When UBS makes this statement and it expects disclosure of the amount of a provision to prejudice seriously its position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably

estimable outflow, UBS does not disclose that amount. In some cases UBS is subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which UBS does not state whether it has established a provision, either (a) it has not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard, or (b) it has established a provision but expects disclosure of that fact to prejudice seriously its position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

With respect to certain litigation, regulatory and similar matters for which UBS has established provisions, UBS is able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which it is able to estimate expected timing is immaterial relative to its current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 15a of the unaudited interim consolidated financial statements of UBS AG, included in the UBS AG Second Quarter 2016 Report. It is not practicable to provide an aggregate estimate of liability for UBS's litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require UBS to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although it therefore cannot provide a numerical estimate of the future losses that could arise from litigation, regulatory and similar matters, UBS believes that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the Non-Prosecution Agreement ("NPA") described in paragraph 5 of this section, which UBS entered into with the US Department of Justice ("DOJ"), Criminal Division, Fraud Section in connection with its submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate ("LIBOR"), was terminated by the DOJ based on its determination that UBS had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG has pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, and has agreed to pay a USD 203 million fine and accept a three-year term of probation. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require UBS to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations and may permit financial market utilities to limit, suspend or terminate UBS's participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining UBS's capital requirements. Information concerning its capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of the UBS Group Second Quarter 2016 Report

Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit^{1,2}

| <i>CHF million</i> | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
|---|-------------------|----------------------------|------------------------------|------------------|-----------------|----------------------------|----------------|------------------------------------|--------------|
| Balance as of 31 December 2015 | 245 | 459 | 83 | 16 | 585 | 310 | 0 | 1,284 | 2,983 |
| Balance as of 31 March 2016 | 242 | 427 | 81 | 13 | 557 | ³ ₀₇ | 0 | 1,248 | 2,876 |
| Increase in provisions recognized in the income statement | 10 | 23 | 0 | 0 | 27 | 2 | 0 | 23 | 85 |
| Release of provisions recognized in the income statement | (1) | (7) | 0 | (5) | 0 | 0 | 0 | 0 | (13) |
| Provisions used in conformity with designated purpose | (3) | (35) | (2) | (1) | (1) | (7) | 0 | (249) | (299) |
| Foreign currency translation / unwind of discount | (1) | 8 | 0 | 0 | 6 | (1) | 0 | 20 | 32 |
| Balance as of 30 June 2016 | 247 | 416 | 79 | 7 | 589 | 301 | 0 | 1,042 | 2,682 |

1 Provisions, if any, for the matters described in this section are recorded in Wealth Management (item 3), Wealth Management Americas (item 4), CC – Services (item 7) and CC – Non-core and Legacy Portfolio (item 2). Provisions, if any, for the matters described in this section in items 1 and 6 are allocated between Wealth Management and Personal & Corporate Banking, and provisions, if any, for the matters described in this section in item 5 are allocated between the Investment Bank, CC – Services and CC – Non-core and Legacy Portfolio. 2 Provision movements are grouped by item for purposes of this table and may therefore differ from those shown in the table in Note 15a of the unaudited interim consolidated financial statements of UBS AG, included in the UBS AG Second Quarter 2016 Report.

1. Inquiries regarding cross-border wealth management businesses

Tax and regulatory authorities in a number of countries have made inquiries, served requests for information or examined employees located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. It is possible that implementation of automatic tax information exchange and other measures relating to cross-border provision of financial services could give rise to further inquiries in the future. UBS has received a disclosure order from the Swiss Federal Tax Administration ("FTA") to transfer information based on a request for international administrative assistance in tax matters. The request concerns a number of UBS account numbers pertaining to current and former clients and is based on data from 2006 and 2008. UBS has taken steps to inform affected clients about the administrative assistance proceeding and their procedural rights, including the right to appeal. The request is based on data received from the German authorities, who seized certain data related to UBS clients booked in Switzerland during their investigations and have apparently shared this data with other European countries. UBS expects other countries to file similar requests.

As a result of investigations in France, in 2013, UBS (France) S.A. and UBS AG were put under formal examination ("*mise en examen*") for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance ("*témoign assisté*") regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In 2014, UBS AG was placed under formal examination with respect to the potential charges of laundering of proceeds of tax fraud, and the investigating judges ordered UBS AG to provide bail ("*caution*") of EUR 1.1 billion. UBS AG appealed the determination of the bail amount, but both the appeal court ("*Cour d'Appel*") and the French Supreme Court ("*Cour de Cassation*") upheld the bail amount and rejected the appeal in full in late 2014. UBS AG has filed and has had formally registered an application to the European Court of Human Rights to challenge various aspects of the French court's decision. In September 2015, the former CEO of UBS Wealth Management was placed under formal examination in connection with these proceedings. In addition, the investigating judges have sought to issue arrest warrants against three Swiss-based former employees of UBS AG who did not appear when summoned by the investigating judge.

In 2015, UBS (France) S.A. was placed under formal examination for complicity regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons for the years 2004 until 2008 and declared witness with legal assistance for the years 2009 to 2012. A bail of EUR 40 million was imposed, and was subsequently reduced by the Court of Appeals to EUR 10 million.

In February 2016, the investigating judge notified UBS AG and UBS (France) S.A. that he has closed his investigation. In July 2016, UBS AG and UBS (France) S.A. received the National Financial Prosecutor's recommendation ("*réquisitoire*"). The parties have 30 days to comment on the recommendation or to file additional submissions. The judge may then issue his final decree ("*ordonnance de renvoi en correctionnelle*") which would set out any charges for which UBS AG and UBS (France) S.A. will be tried, both legally and factually.

UBS has been notified by the Belgian investigating judge that it is under formal investigation ("*inculpé*") regarding the laundering of proceeds of tax fraud and of banking, financial solicitation by unauthorized persons and serious tax fraud.

In 2015, UBS received inquiries from the US Attorney's Office for the Eastern District of New York and from the US Securities and Exchange Commission ("SEC"), which are investigating potential sales to US persons of bearer bonds and other unregistered securities in possible violation of the Tax Equity and Fiscal Responsibility Act of 1982 ("TEFRA") and the registration requirements of the US securities laws. UBS is cooperating with the authorities in these investigations.

UBS has, and reportedly numerous other financial institutions have, received inquiries from authorities concerning accounts relating to the Fédération Internationale de Football Association ("FIFA") and other constituent soccer associations and related persons and entities. UBS is cooperating with authorities in these inquiries.

UBS's balance sheet at 30 June 2016 reflected provisions with respect to matters described in this item 1 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

2. Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter 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.

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.

RMBS-related lawsuits concerning disclosures: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in lawsuits related to approximately USD 2.6 billion in original face amount of RMBS underwritten or issued by UBS. Of the USD 2.6 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 1.2 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 ("UBS-sponsored RMBS"). The remaining USD 1.4 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter ("third-party RMBS").

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights.

UBS is a defendant in two lawsuits brought by the National Credit Union Administration ("NCUA"), as conservator for certain failed credit unions, asserting misstatements and omissions in the offering documents for RMBS purchased by the credit unions. Both lawsuits were filed in US District Courts, one in the District of Kansas and the other in the Southern District of New York ("SDNY"). The original principal balance at issue in the Kansas case is approximately USD 1.15 billion and the original principal balance at issue in the SDNY case is approximately USD 400 million. In February 2016, UBS made an offer of judgment to NCUA in the SDNY case, which NCUA accepted, pursuant to which UBS agreed to pay to NCUA approximately USD 33 million plus approximately USD 36.8 million in prejudgment interest, for a total of approximately USD 69.8 million, in addition to reasonable attorneys' fees incurred by NCUA. Judgment was entered by the Court on April 25, 2016.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: 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 certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust aggregating approximately USD 4.1 billion in original principal balance. Of this amount, UBS considers claims relating to approximately USD 2 billion in original principal balance to be resolved, including claims barred by the statute of limitations. Substantially all of the remaining claims are in litigation, including the matters described in the next paragraph. UBS believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

In 2012, certain RMBS trusts filed an action ("Trustee Suit") in the SDNY seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations ("Transactions") with an original principal balance of approximately USD 2 billion, for which Assured Guaranty Municipal Corp. ("Assured Guaranty"), a financial guaranty insurance company, had previously demanded repurchase. In January 2015, the court rejected plaintiffs' efforts to seek damages for all loans purportedly in breach of representations and warranties in any of the three Transactions and limited plaintiffs to pursuing claims based solely on alleged breaches for loans identified in the complaint or other breaches that plaintiffs can establish were independently discovered by UBS. In February 2015, the court denied plaintiffs' motion seeking reconsideration of its ruling. However, in April 2016, the Court ruled that, based on an intervening decision of an intermediate New York appellate court, it would allow plaintiffs to proceed with their claims at trial as to all loans purportedly in breach. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. A bench trial in the SDNY adjourned in May 2016 and post-trial briefs are being submitted.

UBS also has tolling agreements with certain institutional purchasers of RMBS concerning their potential claims related to substantial purchases of UBS-sponsored or third-party RMBS.

Mortgage-related regulatory matters: In 2014, UBS received a subpoena from the US Attorney's Office for the Eastern District of New York issued pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), which seeks documents and information related to UBS's RMBS business from 2005 through 2007. In 2015, the Eastern District of New York identified a number of transactions that are currently the focus of their inquiry, as to which UBS is providing additional information. UBS continues

to respond to the FIRREA subpoena and to subpoenas from the New York State Attorney General ("NYAG") relating to its RMBS business. In addition, UBS has also been responding to inquiries from both the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through the present. UBS is cooperating with the authorities in these matters. Numerous other banks reportedly are responding to similar inquiries from these authorities.

| Provision for claims related to sales of residential mortgage-backed securities and mortgages | |
|--|--------------|
| <i>USD million</i> | |
| Balance as of 31 December 2015 | 1,218 |
| Balance as of 31 March 2016 | 1,242 |
| Increase in provision recognized in the income statement | 0 |
| Release of provision recognized in the income statement | 0 |
| Provision used in conformity with designated purpose | (255) |
| Balance as of 30 June 2016 | 988 |

As reflected in the table "Provision for claims related to sales of residential mortgage-backed securities and mortgages," UBS's balance sheet at 30 June 2016 reflected a provision of USD 988 million with respect to matters described in this item 2. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

3. 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 Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in 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. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without, however, being named as parties in those investigations. In 2009 and 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. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 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 were filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In 2014, the Luxembourg Court of Appeal dismissed one test case appeal in its entirety, which decision was appealed by the investor. In 2015, the Luxembourg Supreme Court found in favor of UBS and dismissed the investor's appeal. In June 2016, the Luxembourg Court of Appeal dismissed the remaining test cases in their entirety. In the US, the BMIS Trustee filed claims in 2010 against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. Following a motion by UBS, in 2011, the SDNY dismissed all of the BMIS

Trustee's claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit affirmed the District Court's decision and, in 2014, the US Supreme Court denied the BMIS Trustee's petition seeking review of the Second Circuit ruling. In 2014, several claims, including a purported class action, were filed in the US by BMIS customers against UBS entities, asserting claims similar to the ones made by the BMIS Trustee, seeking unspecified damages. One claim was voluntarily withdrawn by the plaintiff. In 2015, following a motion by UBS, the SDNY dismissed the two remaining claims on the basis that the New York courts did not have jurisdiction to hear the claims against the UBS entities. The plaintiff in one of those claims has appealed the dismissal. 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. In 2015, a court of appeal ordered UBS to pay EUR 49 million, plus interest (approximately EUR 15.3 million).

4. Puerto Rico

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds ("the funds") that are sole-managed and co-managed by UBS Trust Company of Puerto Rico and distributed by UBS Financial Services Incorporated of Puerto Rico ("UBS PR") have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of approximately USD 1.8 billion, of which claims with aggregate claimed damages of approximately USD 642 million have been resolved through settlements, arbitration or withdrawal of the claim. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and / or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions of US dollars in losses in the funds. In 2015, defendants' motion to dismiss was denied. Defendants' requests for permission to appeal that ruling were denied by the Puerto Rico Court of Appeals and the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management, and the co-manager of certain of the funds seeking damages for investor losses in the funds during the period from May 2008 through May 2014. Defendants have moved to dismiss that complaint. In 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA in December 2013 based on plaintiffs' allegation that the loans are not valid. The trial court denied defendants' motion to dismiss the action based on a forum selection clause in the loan agreements; the Puerto Rico Supreme Court has stayed the action pending its review of defendants' appeal from that ruling.

In 2014, UBS reached a settlement with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico ("OCFI") in connection with OCFI's examination of UBS's operations from January 2006 through September 2013, pursuant to which UBS is paying up to an aggregate of USD 7.7 million in investor education contributions and restitution.

In 2015, the SEC and the Financial Industry Regulatory Authority ("FINRA") announced settlements with UBS PR of their separate investigations stemming from the 2013 market events. Without admitting or denying the findings in either matter, UBS PR agreed in the SEC settlement to pay USD 15 million and USD 18.5 million in the FINRA matter (which includes up to USD 11 million in restitution to 165 UBS PR customers and a civil penalty of USD 7.5 million). UBS also understands that the DOJ is conducting a criminal inquiry into the impermissible reinvestment of non-purpose loan proceeds. UBS is cooperating with the authorities in this inquiry.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico ("System") against over 40 defendants, including UBS PR, which was named in connection with its underwriting and consulting services. Plaintiffs

alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. Defendants' motion to dismiss is pending.

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012. Beginning in 2012, two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities, certain of the funds, and certain members of UBS PR senior management, seeking damages for investor losses in the funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. The Magistrate Judge for the consolidated case has recommended that plaintiffs' motion to certify the proposed class be denied.

In 2015, Puerto Rico's Governor stated that the Commonwealth was unable to meet its obligations. Certain agencies and public corporations of the Commonwealth have defaulted on certain interest payments beginning in August 2015 and additional payment defaults are expected to occur. In June 2016, federal legislation created an oversight board with power to oversee Puerto Rico's finances and to restructure its debt. These events, further defaults, any further legislative action to create a legal means of restructuring Commonwealth obligations or to impose additional oversight on the Commonwealth's finances, or any restructuring of the Commonwealth's obligations, may increase the number of claims against UBS concerning Puerto Rico securities, as well as potential damages sought.

UBS's balance sheet at 30 June 2016 reflected provisions with respect to matters described in this item 4 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that UBS has recognized.

5. Foreign exchange, LIBOR, and benchmark rates, and other trading practices

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes its precious metals and related structured products businesses. Since then, various authorities have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission ("WEKO"), the DOJ, the SEC, the US Commodity Futures Trading Commission ("CFTC"), the Board of Governors of the Federal Reserve System ("Federal Reserve Board"), the UK Financial Conduct Authority ("FCA") (to which certain responsibilities of the UK Financial Services Authority ("FSA") have passed), the UK Serious Fraud Office ("SFO"), the Australian Securities and Investments Commission ("ASIC"), the Hong Kong Monetary Authority ("HKMA"), the Korea Fair Trade Commission ("KFTC") and the Brazil Competition Authority ("CADE"). In addition, WEKO is, and a number of other authorities reportedly are, investigating potential manipulation of precious metals prices. UBS has taken and will continue to take appropriate action with respect to certain personnel as a result of its ongoing review.

In 2014, UBS reached settlements with the FCA and the CFTC in connection with their foreign exchange investigations, and FINMA issued an order concluding its formal proceedings with respect to UBS relating to its foreign exchange and precious metals businesses. UBS has paid a total of approximately CHF 774 million to these authorities, including GBP 234 million in fines to the FCA, USD 290 million in fines to the CFTC, and CHF 134 million to FINMA representing confiscation of costs avoided and profits. In 2015, the Federal Reserve Board and the Connecticut Department of Banking issued an Order to Cease and Desist and Order of Assessment of a Civil Monetary Penalty Issued upon Consent ("Federal Reserve Order") to UBS AG. As part of the Federal Reserve Order, UBS AG paid a USD 342 million civil monetary penalty.

In 2015, the DOJ's Criminal Division ("Criminal Division") terminated the December 2012 NPA with UBS AG related to UBS's submissions of benchmark interest rates. As a result, UBS AG entered into a plea agreement with the Criminal Division pursuant to which UBS AG agreed to and did plead guilty to a one-count criminal information filed in the US District Court for the District of Connecticut charging UBS AG with one count of wire fraud in violation of 18 USC Sections 1343 and 2. Under the plea agreement, UBS AG agreed to a sentence that includes a USD 203 million fine and a three-year term of probation. The criminal information charges that, between approximately 2001 and 2010, UBS AG engaged in a scheme to defraud counterparties to interest rate derivatives transactions by manipulating benchmark interest rates, including Yen LIBOR. Sentencing is currently scheduled for 29 November 2016. The Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA, including fraudulent and deceptive currency trading and sales practices in conducting certain foreign exchange market transactions with clients and collusion with other participants in certain foreign exchange markets.

UBS has ongoing obligations to cooperate with these authorities and to undertake certain remediation, including actions to improve UBS's processes and controls.

UBS has been granted conditional immunity by the Antitrust Division of the DOJ ("Antitrust Division") from prosecution for EUR / USD collusion and entered into a non-prosecution agreement covering other currency pairs. As a result, UBS AG will not be subject to prosecutions, fines or other sanctions for antitrust law violations by the Antitrust Division, subject to UBS AG's continuing cooperation. However, the conditional immunity grant does not bar government agencies from asserting other claims and imposing sanctions against UBS AG, as evidenced by the settlements and ongoing investigations referred to above. UBS has also been granted conditional leniency by authorities in certain jurisdictions, including WEKO, in connection with potential competition law violations relating to precious metals, and as a result, will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in those jurisdictions, subject to UBS AG's continuing cooperation.

In 2015, UBS AG settled charges with the SEC relating to structured notes issued by UBS AG that were linked to the UBS V10 Currency Index with Volatility Cap.

Investigations relating to foreign exchange and precious metals matters by numerous authorities, including the CFTC, remain ongoing notwithstanding these resolutions.

Foreign exchange-related civil litigation: Putative class actions have been filed since November 2013 in US federal courts and in other jurisdictions against UBS and other banks on behalf of putative classes of persons who engaged in foreign currency transactions with any of the defendant banks. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. In 2015, additional putative class actions were filed in federal court in New York against UBS and other banks on behalf of a putative class of persons who entered into or held any foreign exchange futures contracts and options on foreign exchange futures contracts since 1 January 2003. The complaints assert claims under the Commodity Exchange Act ("CEA") and the US antitrust laws. In 2015, a consolidated complaint was filed on behalf of both putative classes of persons covered by the US federal court class actions described above. UBS has entered into a settlement agreement that would resolve all of these US federal court class actions. The agreement, which has been preliminarily approved by the court and is subject to final court approval, requires, among other things, that UBS pay an aggregate of USD 141 million and provide cooperation to the settlement classes.

A putative class action has been filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries, and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 ("ERISA") for whom a defendant bank provided foreign currency exchange transactional services, exercised discretionary authority or discretionary control over management of such ERISA plan, or authorized or permitted the

execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA.

In 2015, a putative class action was filed in federal court against UBS and numerous other banks on behalf of a putative class of persons and businesses in the US who directly purchased foreign currency from the defendants and their co-conspirators for their own end use. That action has been transferred to federal court in New York.

In 2015, UBS was added to putative class actions pending against other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the antitrust laws and the CEA, and other claims.

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the SFO, the Monetary Authority of Singapore ("MAS"), the HKMA, FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to LIBOR and other benchmark rates. These investigations focus on whether there were improper attempts by UBS, among others, either acting on its own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time, FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, USD 500 million in fines to the DOJ, and CHF 59 million in disgorgement to FINMA. UBS Securities Japan Co. Ltd. ("UBSSJ") entered into a plea agreement with the DOJ under which it entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. UBS entered into an NPA with the DOJ, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency / immunity grants described below, required UBS to pay the USD 500 million fine to the DOJ after the sentencing of UBSSJ, and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. Under the NPA, UBS agreed, among other things, that for two years from 18 December 2012 UBS would not commit any US crime, and it would advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. The term of the NPA was extended by one year to 18 December 2015. In 2015, the Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA. As a result, UBS entered into a plea agreement with the DOJ under which it entered a guilty plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and agreed to pay a fine of USD 203 million and accept a three-year term of probation. Sentencing is currently scheduled for 29 November 2016.

In 2014, UBS reached a settlement with the European Commission ("EC") regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC. The MAS, HKMA and the Japan Financial Services Agency have also resolved investigations of UBS (and in some cases, other banks). UBS has ongoing obligations to cooperate with the authorities with whom UBS has reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions.

Investigations by the CFTC, ASIC and other governmental authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ, WEKO and the EC, in connection

with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for CHF LIBOR and certain transactions related to CHF LIBOR. As a result of these conditional grants, UBS will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where UBS has conditional immunity or leniency in connection with the matters covered by the conditional grants, subject to UBS's continuing cooperation. However, the conditional leniency and conditional immunity grants UBS has received do not bar government agencies from asserting other claims and imposing sanctions against it, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, UBS is eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to UBS satisfying the DOJ and the court presiding over the civil litigation of its cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against UBS.

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in, or expected to be transferred to, the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives. Also pending are actions asserting losses related to various products whose interest rates were linked to USD LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest-bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including USD LIBOR, Euroyen TIBOR, Yen LIBOR, EURIBOR, CHF LIBOR, GBP LIBOR or USD ISDAFIX rates, and seek unspecified compensatory and other damages under varying legal theories. In 2013, the district court in the USD action dismissed the federal antitrust and racketeering claims of certain USD LIBOR plaintiffs and a portion of their claims brought under the CEA and state common law. Certain plaintiffs appealed the decision to the Second Circuit, which, in May 2016, vacated the district court's ruling finding no antitrust injury and remanded the case back to the district court for a further determination on whether plaintiffs have antitrust standing. In 2014, the court in one of the Euroyen TIBOR lawsuits dismissed certain of the plaintiff's claims, including federal antitrust claims. In 2015, the same court dismissed plaintiff's federal racketeering claims and affirmed its previous dismissal of plaintiff's antitrust claims. UBS and other defendants in other lawsuits including those related to EURIBOR, CHF LIBOR and GBP LIBOR have filed motions to dismiss.

Since September 2014, putative class actions have been filed in federal court in New York and New Jersey against UBS and other financial institutions, among others, on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The complaints, which have since been consolidated into an amended complaint, allege that the defendants conspired to manipulate ISDAFIX rates from 1 January 2006 through January 2014, in violation of US antitrust laws and certain state laws, and seek unspecified compensatory damages, including treble damages. In March 2016, the court in the ISDAFIX action denied in substantial part defendants' motion to dismiss, holding that plaintiffs have stated Sherman Act, breach-of-contract, and unjust-enrichment claims against defendants, including UBS AG.

Government bonds: Putative class actions have been filed in US federal courts against UBS and other banks on behalf of persons who participated in markets for US Treasury securities since 2007. The complaints generally allege that the banks colluded with respect to, and manipulated prices of, US Treasury securities sold at auction. They assert claims under the antitrust laws and the CEA and for unjust enrichment. The cases have been consolidated in the SDNY. Following filing of these complaints, UBS and reportedly other banks are responding to investigations and requests for information from various authorities regarding US Treasury securities and other government bond trading practices. As a result of its review to date, UBS has taken appropriate action.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, UBS's balance sheet at 30 June 2016 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

6. Swiss retrocessions

The Federal Supreme Court of Switzerland ruled in 2012, in a test case against UBS, that distribution fees paid to a firm for distributing third-party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the firm, absent a valid waiver.

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients.

The Supreme Court decision has resulted, and may continue to result, in a number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are assessed on a case-by-case basis. Considerations taken into account when assessing these cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

UBS's balance sheet at 30 June 2016 reflected a provision with respect to matters described in this item 6 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence, as in the case of other matters for which UBS has established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that UBS has recognized.

7. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. ("Pactual") by UBS to BTG Investments, LP ("BTG"), BTG has submitted contractual indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being challenged in administrative and judicial proceedings. The majority of these assessments relate to the deductibility of goodwill amortization in connection with UBS's 2006 acquisition of Pactual and payments made to Pactual employees through various profit-sharing plans. In 2015, an intermediate administrative court issued a decision that was largely in favor of the tax authority with respect to the goodwill amortization assessment. In May 2016, the highest level of the administrative court agreed to review this decision on a number of the significant issues.

The specific litigation, regulatory and other matters described above include all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects as described in Note 15b "Litigation, regulatory and similar matters" to the UBS AG unaudited consolidated financial statements included in the UBS AG Second Quarter 2016 Report. The proceedings indicated below are matters that have recently been considered material, but are not currently considered material, by UBS. Besides the proceedings described above and those described below, there are no governmental, legal or arbitration proceedings (including any such

proceedings which are pending or threatened, of which UBS AG is aware) which may have, or have had in the recent past, significant effects on UBS AG Group's and/or UBS AG's financial position or profitability and are or have been pending during the last twelve months until the date of this document.

Equities trading systems and practices.

UBS is responding to inquiries concerning the operation of UBS's alternative trading system (ATS) (also referred to as a dark pool) and its securities order routing and execution practices from various authorities, including the SEC, the NYAG and FINRA, who reportedly are pursuing similar investigations industry-wide. UBS is cooperating in the ongoing regulatory matters.

Matters relating to the CDS market.

In 2013, the EC issued a Statement of Objections against 13 credit default swap (CDS) dealers including UBS, as well as data service provider Markit and the International Swaps and Derivatives Association (ISDA). The Statement of Objections broadly alleges that the dealers infringed European Union antitrust rules by colluding to prevent exchanges from entering the credit derivatives market between 2006 and 2009. In 2015, the EC issued a statement that it had decided to close its investigation against all 13 dealers, including UBS. In July 2016, the EC issued a statement that it had resolved its investigation regarding Markit and ISDA. Since mid-2009, the Antitrust Division of the DOJ has also been investigating whether multiple dealers, including UBS, conspired with each other and with Markit to restrain competition in the markets for CDS trading, clearing and other services. In 2014, putative class action plaintiffs filed consolidated amended complaints in the SDNY against 12 dealers, including UBS, as well as Markit and ISDA, alleging violations of the US Sherman Antitrust Act and common law. Plaintiffs allege that the defendants unlawfully conspired to restrain competition in and / or monopolize the market for CDS trading in the US in order to protect the dealers' profits from trading CDS in the over-the-counter market. In 2015, UBS and the other defendants entered into settlement agreements to resolve the litigation, pursuant to which UBS has paid USD 75 million out of a total settlement amount paid by all defendants of approximately USD 1.865 billion. The agreements have received final court approval. "

In the section headed "XII. Significant Changes in the Financial or Trading Position; Material Adverse Change in Prospects" (page 51 of the Registration Document) the first paragraph is completely replaced as follows:

"There has been no significant change in the financial or trading position of UBS AG or UBS AG Group since 30 June 2016, which is the end of the last financial period for which interim financial information has been published."

In the section headed "XIV. Documents on Display" (starting on page 51 of the Registration Document) the third bullet point before the bullet point "the Articles of Association of UBS AG" (page 52 of the Registration Document) is replaced and a fourth bullet point has been added as follows:

"

- The UBS Group first quarter 2016 report and the UBS AG first quarter 2016 report;

 - The UBS Group Second Quarter 2016 Report and the UBS AG Second Quarter 2016 Report;
- and"

The second Quarter Reports contained in Appendix I (second quarter 2016 report of UBS Group AG) and Appendix II (second quarter 2016 report of UBS AG) hereto are added as Appendix 10 and 11 to the Registration Document.

2) Summary English Language

- (i)** in relation to the Base Prospectus dated 11 May 2015 for the issue of Warrants in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Section B – Issuer"
- (ii)** in relation to the Base Prospectus dated 1 June 2015 for the issue of Securities in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Section B – Issuer"
- (iii)** in relation to the Base Prospectus dated 1 September 2015 for the issue of Securities in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Section B – Issuer"
- (iv)** in relation to the Base Prospectus dated 15 December 2015 for the issue of UBS Performance Securities in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Section B – Issuer"
- (v)** in relation to the Prospectus dated 15 January 2016 for the issuance of UBS China Consumer Basket Certificates (ISIN CH0301001746) in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Section B – Issuer"
- (vi)** in relation to the Base Prospectus dated 26 January 2016 for the issue of Warrants in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Section B – Issuer"
- (vii)** in relation to the Base Prospectus dated 26 January 2016 for the issue of Securities in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Section B – Issuer"
- (viii)** in relation to the Prospectus dated 2 February 2016 for the issuance of UBS Broad Peak Developed Markets Basket Certificates (ISIN CH0298156362) in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Section B – Issuer"
- (ix)** in relation to the Base Prospectus dated 30 May 2016 for the issue of Securities in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Abschnitt B – Emittentin"

(x) in relation to the Base Prospectus dated 30 June 2016 for the Issuance of Fixed Income Securities (Cash)
in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Abschnitt B – Emittentin"

(xi) in relation to the Prospectus dated 6 July 2016 for the issuance of Gelfarth Select Strategy Certificates (ISIN CH0326223960)
in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Abschnitt B – Emittentin"

(xii) in relation to the Base Prospectus dated 21 July 2016 for the issue of Warrants
in the section
"Summary of the Prospectus (in the English Language)" in the section headed
"Abschnitt B – Emittentin"

the Elements B.1, B.4b, B.5 and B.12 are completely replaced as follows:

| | | |
|-------------|--|---|
| B.1 | Legal and commercial name of the issuer. | The legal and commercial name of the Issuer is UBS AG (the " Issuer " and together with its subsidiaries " UBS AG (consolidated) ", or " UBS AG Group " and together with UBS Group AG, the holding company of UBS AG and its subsidiaries, " UBS Group ", " Group ", " UBS " or " UBS Group AG (consolidated) "). |
| B.4b | A description of any known trends affecting the issuer or the industries in which it operates. | Trend Information As indicated in the UBS Group Second Quarter 2016 Report, sustained market volatility, underlying macroeconomic uncertainty and heightened geopolitical tensions, exacerbated by the impact of the UK referendum vote to end EU membership, will lead to continued client risk aversion and generally low transaction volumes. These conditions are unlikely to change in the foreseeable future. Furthermore, lower than anticipated and negative interest rates and the relative strength of the Swiss franc, particularly against the euro, continue to present considerable headwinds. In addition, the changes to the Swiss bank capital standards and proposed further changes to the international regulatory framework for banks will result in increasing capital requirements and costs. UBS is well positioned to benefit from even a moderate improvement in conditions and remains committed to executing its strategy with discipline to mitigate these effects. |
| B.5 | Description of the group and the issuer's position within the group | UBS AG is a Swiss bank and the parent company of the UBS AG Group. It is 100% owned by UBS Group AG, which is the holding company of the UBS Group. UBS Group operates as a group with five business divisions (Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank) and a Corporate Center. Over the past two years, UBS has undertaken a series of measures to improve the resolvability of the Group in response to too big to fail ("TBTF") requirements in Switzerland and other countries in which the Group operates. In December 2014, UBS Group AG completed an exchange offer for the shares of UBS AG, becoming the holding company for the UBS Group. Subsequently, during 2015, UBS Group AG |

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| | <p>filed and completed a procedure under the Swiss Stock Exchange and Securities Trading Act to squeeze out minority shareholders of UBS AG, as a result of which UBS Group AG acquired all of the outstanding shares of UBS AG.</p> <p>In June 2015, UBS AG transferred its Retail & Corporate (now Personal & Corporate Banking) and Wealth Management business booked in Switzerland to UBS Switzerland AG, a banking subsidiary of UBS AG in Switzerland.</p> <p>In 2015, UBS also completed the implementation of a more self-sufficient business and operating model for UBS Limited, UBS's investment banking subsidiary in the UK, under which UBS Limited bears and retains a larger proportion of the risk and reward in its business activities.</p> <p>In the third quarter of 2015, UBS established UBS Business Solutions AG as a direct subsidiary of UBS Group AG to act as the Group service company. UBS will transfer the ownership of the majority of its existing service subsidiaries to this entity. UBS expects that the transfer of shared service and support functions into the service company structure will be implemented in a staged approach through 2018. The purpose of the service company structure is to improve the resolvability of the Group by enabling UBS to maintain operational continuity of critical services should a recovery or resolution event occur.</p> <p>In the second quarter of 2016, UBS Americas Holding LLC, a subsidiary of UBS AG, has been designated as the intermediate holding company for UBS's US subsidiaries as required under the enhanced prudential standards regulations pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"). UBS Americas Holding LLC holds all of UBS's US subsidiaries and is subject to US capital requirements, governance requirements and other prudential regulation.</p> <p>In 2015, UBS also established a new subsidiary of UBS AG, UBS Asset Management AG, into which it expects to transfer the majority of the operating subsidiaries of Asset Management during 2016. UBS continues to consider further changes to the legal entities used by Asset Management, including the transfer of operations conducted by UBS AG in Switzerland into a subsidiary of UBS Asset Management AG.</p> <p>UBS continues to consider further changes to the Group's legal structure in response to capital and other regulatory requirements, and in order to obtain any rebate in capital requirements for which the Group may be eligible. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group AG, consolidation of operating subsidiaries in the European Union, and adjustments to the booking entity or location of products and services. These structural changes are being discussed on an ongoing basis with the Swiss Financial Market Supervisory Authority FINMA ("FINMA") and other regulatory authorities, and remain subject to a number of uncertainties that may affect their feasibility, scope or timing.</p> |
|--|--|

| | | |
|--------------------|---|---|
| <p>B.12</p> | <p>Selected historical financial information.</p> <p style="text-align: right;">key</p> | <p>UBS AG took the selected consolidated financial information included in the table below for the years ended 31 December 2015, 2014 and 2013, except where indicated, from the Annual Report 2015, which contains the audited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the year ended 31 December 2015 and comparative figures for the years ended 31 December 2014 and 2013. The selected consolidated financial information included in the table below for the six months ended 30 June 2016 and 30 June 2015 was taken from the UBS AG second quarter 2016 report, which contains the unaudited consolidated financial statements of UBS AG, as well as additional unaudited consolidated financial information, for the six months ended 30 June 2016 and comparative figures for the six months ended 30 June 2015. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and stated in Swiss francs ("CHF"). Information for the years ended 31 December 2015, 2014 and 2013 which is indicated as being unaudited in the table below was included in the Annual Report 2015 but has not been audited on the basis that the respective disclosures are not required under IFRS, and therefore are not part of the audited financial statements.</p> |
|--------------------|---|---|

| | As of or for the six months ended | | As of or for the year ended | | |
|--|-----------------------------------|---------|--|-----------|------------|
| | 30.6.16 | 30.6.15 | 31.12.15 | 31.12.14 | 31.12.13 |
| <i>CHF million, except where indicated</i> | | | | | |
| | <i>unaudited</i> | | <i>audited, except where indicated</i> | | |
| Results | | | | | |
| Operating income | 14,254 | 16,644 | 30,605 | 28,026 | 27,732 |
| Operating expenses | 11,818 | 12,254 | 25,198 | 25,557 | 24,461 |
| Operating profit / (loss) before tax | 2,436 | 4,391 | 5,407 | 2,469 | 3,272 |
| Net profit / (loss) attributable to UBS AG shareholders | 1,723 | 3,201 | 6,235 | 3,502 | 3,172 |
| Key performance indicators | | | | | |
| Profitability | | | | | |
| Return on tangible equity (%) ¹ | 7.3 | 14.1 | 13.5* | 8.2* | 8.0* |
| Return on assets, gross (%) ² | 2.9 | 3.2 | 3.1* | 2.8* | 2.5* |
| Cost / income ratio (%) ³ | 82.9 | 73.5 | 82.0* | 90.9* | 88.0* |
| Growth | | | | | |
| Net profit growth (%) ⁴ | (46.2) | 73.4 | 78.0* | 10.4* | - |
| Net new money growth for combined wealth management businesses (%) ⁵ | 3.8 | 2.6 | 2.2* | 2.5* | 3.4* |
| Resources | | | | | |
| Common equity tier 1 capital ratio (fully applied, %) ^{6,7} | 15.0 | 15.6 | 15.4* | 14.2* | 12.8* |
| Leverage ratio (phase-in, %) ^{8,9} | 5.5 | 5.1 | 5.7* | 5.4* | 4.7* |
| Additional information | | | | | |
| Profitability | | | | | |
| Return on equity (RoE) (%) | 6.3 | 12.1 | 11.7* | 7.0* | 6.7* |
| Return on risk-weighted assets, gross (%) ¹⁰ | 13.4 | 15.5 | 14.3* | 12.6* | 11.6* |
| Resources | | | | | |
| Total assets | 990,135 | 951,528 | 943,256 | 1,062,327 | 1,013,355 |
| Equity attributable to UBS AG shareholders | 53,353 | 51,685 | 55,248 | 52,108 | 48,002 |
| Common equity tier 1 capital (fully applied) ⁷ | 32,184 | 32,834 | 32,042 | 30,805 | 28,908 |
| Common equity tier 1 capital (phase-in) ⁷ | 38,913 | 39,169 | 41,516 | 44,090 | 42,179 |
| Risk-weighted assets (fully applied) ⁷ | 214,210 | 210,400 | 208,186* | 217,158* | 225,153* |
| Common equity tier 1 capital ratio (phase-in, %) ^{6,7} | 17.9 | 18.5 | 19.5* | 19.9* | 18.5* |
| Total capital ratio (fully applied, %) ⁷ | 21.2 | 20.2 | 21.0* | 19.0* | 15.4* |
| Total capital ratio (phase-in, %) ⁷ | 23.5 | 23.8 | 24.9* | 25.6* | 22.2* |
| Leverage ratio (fully applied, %) ^{8,9} | 5.0 | 4.5 | 4.9* | 4.1* | 3.4* |
| Leverage ratio denominator (fully applied) ⁹ | 899,075 | 946,457 | 898,251* | 999,124* | 1,015,306* |
| Other | | | | | |
| Invested assets (CHF billion) ¹¹ | 2,677 | 2,628 | 2,689 | 2,734 | 2,390 |
| Personnel (full-time equivalents) | 57,387 | 59,648 | 58,131* | 60,155* | 60,205* |
| * unaudited | | | | | |
| <p>¹ Net profit attributable to UBS AG shareholders before amortization and impairment of goodwill and intangible assets (annualized as applicable) / average equity attributable to UBS AG shareholders less average goodwill and intangible assets of UBS AG. ² Operating income before credit loss (expense) or recovery (annualized as applicable) / average total assets. ³ Operating expenses / operating income before credit loss (expense) or recovery. ⁴ Change in net profit attributable to UBS AG shareholders from continuing operations between current and comparison periods / net profit attributable to UBS AG shareholders from continuing operations of comparison period. Not meaningful and not included if either the reporting period or the comparison period is a loss period. ⁵ Combined Wealth Management and Wealth Management Americas' net new money for the period (annualized as applicable) / invested assets at the beginning of the period. Figures for the first six months of 2015 and the year ended 31 December 2015 are based on adjusted net new money, which excludes the negative effect on net new money of CHF 6.6 billion in the second quarter of 2015 and of CHF 9.9 billion in 2015, respectively, from UBS's balance sheet and capital optimization</p> | | | | | |

program. ⁶ Common equity tier 1 capital / risk-weighted assets. ⁷ Based on the Basel III framework as applicable to Swiss systemically relevant banks. ⁸ Common equity tier 1 capital and loss-absorbing capital / leverage ratio denominator. ⁹ Calculated in accordance with Swiss SRB rules. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ¹⁰ Based on fully-applied risk-weighted assets for all periods presented. This metric was previously based on phase-in risk-weighted assets. This unaudited consolidated financial information was derived from the UBS AG second quarter 2016 report and UBS AG's accounting records. ¹¹ Includes invested assets for Personal & Corporate Banking.

| | | |
|--|---|---|
| | Material adverse change statement. | There has been no material adverse change in the prospects of UBS AG or UBS AG Group since 31 December 2015. |
| | Significant changes in the financial and trading position | Not applicable, there has been no significant change in the financial or trading position of UBS AG or UBS AG Group since 30 June 2016, which is the end of the last financial period for which interim financial information has been published. |

Furthermore the second paragraph of Element B.15 is replaced by the following wording:

| | | |
|-------------|--------------------------------|--|
| B.15 | Issuer's principal activities. | According to article 2 of the Articles of Association of UBS AG, dated 4 May 2016 (" Articles of Association "), the purpose of UBS AG is the operation of a bank. Its scope of operations extends to all types of banking, financial, advisory, trading and service activities in Switzerland and abroad. UBS AG may establish branches and representative offices as well as banks, finance companies and other enterprise of any kind in Switzerland and abroad, hold equity interests in these companies, and conduct their management. UBS AG is authorized to acquire, mortgage and sell real estate and building rights in Switzerland and abroad. UBS AG may borrow and invest money on the capital markets. UBS AG is part of the group of companies controlled by the group parent company UBS Group AG. It may promote the interests of the group parent company or other group companies. It may provide loans, guarantees and other kinds of financing and security for group companies. |
|-------------|--------------------------------|--|

3) Summary German Language

(i) in relation to the Base Prospectus dated 11 May 2015 for the issue of Warrants in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(ii) in relation to the Base Prospectus dated 1 June 2015 for the issue of Securities in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(iii) in relation to the Base Prospectus dated 1 September 2015 for the issue of Securities in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(iv) in relation to the Base Prospectus dated 15 December 2015 for the issue of UBS Performance Securities in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(v) in relation to the Prospectus dated 15 January 2016 for the issuance of UBS China Consumer Basket Certificates (ISIN CH0301001746) in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(vi) in relation to the Base Prospectus dated 26 January 2016 for the issue of Warrants in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(vii) in relation to the Base Prospectus dated 26 January 2016 for the issue of Securities in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(viii) in relation to the Prospectus dated 2 February 2016 for the issuance of UBS Broad Peak Developed Markets Basket Certificates (ISIN CH0298156362) in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(ix) in relation to the Base Prospectus dated 30 May 2016 for the issue of Securities in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(x) in relation to the Base Prospectus dated 30 June 2016 for the Issuance of Fixed Income Securities (Cash)
in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(xi) in relation to the Prospectus dated 6 July 2016 for the issuance of Gelfarth Select Strategy Certificates (ISIN CH0326223960)
in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

(xii) in relation to the Base Prospectus dated 21 July 2016 for the issue of Warrants
in the section
"Summary of the Prospectus (in the German Language)" in the section headed
"Abschnitt B – Emittentin"

the Elements B.1, B.4b, B.5 and B.12 are completely replaced as follows:

| | | |
|-------------|---|---|
| B.1 | Juristische und kommerzielle Bezeichnung der Emittentin. | Die juristische und kommerzielle Bezeichnung der Emittentin ist UBS AG (die " Emittentin " gemeinsam mit ihren Tochtergesellschaften, " UBS AG (konsolidiert) " oder " UBS AG Gruppe " und gemeinsam mit der UBS Group AG, der Holding-Gesellschaft der UBS AG und ihren Tochtergesellschaften, " UBS Gruppe ", " Gruppe ", " UBS " oder " UBS Group AG (konsolidiert) "). |
| B.4b | Alle bereits bekannten Trends, die sich auf die Emittentin und die Branchen, in denen sie tätig ist, auswirken. | Trends Wie in dem zweiten Quartalsbericht 2016 der UBS Gruppe dargelegt, trugen die kontinuierliche Marktvolatilität, die zugrunde liegende makroökonomische Unsicherheit und erhöhte geopolitische Spannungen, verstärkt durch die Abstimmung in Grossbritannien zugunsten eines Austritts aus der EU, zu anhaltender Risikoaversion der Kunden sowie generell niedrigen Transaktionsvolumen bei. Es ist unwahrscheinlich, dass sich diese Bedingungen in naher Zukunft ändern. Niedriger als erwartete und negative Zinsen sowie die relative Stärke des Schweizer Frankens insbesondere gegenüber dem Euro stellen zudem nach wie vor eine bedeutende Belastung dar. Darüber hinaus werden die Änderungen der schweizerischen Kapitalstandards sowie die angekündigten Anpassungen des internationalen regulatorischen Rahmens für Banken steigende Kapitalanforderungen und Kosten zur Folge haben. UBS ist gut aufgestellt, um von einer auch nur moderaten Erholung des Umfelds zu profitieren und wird ihre Strategie weiterhin diszipliniert umsetzen, um die genannten Effekte abzufedern. |
| B.5 | Beschreibung der Gruppe und der Stellung der Emittenten innerhalb dieser Gruppe | UBS AG ist eine Schweizer Bank und die Holding-Gesellschaft der UBS AG Gruppe. Die UBS Group AG ist die Holding-Gesellschaft der UBS Gruppe und zu 100 Prozent Eigentümerin der UBS AG. Die UBS Gruppe ist als Gruppe mit fünf Unternehmensbereichen (Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management und die Investment Bank) und einem Corporate Center tätig. Während der letzten zwei Jahren hat UBS eine Reihe von Maßnahmen ergriffen, um die Abwicklungsfähigkeit der Gruppe als Reaktion auf die sog. "Too Big To Fail" (" TBTF ") |

| | | |
|--|--|---|
| | | <p>Anforderungen in der Schweiz und anderen Ländern, in denen die Gruppe tätig ist, zu verbessern.</p> <p>Im Dezember 2014 schloss die UBS Group AG ein Umtauschangebot für die Aktien der UBS AG ab, und die UBS Group AG wurde Holdinggesellschaft der UBS Group. Anschliessend strengte die UBS Group AG im Jahr 2015 ein Verfahren gemäß des Bundesgesetzes über die Börsen und den Effektenhandel an, der zum "Squeeze out" von Minderheitsaktionären der UBS AG führte, mit dem Ergebnis, dass die UBS Group AG nun sämtliche der ausgegebenen Aktien der UBS AG erworben hat.</p> <p>Im Juni 2015 hat UBS AG ihr Retail & Corporate (nunmehr, Personal & Corporate Banking) and Wealth Management Geschäft in der Schweiz an die UBS Switzerland AG, eine Bankgeschäftstochter der UBS AG in der Schweiz, übertragen.</p> <p>Im Jahr 2015 hat UBS auch die Implementierung eines stärker selbstständigen Geschäfts- und Betriebsmodells für UBS Limited, der Investment Banking Tochtergesellschaft der UBS im Vereinigten Königreich, abgeschlossen, unter dem UBS Limited einen größeren Anteil des Risikos und der Prämie an ihren Geschäftsaktivitäten trägt und behält.</p> <p>Im dritten Quartal hat UBS die UBS Business Solutions AG als direkte Tochter der UBS Group AG gegründet, die als Dienstleistungsunternehmen innerhalb der Gruppe fungiert. UBS wird die Rechte an der Mehrheit der jeweils als Tochtergesellschaften bestehenden Dienstleistungsunternehmen auf diese Gesellschaft übertragen. UBS erwartet, dass die Übertragung der gemeinsamen Service- und Unterstützungsfunktionen auf die Struktur des Dienstleistungsunternehmens in einem gestaffelten Prozess während des Jahres 2018 umgesetzt wird. Der Zweck dieser Struktur ist es, die Abwicklungsfähigkeit der Gruppe zu verbessern indem es UBS ermöglicht wird, die operative Kontinuität der notwendige Dienste aufrecht zu erhalten sollte ein Sanierungs- oder Abwicklungsfall eintreten.</p> <p>Im zweiten Quartal 2016 wurde die UBS Americas Holding LLC, eine Tochtergesellschaft der UBS AG, als die dazwischengeschaltete Holding-Gesellschaft für die U.S. Tochtergesellschaften der UBS eingesetzt, wie gemäß den erweiterten aufsichtsrechtlichen Vorschriften gemäß dem Dodd-Frank Act verlangt. Die UBS Americas Holding LLC hält sämtliche US Tochtergesellschaften der UBS und unterliegt den Kapitalanforderungen, Grundsätzen der Unternehmensführung und anderen aufsichtsrechtlichen Vorschriften der Vereinigten Staaten von Amerika.</p> <p>UBS AG hat zudem im Jahr 2015 eine neue Tochtergesellschaft, UBS Asset Management AG, gegründet, in die UBS beabsichtigt, die Mehrheit der operativen Tochtergesellschaften der Asset Management während des Jahres 2016 einzubringen. UBS erwägt weiterhin zusätzliche Änderungen an den rechtlichen Einheiten, die von der Asset Management verwendet werden, einschließlich der Übertragung der Aktivitäten, die von der UBS AG in der Schweiz durchgeführt werden, auf eine Tochtergesellschaft der UBS Asset Management AG.</p> <p>UBS wird auch weiterhin zusätzliche Änderungen an der</p> |
|--|--|---|

| | | |
|-------------|---|---|
| | | <p>rechtlichen Struktur der Gruppe erwägen, um so auf Kapital- oder aufsichtsrechtliche Anforderungen reagieren zu können und eine für die Gruppe mögliche Verringerung der Kapitalanforderungen zu erreichen. Solche Änderungen können die Übertragung der operativen Tochtergesellschaften der UBS AG zu direkten Tochtergesellschaften der UBS Group AG, die Konsolidierung der operativen Tochtergesellschaften in der Europäischen Union, und Anpassungen der bilanzierenden Einheiten oder der geographischen Ausrichtung von Produkten und Dienstleistungen beinhalten. Diese strukturellen Änderungen werden fortlaufend mit der Eidgenössischen Finanzmarktaufsicht ("FINMA") und anderen Aufsichtsbehörden diskutiert und bleiben Gegenstand von Unwägbarkeiten, die die Durchführbarkeit, den Umfang und den zeitlichen Rahmen beeinträchtigen können.</p> |
| B.12 | Ausgewählte wesentliche historische Finanzinformationen | <p>Die UBS AG hat die ausgewählten konsolidierten Finanzinformationen für die zum 31. Dezember 2015, 2014 und 2013 (Ausnahmen sind angezeigt) endenden Geschäftsjahre aus dem Geschäftsbericht der UBS Group AG und UBS AG zum 31. Dezember entnommen, welcher den geprüften konsolidierten Konzernabschluss der UBS AG sowie zusätzliche ungeprüfte konsolidierte Finanzinformationen für das Jahr mit Stand 31. Dezember 2015 und vergleichbare Zahlen für die Jahre mit Stand 31. Dezember 2014 und 2013 enthält. Die ausgewählten konsolidierten Finanzinformationen in der folgenden Tabelle für das am 30. Juni 2016 bzw. 30. Juni 2015 endende Halbjahr wurden dem zweiten Quartalsbericht 2016 der UBS AG entnommen, welcher die ungeprüfte konsolidierte Finanzinformation der UBS AG sowie zusätzlich ungeprüfte konsolidierte Finanzinformationen für das am 30. Juni 2016 endende Halbjahr und Vergleichszahlen für das am 30. Juni 2015 endende Halbjahr, enthält. Die konsolidierten Konzernabschlüsse für die am 31. Dezember 2015, 31. Dezember 2014 und 31. Dezember 2013 endenden Jahre wurden in Übereinstimmung mit den International Financial Reporting Standards ("IFRS") verfasst, die von dem International Accounting Standards Board ("IASB") veröffentlicht wurden und sind in Schweizer Franken ("CHF") ausgewiesen. Information in Bezug auf die am 31. Dezember 2015, 2014 und 2013 endenden Geschäftsjahre, die als ungeprüft in der nachfolgenden Tabelle ausgewiesen wird, war zwar in dem Jahresabschluss 2015 enthalten, wurde jedoch nicht geprüft, da dies nach den IFRS nicht erforderlich ist und diese Finanzinformation folglich keinen Teil des geprüften Jahresabschlusses bildet.</p> |

| | Für das Halbjahr endend am oder per | | Für das Geschäftsjahr endend am oder per | | |
|--|--|---------|--|-----------|------------|
| Mio. CHF (Ausnahmen sind angegeben) | 30.6.16 | 30.6.15 | 31.12.15 | 31.12.14 | 31.12.13 |
| | ungeprüft | | geprüft (Ausnahmen sind angegeben) | | |
| Ergebnisse | | | | | |
| Geschäftsertrag | 14.254 | 16.644 | 30.605 | 28.026 | 27.732 |
| Geschäftsaufwand | 11.818 | 12.254 | 25.198 | 25.557 | 24.461 |
| Ergebnis vor Steuern | 2.436 | 4.391 | 5.407 | 2.469 | 3.272 |
| Den Aktionären der UBS AG zurechenbares Ergebnis | 1.723 | 3.201 | 6.235 | 3.502 | 3.172 |
| Kennzahlen zur Leistungsmessung | | | | | |
| Profitabilität | | | | | |
| Eigenkapitalrendite abzüglich Goodwill und anderer immaterieller Vermögenswerte (%) ¹ | 7,3 | 14,1 | 13,5* | 8,2* | 8,0* |
| Rendite auf Vermögenswerte, brutto (%) ² | 2,9 | 3,2 | 3,1* | 2,8* | 2,5* |
| Verhältnis von Geschäftsaufwand / Geschäftsertrag (%) ³ | 82,9 | 73,5 | 82,0* | 90,9* | 88,0* |
| Wachstum | | | | | |
| Wachstum des Ergebnisses (%) ⁴ | (46,2) | 73,4 | 78,0* | 10,4* | - |
| Wachstum der Nettoneugelder für die kombinierten Wealth-Management-Einheiten (%) ⁵ | 3,8 | 2,6 | 2,2* | 2,5* | 3,4* |
| Ressourcen | | | | | |
| Harte Kernkapitalquote (CET1) (vollständig umgesetzt, %) ^{6,7} | 15,0 | 15,6 | 15,4* | 14,2* | 12,8* |
| Leverage Ratio (stufenweise umgesetzt, %) ^{8,9} | 5,5 | 5,1 | 5,7* | 5,4* | 4,7* |
| Zusätzliche Informationen | | | | | |
| Profitabilität | | | | | |
| Rendite auf Eigenkapital (RoE) (%) | 6,3 | 12,1 | 11,7* | 7,0* | 6,7* |
| Rendite auf risikogewichteten Aktiven, brutto (%) ¹⁰ | 13,4 | 15,5 | 14,3* | 12,6* | 11,6* |
| Ressourcen | | | | | |
| Gesamtvermögen | 990.135 | 951.528 | 943.256 | 1.062.327 | 1.013.355 |
| Den Aktionären der UBS AG zurechenbares Eigenkapital | 53.353 | 51.685 | 55.248 | 52.108 | 48.002 |
| Hartes Kernkapital (CET1) (vollständig umgesetzt) ⁷ | 32.184 | 32.834 | 32.042 | 30.805 | 28.908 |
| Hartes Kernkapital (CET1) (stufenweise umgesetzt) ⁷ | 38.913 | 39.169 | 41.516 | 44.090 | 42.179 |
| Risikogewichtige Aktiven (vollständig umgesetzt) ⁷ | 214.210 | 210.400 | 208.186* | 217.158* | 225.153* |
| Harte Kernkapitalquote (CET1) (stufenweise umgesetzt; %) ^{6,7} | 17,9 | 18,5 | 19,5* | 19,9* | 18,5* |
| Gesamtkapitalquote (vollständig umgesetzt, %) ⁷ | 21,2 | 20,2 | 21,0* | 19,0* | 15,4* |
| Gesamtkapitalquote (stufenweise umgesetzt, %) ⁷ | 23,5 | 23,8 | 24,9* | 25,6* | 22,2* |
| Leverage Ratio (vollständig umgesetzt, %) ^{8,9} | 5,0 | 4,5 | 4,9* | 4,1* | 3,4* |
| Leverage Ratio Denominator (vollständig umgesetzt) ⁹ | 899.075 | 946.457 | 898.251* | 999.124* | 1.015.306* |
| Andere | | | | | |
| Verwaltete Vermögen (Mrd. CHF) ¹¹ | 2.677 | 2.628 | 2.689 | 2.734 | 2.390 |
| Personal (Vollzeitbeschäftigte) | 57.387 | 59.648 | 58.131* | 60.155* | 60.205* |

| | | |
|--|---|---|
| | <p>*ungeprüft.</p> <p>¹Der den UBS AG-Aktionären zurechenbare Konzerngewinn vor Abschreibungen und Wertminderung auf Geschäfts- oder Firmenwert (Goodwill) und andere immaterielle Vermögenswerte (gegebenenfalls annualisiert) / Das den UBS AG-Aktionären zurechenbare durchschnittliche Eigenkapital abzüglich durchschnittlicher Geschäfts- oder Firmenwert (Goodwill) und anderer immaterieller Vermögenswerte der UBS AG. ²Geschäftsertrag vor Wertberichtigungen für Kreditrisiken (gegebenenfalls annualisiert) / Durchschnittliches Gesamtvermögen. ³Geschäftsaufwand / Geschäftsertrag vor Wertberichtigungen für Kreditrisiken. ⁴Veränderung des aktuellen den UBS AG-Aktionären zurechenbaren Konzernergebnisses aus fortzuführenden Geschäftsbereichen gegenüber einer Vergleichsperiode / Das den UBS AG-Aktionären zurechenbare Konzernergebnis aus fortzuführenden Geschäftsbereichen in einer Vergleichsperiode. Besitzt keine Aussagekraft und wird nicht ausgewiesen, falls für die laufende Periode oder die Vergleichsperiode ein Verlust verzeichnet wird. ⁵Nettoneugelder für die kombinierten Wealth-Management-Einheiten seit Periodenbeginn (gegebenenfalls annualisiert) / Verwaltete Vermögen zu Beginn der Periode. Die Zahlen für für die ersten sechs Monate 2015 und das am 31. Dezember 2015 endende Jahr basieren auf den angepassten Nettoneu geldern unter Ausschluss des negativen Effekts auf Nettoneugelder im Jahr 2015 von CHF 6,6 Mrd. im zweiten Quartal 2015 und von CHF 9,9 Mrd. des Bilanz und Kapitaloptimierungsprogramms der UBS. ⁶Hartes Kernkapital (CET1) / Risikogewichtete Aktiven. ⁷Basiert auf den Basel-III-Richtlinien, soweit auf schweizer systemrelevante Banken (SRB) anwendbar. ⁸Hartes Kernkapital (CET1) und verlustabsorbierendes Kapital / Adjustiertes Gesamtengagement (Leverage Ratio Denominator). ⁹Gemäß der Schweizer SRB-Regelungen. Ab 31. Dezember 2015 erfolgt die Berechnung des adjustierten Gesamtengagements (Leverage Ratio Denominator) für systemrelevante Schweizer Banken (SRB) im Einklang mit den Vorschriften gemäss Basel III. Die Zahlen für Perioden vor 31. Dezember 2015 wurden gemäss den früheren Bestimmungen für systemrelevante Schweizer Banken berechnet und sind somit nicht ganz vergleichbar. ¹⁰Basierend auf vollständig umgesetzte riskogewichteter Aktiva. Diese Metrik basierte bisher auf stufenweise umgesetzter riskogewichteter Aktiva. Diese ungeprüfte konsolidierte Finanzinformation wurde dem zweiten Quartalsbericht 2016 der UBS AG und Buchhaltungsunterlagen der UBS AG entnommen. ¹¹Beinhaltet Vermögen unter der Verwaltung von Personal & Corporate Banking.</p> | |
| | Erklärung hinsichtlich wesentlicher Verschlechterung. | Seit dem 31. Dezember 2015 sind keine wesentlichen nachteiligen Veränderungen in den Aussichten der UBS AG oder der UBS AG Gruppe eingetreten. |
| | Wesentliche Veränderungen in der Finanzlage oder der Handelsposition. | Entfällt; seit dem 30. Juni 2016, als Ende des letzten Finanzzeitraums zu dem Finanzinformationen veröffentlicht wurden, sind keine wesentlichen Veränderungen der Finanzlage oder der Handelsposition der UBS AG bzw. UBS AG Gruppe eingetreten. |

Furthermore the second paragraph of Element B.15 is replaced by the following wording:

| | | |
|-------------|----------------------------------|---|
| B.15 | Haupttätigkeiten der Emittentin. | Gemäß Artikel 2 der Statuten der UBS AG vom 4. Mai 2016 (" Statuten ") ist der Zweck der UBS AG der Betrieb einer Bank. Ihr Geschäftskreis umfasst alle Arten von Bank-, Finanz-, Beratungs-, Dienstleistungs- und Handelsgeschäften in der Schweiz und im Ausland. Die UBS AG kann in der Schweiz und im Ausland Unternehmen aller Art gründen, sich an solchen beteiligen und deren Geschäftsführung übernehmen. Die UBS AG ist berechtigt, in der Schweiz und im Ausland Grundstücke und Baurechte zu erwerben, zu belasten und zu verkaufen. UBS AG kann Mittel am Kapitalmarkt aufnehmen und anlegen. UBS AG ist Teil des Konzerns, der von UBS Group AG als Muttergesellschaft kontrolliert wird. Sie kann die Interessen der Konzernmuttergesellschaft oder anderer Konzerngesellschaften fördern. Sie kann Darlehen, Garantien und andere Arten der Finanzierung und von Sicherheitsleistungen für Konzerngesellschaften gewähren. |
|-------------|----------------------------------|---|

4) Summary – Element B.17

A - English Summary

- (i) in relation to the Base Prospectus dated 11 May 2015 for the issue of Warrants in the section "Summary of the Base Prospectus (in the English Language)" in the section headed "Section B – Issuer"
- (ii) in relation to the Base Prospectus dated 1 June 2015 for the issue of Securities in the section "Summary of the Base Prospectus (in the English Language)" in the section headed "Section B – Issuer"
- (iii) in relation to the Base Prospectus dated 26 January 2016 for the issue of Warrants in the section "Summary of the Prospectus (in the English Language)" in the section headed "Section B – Issuer"
- (iv) in relation to the Base Prospectus dated 26 January 2016 for the issue of Securities in the section "Summary of the Prospectus (in the English Language)" in the section headed "Section B – Issuer"
- (v) in relation to the Base Prospectus dated 30 May 2016 for the issue of Securities in the section "Summary of the Prospectus (in the English Language)" in the section headed "Section B – Issuer"

Element B.17 is completely replaced as follows:

| | | |
|-------------|---|---|
| B.17 | Credit ratings assigned to the issuer or its debt securities. | The rating agencies Standard & Poor's Credit Market Services Europe Limited (" Standard & Poor's "), Moody's Investors Service Ltd., (" Moody's "), Fitch Ratings Limited (" Fitch Ratings ") and Scope Ratings AG (" Scope Ratings ") have published solicited credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfil in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings, Standard & Poor's and Scope Ratings may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has a long-term counterparty credit rating of A+ (outlook: stable) from Standard & Poor's, long-term senior debt rating of A1 (outlook: stable) from Moody's, long-term issuer default rating of A+ (outlook: stable) from Fitch Ratings and issuer credit-strength rating of A+ (outlook: positive) from Scope Ratings. All the above mentioned agencies are registered as credit rating agencies under Regulation (EC) No 1060/2009 as amended by Regulation (EU) No 513/2011. |
|-------------|---|---|

B - German Summary

- (i) in relation to the Base Prospectus dated 11 May 2015 for the issue of Warrants in the section "Summary of the Prospectus (in the German Language)" in the section headed "Abschnitt B – Emittentin"
- (ii) in relation to the Base Prospectus dated 1 June 2015 for the issue of Securities in the section "Summary of the Prospectus (in the German Language)" in the section headed "Abschnitt B – Emittentin"
- (iii) in relation to the Base Prospectus dated 26 January 2016 for the issue of Warrants in the section "Summary of the Prospectus (in the German Language)" in the section headed "Abschnitt B – Emittentin"
- (iv) in relation to the Base Prospectus dated 26 January 2016 for the issue of Securities in the section "Summary of the Prospectus (in the German Language)" in the section headed "Abschnitt B – Emittentin"
- (v) in relation to the Base Prospectus dated 30 May 2016 for the issue of Securities in the section "Summary of the Prospectus (in the German Language)" in the section headed "Abschnitt B – Emittentin"

Element B.17 is completely replaced as follows:

| | | |
|-------------|---|--|
| B.17 | Ratings für die Emittentin oder ihre Schuldtitel. | <p>Die Ratingagenturen Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"), Moody's Investors Service Ltd., ("Moody's"), Fitch Ratings Limited ("Fitch Ratings") und Scope Ratings AG ("Scope Ratings") haben angeforderte Ratings veröffentlicht, die ihre Einschätzung der Kreditwürdigkeit der UBS AG reflektieren, das heißt die Fähigkeit der UBS AG, ihren Zahlungsverpflichtungen hinsichtlich Kapital- oder Zinszahlungen auf langfristigen Krediten, auch bekannt als Schuldendienst, zeitgerecht nachzukommen. Die Ratings von Fitch Ratings, Standard & Poor's und Scope Ratings können mit einem Plus- oder Minuszeichen versehen sein, jene von Moody's mit einer Zahl. Diese zusätzlichen Attribute bezeichnen die relative Position innerhalb der entsprechenden Ratingklasse. UBS AG verfügt über ein langfristiges Schuldnerbonitätsrating von A+ (Ausblick: stabil) von Standard & Poor's, für ihre langfristigen vorrangigen Schulden über ein Rating von A1 (Ausblick: stabil) von Moody's, über ein langfristiges Emittentenausfallrating von A+ (Ausblick: stabil) von Fitch Ratings und ein Emittentenkreditstärkenrating von A+ (Ausblick: positiv) von Scope Ratings.</p> <p>Alle oben genannten Ratingagenturen sind gemäß der Verordnung (EG) Nr. 1060/2009, in der durch die Verordnung (EU) Nr. 513/2011 geänderten Fassung registrierte Ratingagenturen.</p> |
|-------------|---|--|

5) Risk factors

- (i) in relation to the Base Prospectus dated 11 May 2015 for the issue of Warrants
- (ii) in relation to the Base Prospectus dated 1 June 2015 for the issue of Securities
- (iii) in relation to the Base Prospectus dated 1 September 2015 for the issue of Securities
- (iv) in relation to the Base Prospectus dated 15 December 2015 for the issue of UBS Performance Securities
- (v) in relation to the Base Prospectus dated 26 January 2016 for the issue of Warrants
- (vi) in relation to the Base Prospectus dated 26 January 2016 for the issue of Securities
- (vii) in relation to the Base Prospectus dated 30 May 2016 for the issue of Securities
- (viii) and in relation to the Prospectus dated 6 July 2016 for the issuance of Gelfarth Select strategy certificates (ISIN CH0326223960)

in the section headed "Risk Factors (in the english language)" in the section headed "Security specific Risks", the risk factor headed "UBS has announced its intention to make certain structural changes in light of regulatory trends and requirements and the Conditions of the Securities do not contain any restrictions on the Issuer's or UBS ability to restructure its business"

and

(ix) in relation to the Prospectus dated 15 January 2016 for the issuance of Strategy Certificats on UBS China Consumer Basket (ISIN CH0298156362), and

(x) in relation to the Prospectus dated 2 February 2016 for the issuance of UBS Broad Peak Developed Markets Basket Certificates (ISIN CH0301001746)

in the section headed "Risk Factors (in the english language)" in the section headed "Security specific Risks", the risk factor headed "The Conditions of the Securities do not contain any restrictions on the Issuer's or UBS ability to restructure its business"

is completely replaced as follows:

"UBS has announced its intention to make certain structural changes in light of regulatory trends and requirements and the Conditions of the Securities do not contain any restrictions on the Issuer's or UBS's ability to restructure its business"

Over the past two years, UBS has undertaken a series of measures to improve the resolvability of the Group in response to too big to fail requirements in Switzerland and other countries in which the Group operates.

In December 2014, UBS Group AG completed an exchange offer for the shares of UBS AG, becoming the holding company for the UBS Group. Subsequently, during 2015, UBS Group AG filed and completed a procedure under the Swiss Stock Exchange and Securities Trading Act to squeeze out minority shareholders of UBS AG, as a result of which UBS Group AG acquired all of the outstanding shares of UBS AG.

In June 2015, UBS AG transferred its Retail & Corporate (now Personal & Corporate Banking) and Wealth Management business booked in Switzerland to UBS Switzerland AG, a banking subsidiary of UBS AG in Switzerland.

In 2015, UBS also completed the implementation of a more self-sufficient business and operating model for UBS Limited, UBS's investment banking subsidiary in the UK, under

which UBS Limited bears and retains a larger proportion of the risk and reward in its business activities.

In the third quarter of 2015, UBS established UBS Business Solutions AG as a direct subsidiary of UBS Group AG to act as the Group service company. UBS will transfer the ownership of the majority of its existing service subsidiaries to this entity. UBS expects that the transfer of shared service and support functions into the service company structure will be implemented in a staged approach through 2018. The purpose of the service company structure is to improve the resolvability of the Group by enabling UBS to maintain operational continuity of critical services should a recovery or resolution event occur.

In the second quarter of 2016, UBS Americas Holding LLC, a subsidiary of UBS AG, has been designated as the intermediate holding company for UBS's US subsidiaries as required under the enhanced prudential standards regulations pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act ("**Dodd-Frank**"). UBS Americas Holding LLC holds all of UBS's US subsidiaries and is subject to US capital requirements, governance requirements and other prudential regulation.

In 2015, UBS has also established a new subsidiary of UBS AG, UBS Asset Management AG, into which UBS expects to transfer the majority of the operating subsidiaries of Asset Management during 2016. UBS continues to consider further changes to the legal entities used by Asset Management, including the transfer of operations conducted by UBS AG in Switzerland into a subsidiary of UBS Asset Management AG.

UBS continues to consider further changes to the Group's legal structure in response to capital and other regulatory requirements, and in order to obtain any rebate in capital requirements for which the Group may be eligible. Such changes may include the transfer of operating subsidiaries of UBS AG to become direct subsidiaries of UBS Group AG, consolidation of operating subsidiaries in the European Union, and adjustments to the booking entity or location of products and services. These structural changes are being discussed on an ongoing basis with FINMA and other regulatory authorities, and remain subject to a number of uncertainties that may affect their feasibility, scope or timing.

The Conditions of the Securities contain no restrictions on change of control events or structural changes, such as consolidations or mergers or demergers of the Issuer or the sale, assignment, spinoff, contribution, distribution, transfer or other disposal of all or any portion of the Issuer's or its subsidiaries' properties or assets in connection with the announced changes to its legal structure or otherwise and no event of default, requirement to repurchase the Securities or other event will be triggered under the Conditions of the Securities as a result of such changes. There can be no assurance that such changes, should they occur, would not adversely affect the credit rating of the Issuer and/or increase the likelihood of the occurrence of an event of default. Such changes, should they occur, may adversely affect the Issuer's ability to redeem or pay interest on the Securities and/or lead to circumstances in which the Issuer may elect to cancel such interest (if applicable)."

- (i) in relation to the Base Prospectus dated 11 May 2015 for the issue of Warrants
- (ii) in relation to the Base Prospectus dated 1 June 2015 for the issue of Securities
- (iii) in relation to the Base Prospectus dated 1 September 2015 for the issue of Securities
- (iv) in relation to the Base Prospectus dated 15 December 2015 for the issue of UBS Performance Securities
- (v) in relation to the Base Prospectus dated 26 January 2016 for the issue of Warrants
- (vi) in relation to the Base Prospectus dated 26 January 2016 for the issue of Securities
- (vii) in relation to the Base Prospectus dated 30 May 2016 for the issue of Securities

in the section headed "Risk Factors (in the german language)" in the section headed "Security specific Risks", the risk factor headed "Angesichts regulatorischer Entwicklungen und Anforderungen hat die UBS ihre Absicht bestimmte strukturelle Änderungen vorzunehmen bekannt gemacht und die Bedingungen der Wertpapiere enthalten keine Beschränkungen der Fähigkeit der Emittentin oder von UBS, ihr Geschäft neu zu strukturieren" is completely replaces as follows:

"Angesichts regulatorischer Entwicklungen und Anforderungen hat die UBS ihre Absicht bestimmte strukturelle Änderungen vorzunehmen bekannt gemacht und die Bedingungen der Wertpapiere enthalten keine Beschränkungen der Fähigkeit der Emittentin oder von UBS, ihr Geschäft neu zu strukturieren"

Während den letzten zwei Jahren hat UBS eine Reihe von Maßnahmen ergriffen, um die Abwicklungsfähigkeit der Gruppe als Reaktion auf die sog. "Too Big To Fail" ("TBTf") Anforderungen in der Schweiz und anderen Ländern, in denen die Gruppe tätig ist, zu verbessern.

Im Dezember 2014 schloss die UBS Group AG ein Umtauschangebot für die Aktien der UBS AG ab, und die UBS Group AG wurde Holdinggesellschaft der UBS Group. Anschliessend strengte die UBS Group AG im Jahr 2015 ein Verfahren gemäß des Bundesgesetzes über die Börsen und den Effektenhandel an, der zum "Squeeze out" von Minderheitsaktionären der UBS AG führte, mit dem Ergebnis, dass die UBS Group AG nun sämtliche der ausgegebenen Aktien der UBS AG erworben hat.

Im Juni 2015 hat UBS AG ihr Retail & Corporate (nunmehr, Personal & Corporate Banking) and Wealth Management Geschäft in der Schweiz an die UBS Switzerland AG, eine Bankgeschäftstochter der UBS AG in der Schweiz, übertragen.

Im Jahr 2015 hat UBS auch die Implementierung eines stärker selbstständigen Geschäfts- und Betriebsmodells für UBS Limited, der Investment Banking Tochtergesellschaft der UBS im Vereinigten Königreich, abgeschlossen, unter dem UBS Limited einen größeren Anteil des Risikos und der Prämie an ihren Geschäftsaktivitäten trägt und behält.

Im dritten Quartal hat UBS die UBS Business Solutions AG als direkte Tochter der UBS Group AG gegründet, die als Dienstleistungsunternehmen innerhalb der Gruppe fungiert. UBS wird die Rechte an der Mehrheit der jeweils als Tochtergesellschaften bestehenden Dienstleistungsunternehmen auf diese Gesellschaft übertragen. UBS erwartet, dass die Übertragung der gemeinsamen Service- und Unterstützungsfunktionen auf die Struktur des Dienstleistungsunternehmens in einem gestaffelten Prozess während des Jahres 2018 umgesetzt wird. Der Zweck dieser Struktur ist es, die Abwicklungsfähigkeit der Gruppe zu verbessern indem es UBS ermöglicht wird, die operative Kontinuität der notwendige Dienste aufrecht zu erhalten sollte ein Sanierungs- oder Abwicklungsfall eintreten.

Im zweiten Quartal 2016 wurde die UBS Americas Holding LLC, eine Tochtergesellschaft der UBS AG, als die dazwischengeschaltete Holding-Gesellschaft für die U.S. Tochtergesellschaften der UBS eingesetzt, wie gemäß den erweiterten aufsichtsrechtlichen Vorschriften gemäß dem Dodd-Frank Act verlangt. Die UBS Americas Holding LLC hält sämtliche US Tochtergesellschaften der UBS und unterliegt den Kapitalanforderungen, Grundsätzen der Unternehmensführung und anderen aufsichtsrechtlichen Vorschriften der Vereinigten Staaten von Amerika.

UBS AG hat zudem im Jahr 2015 eine neue Tochtergesellschaft, UBS Asset Management AG, gegründet, in die UBS beabsichtigt, die Mehrheit der operativen Tochtergesellschaften der Asset Management während des Jahres 2016 einzubringen. UBS erwägt weiterhin zusätzliche Änderungen an den rechtlichen Einheiten, die von der Asset Management verwendet werden, einschließlich der Übertragung der Aktivitäten, die von der UBS AG in der Schweiz durchgeführt werden, auf eine Tochtergesellschaft der UBS Asset Management AG.

UBS wird auch weiterhin zusätzliche Änderungen an der rechtlichen Struktur der Gruppe erwägen, um so auf Kapital- oder aufsichtsrechtliche Anforderungen reagieren zu können und eine für die Gruppe mögliche Verringerung der Kapitalanforderungen zu erreichen. Solche Änderungen können die Übertragung der operativen Tochtergesellschaften der UBS AG zu direkten Tochtergesellschaften der UBS Group AG, die Konsolidierung der operativen Tochtergesellschaften in der Europäischen Union, und Anpassungen der bilanzierenden Einheiten oder der geographischen Ausrichtung von Produkte und Dienstleistungen beinhalten. Diese strukturellen Änderungen werden fortlaufend mit der Eidgenössischen Finanzmarktaufsicht ("**FINMA**") und anderen Aufsichtsbehörden diskutiert und bleiben Gegenstand von Unwägbarkeiten, die die Durchführbarkeit, den Umfang und den zeitlichen Rahmen beeinträchtigen können.

Die Bedingungen der Wertpapiere enthalten keine Beschränkungen zu Kontrollwechseln oder strukturellen Änderungen, wie gesellschaftsrechtliche Konsolidierung oder Verschmelzung oder Abspaltung der Emittentin oder Verkauf, Abtretung, Ausgliederung, Beteiligung, Ausschüttung, Übertragung oder Veräußerung von Teilen oder der Gesamtheit des Eigentums oder der Vermögenswerte der Emittentin oder eines mit ihr verbundenen Unternehmens im Zusammenhang mit angekündigten Änderungen ihrer rechtlichen Struktur oder Ähnlichem und aufgrund solcher Änderungen wird kein Kündigungsgrund, kein Erfordernis zum Rückkauf der Wertpapiere oder kein sonstiges Ereignis unter den Bedingungen der Wertpapiere ausgelöst. Es kann keine Gewähr dafür übernommen werden, dass solche Änderungen, sollten sie eintreten, das Rating der Emittentin nicht nachteilig beeinträchtigen und/oder die Wahrscheinlichkeit des Eintritts eine Nichterfüllung ihrer Verpflichtungen erhöhen. Es kann keine Gewähr dafür übernommen werden, dass solche Änderungen, sollten sie eintreten, das Rating der Emittentin nicht nachteilig beeinträchtigen und/oder ihre Fähigkeiten ihren Verpflichtungen unter den Wertpapieren nachzukommen, beeinflussen. Solche Änderungen, sollten sie eintreten, könnten die Fähigkeit der Emittentin zur Rückzahlung bzw. zur Zinszahlung auf die Wertpapiere negativ beeinflussen und/oder zu Umständen führen, in denen sich die Emittent entschliessen könnte Zinszahlung zu streichen (falls anwendbar)."

6) Miscellaneous

(i) in relation to the Base Prospectus dated 11 May 2015 for the issue of Warrants

- (a) On page 84 in the section headed "I. Issuer specific Risks" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016, and Supplement No. 3 dated 25 August 2016, which is incorporated by reference into this Base Prospectus."

- (b) On page 500 in the section headed "K. Description of the Issuer" the first subparagraph shall be replaced as follows:

"A description of UBS AG is set out in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016, and Supplement No. 3 dated 25 August 2016. The Registration Document is incorporated by reference into, and forms part of this Base Prospectus."

- (a) On page 502 in the section headed "6. Documents and Information incorporated by Reference" the first bullet point shall be replaced as follows:

"(1) the Registration Document of UBS AG 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016,."

- (b) On page 502 in the section headed "7. Availability of the Base Prospectus and other documents" the second bullet point shall be replaced as follows:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016,;"

(ii) in relation to the Base Prospectus dated 1 June 2015 for the issue of Securities

- (a) On page 222 in the section headed "I. Issuer specific Risks" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, which is incorporated by reference into this Base Prospectus."

- (b) On page 893 in the section headed "K. Description of the Issuer" the first subparagraph shall be replaced as follows:

"A description of UBS AG is set out in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016. The Registration Document is incorporated by reference into, and forms part of this Base Prospectus."

- (c) On page 895 in the section headed "6. Documents and Information incorporated by Reference" the first bullet point shall be replaced as follows:

"(1) the Registration Document of UBS AG 24 February 2016, as supplemented by as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (d) On page 896 in the section headed "7. Availability of the Base Prospectus and other documents" the second bullet point shall be replaced as follows:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

(iii) in relation to the Base Prospectus dated 1 September 2015 for the issue of Securities

- (a) On page 222 in the section headed "I. Issuer specific Risks" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, which is incorporated by reference into this Base Prospectus."

- (b) On page 583 in the section headed "K. Description of the Issuer" the first subparagraph shall be replaced as follows:

"A description of UBS AG is set out in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016. The Registration Document is incorporated by reference into, and forms part of this Base Prospectus."

- (c) On page 585 in the section headed "6. Documents and Information incorporated by Reference" the first bullet point shall be replaced as follows:

"(1) the Registration Document of UBS AG 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (d) On page 585 in the section headed "7. Availability of the Base Prospectus and other documents" the second bullet point shall be replaced as follows:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

(iv) in relation to the Base Prospectus dated 15 December 2015 for the issue of UBS Performance Securities

- (a) On page 61 in the section headed "I. Issuer specific Risks" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and

Supplement No. 3 dated 25 August 2016, which is incorporated by reference into this Base Prospectus."

- (b) On page 461 in the section headed "K. Description of the Issuer" the first subparagraph shall be replaced as follows:

"A description of UBS AG is set out in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016. The Registration Document is incorporated by reference into, and forms part of this Base Prospectus."

- (c) On page 464 in the section headed "6. Documents and Information incorporated by Reference" the first bullet point shall be replaced as follows:

"(1) the Registration Document of UBS AG 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (d) On page 464 in the section headed "7. Availability of the Base Prospectus and other documents" the second bullet point shall be replaced as follows:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (v) in relation to the Prospectus comprising the Summary and Securities Note dated 15 January 2016 for the issuance of UBS China Consumer Basket Certificates (ISIN CH0301001746)

- (a) On page 1 the first sentence in the first paragraph below the securities identification number shall be replaced by the following wording:

"This document comprises a securities note (the "**Securities Note**") and a summary (the "**Summary**") and, together with the registration document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016 (the "**Registration Document**"), constitutes a prospectus (the "**Prospectus**") according to Art. 5 (3) of the Prospectus Directive (Directive 2003/71/EC, as amended), as implemented by the relevant provisions of the EU member states, in connection with Regulation 809/2004 of the European Commission, as amended."

- (b) On page 106 in the section headed "H. General Information" the wording in the subsection headed "1. Form of Document" shall be replaced by the following wording:

"This document comprises a securities note (the "**Securities Note**") and a summary (the "**Summary**") and, together with the registration document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016 (the "**Registration Document**"), constitutes a prospectus (the "**Prospectus**") according to Art. 5 (3) of the Prospectus Directive (Directive 2003/71/EC, as amended), as implemented by the relevant provisions of the EU member states, in connection with Regulation 809/2004 of the European Commission, as amended."

- (c) On page 106 in the section headed "6. Availability of the Prospectus and other documents" the second bullet point shall be replaced by the following wording:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

(vi) in relation to the Base Prospectus dated 26 January 2016 for the issuance of Securities

- (a) On page 227 in the section headed "I. Issuer specific Risks" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, which is incorporated by reference into this Base Prospectus."

- (b) On page 905 in the section headed "K. Description of the Issuer" the first subparagraph shall be replaced as follows:

"A description of UBS AG is set out in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, is incorporated by reference into, and forms part of this Base Prospectus."

- (c) On page 908 in the section headed "6. Documents and Information incorporated by Reference" the first bullet point shall be replaced as follows:

"(1) the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (d) On page 909 in the section headed "7. Availability of the Base Prospectus and other documents" the second bullet point shall be replaced as follows:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

(vii) in relation to the Base Prospectus dated 26 January 2016 for the issuance of Warrants

- (a) On page 87 in the section headed "I. Issuer specific Risks" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, which is incorporated by reference into this Base Prospectus."

- (b) On page 509 in the section headed "K. Description of the Issuer" the first subparagraph shall be replaced as follows:

"A description of UBS AG is set out in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, and is incorporated by reference into, and forms part of this Base Prospectus."

- (c) On page 512 in the section headed "6. Documents and Information incorporated by Reference" the first bullet point shall be replaced as follows:

"(1) the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (d) On page 512 in the section headed "7. Availability of the Base Prospectus and other documents" the second bullet point shall be replaced as follows:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (viii) in relation to the Prospectus comprising the Summary and Securities Note dated 2 February 2016 for the issuance of UBS Broad Peak Developed Markets Basket Certificates (ISIN CH0298156362)

- (a) On page 1 the first sentence in the first paragraph below the securities identification number shall be replaced by the following wording:

"This document comprises a securities note (the "**Securities Note**") and a summary (the "**Summary**") and, together with the registration document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016 (the "**Registration Document**"), constitutes a prospectus (the "**Prospectus**") according to Art. 5 (3) of the Prospectus Directive (Directive 2003/71/EC, as amended), as implemented by the relevant provisions of the EU member states, in connection with Regulation 809/2004 of the European Commission, as amended."

- (b) On page 105 in the section headed "H. General Information" the wording in the subsection headed "1. Form of Document" shall be replaced by the following wording:

"This document comprises a securities note (the "**Securities Note**") and a summary (the "**Summary**") and, together with the registration document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016 (the "**Registration Document**"), constitutes a prospectus (the "**Prospectus**") according to Art. 5 (3) of the Prospectus Directive (Directive 2003/71/EC, as amended), as implemented by the relevant provisions of the EU member states, in connection with Regulation 809/2004 of the European Commission, as amended."

- (c) On page 105 in the section headed "6. Availability of the Prospectus and other documents" the second bullet point shall be replaced by the following wording:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (ix) in relation to the Prospectus comprising the Summary and Securities Note dated 6 July 2016 for the issuance of Gelfarth Select Strategy Certificates (ISIN CH0326223960)

- (a) On page 1 the first sentence in the first paragraph below the securities identification number shall be replaced by the following wording:

"This document comprises a securities note (the "**Securities Note**") and a summary (the "**Summary**") and, together with the registration document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated

25 August 2016 (the "**Registration Document**"), constitutes a prospectus (the "**Prospectus**") according to Art. 5 (3) of the Prospectus Directive (Directive 2003/71/EC, as amended), as implemented by the relevant provisions of the EU member states, in connection with Regulation 809/2004 of the European Commission, as amended."

- (b) On page 111 in the section headed "H. General Information" the wording in the subsection headed "1. Form of Document" shall be replaced by the following wording:

"This document comprises a securities note (the "**Securities Note**") and a summary (the "**Summary**") and, together with the registration document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016 (the "**Registration Document**"), constitutes a prospectus (the "**Prospectus**") according to Art. 5 (3) of the Prospectus Directive (Directive 2003/71/EC, as amended), as implemented by the relevant provisions of the EU member states, in connection with Regulation 809/2004 of the European Commission, as amended."

- (c) On page 111 in the section headed "6. Availability of the Prospectus and other documents" the second bullet point shall be replaced by the following wording:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (x) in relation to the Base Prospectus dated 30 May 2016 for the issuance of Securities

- (a) On page 124 in the section headed "I. Issuer specific Risks" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, which is incorporated by reference into this Base Prospectus."

- (b) On page 586 in the section headed "K. Description of the Issuer" the first subparagraph shall be replaced as follows:

"A description of UBS AG is set out in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, is incorporated by reference into, and forms part of this Base Prospectus."

- (c) On page 589 in the section headed "6. Documents and Information incorporated by Reference" the first bullet point shall be replaced as follows:

"(1) the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (d) On page 589 in the section headed "7. Availability of the Base Prospectus and other documents" the second bullet point shall be replaced as follows:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

(xi) in relation to the Base Prospectus dated 30 June 2016 for the issue of Fixed Income Securities (Cash)

(a) On page 62 in the section headed "A. Risk Factors Relating to the Issuer" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "III. Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016 (and as further supplemented from time to time), as incorporated by reference into this Base Prospectus."

on page 225 in the section headed "Incorporation by Reference" the first row of the table shall be replaced by the following:

| Document | Referred to in | Information | Place of Publication |
|--|---|---|---|
| Registration Document dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016 (the "Registration Document") | - Risk Factors relating to the Issuer, page 62 - Description of UBS AG, page 224 | - II. Statutory Auditors to Appendix 2 - Annual Report 2014 as at 31 December 2014 (pages 4 (including) to H-1 (excluding)) | http://keyinvest-de.ubs.com/basisprospekte |

Furthermore the following column is added below the column referring to Supplement No. 2 dated 24 May 2016: "Supplement No. 2 to the Registration Document dated 24 May 2016":

| | | | |
|---------------------------------------|---|---|---|
| Supplement No. 3 dated 25 August 2016 | - Risk Factors relating to the Issuer, page 62 - Description of UBS AG, page 224 | - 1) Registration Document to Appendix II – Appendix 10 to the Registration Document: The second quarter Report of UBS AG | http://keyinvest-de.ubs.com/basisprospekte |
|---------------------------------------|---|---|---|

(xii) in relation to the Base Prospectus dated 21 Juli 2016 for the issuance of Warrants

(a) On page 84 in the section headed "I. Issuer specific Risks" the second paragraph shall be replaced as follows:

"In order to assess the risks related to the Issuer of the Securities, potential investors should consider the risk factors described in the section "Risk Factors" in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, which is incorporated by reference into this Base Prospectus."

(b) On page 509 in the section headed "K. Description of the Issuer" the first subparagraph shall be replaced as follows:

"A description of UBS AG is set out in the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016, is incorporated by reference into, and forms part of this Base Prospectus."

- (c) On page 512 in the section headed "6. Documents and Information incorporated by Reference" the first bullet point shall be replaced as follows:

"(1) the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

- (d) On page 512 in the section headed "7. Availability of the Base Prospectus and other documents" the second bullet point shall be replaced as follows:

"(b) a copy of the Registration Document of UBS AG dated 24 February 2016, as supplemented by Supplement No. 1 dated 2 May 2016, Supplement No. 2 dated 24 May 2016 and Supplement No. 3 dated 25 August 2016;"

7) Description of the Issuer

(i) in relation to the Base Prospectus dated 11 May 2015 for the issue of Warrants in the section "K. Description of the Issuer"

(ii) in relation to the Base Prospectus dated 1 June 2015 for the issue of Securities in the section "K. Description of the Issuer"

(iii) in relation to the Base Prospectus dated 1 September 2015 for the issue of Securities in the section "K. Description of the Issuer"

(iv) in relation to the Base Prospectus dated 15 December 2015 for the issue of UBS Performance Securities in the section "K. Description of the Issuer"

(v) in relation to the Base Prospectus dated 26 January 2016 for the issue of Warrants in the section "K. Description of the Issuer"

(vi) in relation to the Base Prospectus dated 26 January 2016 for the issue of Securities in the section "K. Description of the Issuer"

(vii) in relation to the Base Prospectus dated 30 May 2016 for the issue of Securities in the section "K. Description of the Issuer"

(ix) in relation to the Base Prospectus dated 21 July 2016 for the issue of Warrants in the section "K. Description of the Issuer"

the second paragraph ist completely replaced by the following wording:

"The rating agencies Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**"), Moody's Investors Service Ltd. ("**Moody's**"), Fitch Ratings Limited ("**Fitch Ratings**") and Scope Ratings AG ("**Scope Ratings**") have published solicited credit ratings reflecting their assessment of the creditworthiness of UBS AG, i.e. its ability to fulfill in a timely manner payment obligations, such as principal or interest payments on long-term loans, also known as debt servicing. The ratings from Fitch Ratings, Standard & Poor's and Scope Ratings may be attributed a plus or minus sign, and those from Moody's a number. These supplementary attributes indicate the relative position within the respective rating class. UBS AG has a long-term counterparty credit rating of A+ (outlook: stable) from Standard & Poor's, long-term senior debt rating of A1 (outlook: stable) from Moody's, long-term issuer default rating of A+ (outlook: stable) from Fitch Ratings and issuer credit-strength rating of A+ (outlook: positive) from Scope Ratings."

Futhermore the table in this section is replaced by the following table:

| Standard & Poor's | | Moody's | | Fitch Ratings | | Scope Ratings | |
|--------------------------------|---|------------------|--------------------|---------------------------------|--------------------------|--------------------------------|--|
| Long-Term Issuer credit rating | | Long-Term rating | | Long-Term Issuer Default Rating | | Long-Term Issuer credit rating | |
| AAA | Extremely strong capacity to meet financial commitments | Aaa | Highest quality | AAA | Highest credit quality | AAA | Exceptionally strong credit quality with the lowest risk of a default-like event |
| AA+ | Very strong capacity to meet financial commitments | Aa1 | High quality | AA+ | Very high credit quality | AA+ | Very strong credit quality with an extremely low risk of a default-like event |
| AA | | Aa2 | | AA | | AA | |
| AA- | | Aa3 | | AA- | | AA- | |
| A+ | Strong capacity to meet its financial commitments | A1 | Upper-medium grade | A+ | High credit quality | A+ | Strong credit quality with a very low risk of a default-like event |
| A | | A2 | | A | | A | |

| Standard & Poor's | | Moody's | | Fitch Ratings | | Scope Ratings | | | |
|-------------------|---|--|---|--|-------------------------|--------------------|--|--|----|
| A- | | A3 | | A- | | A- | | | |
| BBB+ | Adequate capacity to meet its financial commitments | Baa1 | Medium grade | BBB+ | Good credit quality | BBB+ | Good credit quality with a low risk of a default-like event. | | |
| BBB | | Baa2 | | BBB | | BBB | | | |
| BBB- | | Baa3 | | BBB- | | BBB- | | | |
| BB+ | Significant speculative characteristics | Less vulnerable in the near term than other lower-rated obligors | Speculative, subject to substantial credit risk | BB+ | Speculative | BB+ | Moderate-to-modest credit quality with a moderate risk of a default-like event | | |
| BB | | | | Ba1 | | BB | | BB | |
| BB- | | | | Ba2 | | BB- | | BB- | |
| B+ | | More vulnerable than the obligors rated 'BB' | | Speculative, subject to high credit risk | B+ | Highly speculative | B+ | Weak credit quality with a material risk of a default-like event | |
| | | | | | B2 | | B | | B |
| | | | | | B3 | | B- | | B- |
| B- | Currently vulnerable | | Speculative, of poor standing and subject to very high credit risk | CCC | Substantial credit risk | CCC | Very weak credit quality with a significant risk of a default-like-event | | |
| CCC+ | | | | Caa1 | | CC | | CC | |
| CCC | | | | Caa2 | | C | | Exceptionally high levels of credit risk | C |
| CCC- | Caa3 | | | | | | | | |
| CC | Currently highly vulnerable | | Highly speculative, likely in, or very near, default with some prospect of recovery of principal and interest | RD | Restricted default | | | | |
| | | | | Ca | | | | | |
| R | Under regulatory supervision | C | Typically in default, with little prospect for recovery of principal or interest | D | Default | D | Credit default-like event | | |
| SD | Selective Default | | | | | | | | |
| D | Default | | | | | | | | |

ADDRESS LIST

ISSUER

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Bahnhofstrasse 45
8001 Zurich
Switzerland

UBS AG
Aeschenvorstadt 1
4051 Basle
Switzerland

Executive Office of UBS AG, Jersey Branch

UBS AG, Jersey Branch
24 Union Street
St. Helier JE2 3RF
Jersey
Channel Islands

Executive Office of UBS AG, London Branch

UBS AG, London Branch
1 Finsbury Avenue
London EC2M 2PP
United Kingdom

The Registration Document dated 24 February 2016,
the Base Prospectus dated 11 May 2015 for the issue of Warrants,
the Base Prospectus dated 1 June 2015 for the issue of Securities,
the Base Prospectus dated 1 September 2015 for the issue of Securities,
the Base Prospectus dated 15 December 2015 for the issue of UBS Performance Securities,
the tripartite Prospectus comprising the Summary and Securities Note dated 15 January 2016 and the Registration Document of UBS AG dated 24 February 2016 for the issuance of UBS China Consumer Basket Certificates (ISIN CH0301001746),
the Base Prospectus dated 26 January 2016 for the issue of Warrants,
the Base Prospectus dated 26 January 2016 for the issue of Securities,
the tripartite Prospectus comprising the Summary and Securities Note dated 2 February 2016 and the Registration Document of UBS AG dated 24 February 2016 for the issuance of UBS Broad Peak Developed Markets Basket Certificates (ISIN CH0298156362),
the Base Prospectus dated 30 May 2016 for the issue of Securities,
the Base Prospectus dated 30 June 2016 for the Issuance of Fixed Income Securities (Cash),
the tripartite Prospectus comprising the Summary and Securities Note dated 6 July 2016 and the Registration Document of UBS AG dated 24 February 2016 for the issuance of Gelfarth Select Strategy Certificates (ISIN CH0326223960), and
the Base Prospectus dated 21 July 2016 for the issue of Warrants,
and all supplements thereto, shall be maintained in printed format, for free distribution, at the offices of the Issuer for a period of twelve months after the publication of this document and are published on the website <http://keyinvest-de.ubs.com/basisprospekte> or any successor address notified by the Issuer to the Securityholders for this purpose by way of publication on www.ubs.com/keyinvest.

In addition, the annual and quarterly financial reports of UBS AG and UBS Group AG are published on UBS's website, at www.ubs.com/investors or any successor address notified by the Issuer to the Securityholders for this purpose by way of publication on www.ubs.com.

APPENDIX I

**APPENDIX 10 to the Registration Document
Second quarter 2016 report of UBS Group AG as at 30 June 2016**



Our financial results

Second quarter 2016 report

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Corporate calendar UBS Group AG

Publication of the third quarter 2016 report: Tuesday, 1 November 2016
Publication of the fourth quarter 2016 earnings release: Tuesday, 31 January 2017
Publication of the Annual Report 2016: Friday, 10 March 2017

Corporate calendar UBS AG*

Publication of the second quarter 2016 report: Thursday, 4 August 2016

* Publication dates of further quarterly and annual reports and results will be made available as part of the corporate calendar of UBS AG at www.ubs.com/investors

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UBS Group key figures

| CHF million, except where indicated | As of or for the quarter ended | | | | As of or year-to-date | |
|---|--------------------------------|---------|----------|---------|-----------------------|---------|
| | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.15 | 30.6.16 | 30.6.15 |
| Group results | | | | | | |
| Operating income | 7,404 | 6,833 | 6,775 | 7,818 | 14,237 | 16,659 |
| Operating expenses | 5,915 | 5,855 | 6,541 | 6,059 | 11,770 | 12,193 |
| Operating profit / (loss) before tax | 1,489 | 978 | 234 | 1,759 | 2,467 | 4,467 |
| Net profit / (loss) attributable to UBS Group AG shareholders | 1,034 | 707 | 949 | 1,209 | 1,741 | 3,186 |
| Diluted earnings per share (CHF) ¹ | 0.27 | 0.18 | 0.25 | 0.32 | 0.45 | 0.85 |
| Key performance indicators² | | | | | | |
| Profitability | | | | | | |
| Return on tangible equity (%) | 8.9 | 6.0 | 8.1 | 11.0 | 7.4 | 14.4 |
| Return on assets, gross (%) | 3.0 | 2.9 | 2.8 | 3.1 | 2.9 | 3.2 |
| Cost / income ratio (%) | 79.8 | 85.7 | 95.7 | 77.4 | 82.6 | 73.1 |
| Growth | | | | | | |
| Net profit growth (%) | (14.5) | (64.2) | 10.6 | 52.7 | (45.4) | 72.6 |
| Net new money growth for combined wealth management businesses (%) ³ | 1.7 | 5.9 | 2.9 | 1.5 | 3.8 | 2.6 |
| Resources | | | | | | |
| Common equity tier 1 capital ratio (fully applied, %) ⁴ | 14.2 | 14.0 | 14.5 | 14.4 | 14.2 | 14.4 |
| Leverage ratio (phase-in, %) ⁵ | 6.0 | 6.0 | 6.2 | 5.4 | 6.0 | 5.4 |
| Additional information | | | | | | |
| Profitability | | | | | | |
| Return on equity (RoE) (%) | 7.7 | 5.1 | 6.9 | 9.4 | 6.4 | 12.4 |
| Return on risk-weighted assets, gross (%) ⁶ | 13.9 | 13.0 | 12.9 | 14.7 | 13.4 | 15.5 |
| Resources | | | | | | |
| Total assets | 989,397 | 966,873 | 942,819 | 950,168 | 989,397 | 950,168 |
| Equity attributable to UBS Group AG shareholders | 52,876 | 54,845 | 55,313 | 50,211 | 52,876 | 50,211 |
| Common equity tier 1 capital (fully applied) ⁴ | 30,264 | 29,853 | 30,044 | 30,265 | 30,264 | 30,265 |
| Common equity tier 1 capital (phase-in) ⁴ | 37,064 | 36,580 | 40,378 | 38,706 | 37,064 | 38,706 |
| Risk-weighted assets (fully applied) ⁴ | 213,840 | 213,558 | 207,530 | 209,777 | 213,840 | 209,777 |
| Common equity tier 1 capital ratio (phase-in, %) ⁴ | 17.1 | 16.9 | 19.0 | 18.2 | 17.1 | 18.2 |
| Total capital ratio (fully applied, %) ⁴ | 23.1 | 22.7 | 22.9 | 21.2 | 23.1 | 21.2 |
| Total capital ratio (phase-in, %) ⁴ | 25.4 | 25.7 | 26.8 | 25.0 | 25.4 | 25.0 |
| Leverage ratio (fully applied, %) ⁵ | 5.5 | 5.4 | 5.3 | 4.7 | 5.5 | 4.7 |
| Leverage ratio denominator (fully applied) ⁵ | 898,195 | 905,801 | 897,607 | 944,422 | 898,195 | 944,422 |
| Liquidity coverage ratio (%) ⁷ | 133 | 134 | 124 | 114 | 133 | 114 |
| Other | | | | | | |
| Invested assets (CHF billion) ⁸ | 2,677 | 2,618 | 2,689 | 2,628 | 2,677 | 2,628 |
| Personnel (full-time equivalents) | 60,093 | 60,547 | 60,099 | 59,648 | 60,093 | 59,648 |
| Market capitalization ⁹ | 48,398 | 59,638 | 75,147 | 74,547 | 48,398 | 74,547 |
| Total book value per share (CHF) ⁹ | 14.27 | 14.74 | 14.75 | 13.71 | 14.27 | 13.71 |
| Tangible book value per share (CHF) ⁹ | 12.54 | 13.04 | 13.00 | 12.04 | 12.54 | 12.04 |

¹ Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Consolidated financial statements" section of this report for more information. ² Refer to the "Measurement of performance" section of our Annual Report 2015 and to the "Recent developments" section of this report for the definitions of our key performance indicators. ³ Based on adjusted net new money which excludes the negative effect on net new money of CHF 6.6 billion in Wealth Management from our balance sheet and capital optimization program in the second quarter of 2015. ⁴ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁵ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ⁶ Based on fully applied risk-weighted assets. ⁷ Refer to the "Balance sheet, liquidity and funding management" section of this report for more information. Figures represent a 3-month average. The second, third and fourth quarter 2015 liquidity coverage ratios were adjusted from 121% to 114%, 127% to 121% and 128% to 124%, respectively. ⁸ Includes invested assets for Personal & Corporate Banking. ⁹ Refer to the "UBS shares" section of this report for more information.

UBS Group

Management report

Terms used in this report, unless the context requires otherwise

| | |
|---|--|
| "UBS," "UBS Group," "UBS Group AG (consolidated)," "Group," "the Group," "we," "us" and "our" | UBS Group AG and its consolidated subsidiaries |
| "UBS AG (consolidated)" | UBS AG and its consolidated subsidiaries |
| "UBS Group AG" and "UBS Group AG (standalone)" | UBS Group AG on a standalone basis |
| "UBS AG" and "UBS AG (standalone)" | UBS AG on a standalone basis |
| "UBS Switzerland AG" | UBS Switzerland AG on a standalone basis |
| "UBS Limited" | UBS Limited on a standalone basis |

Recent developments

Financial reporting and accounting changes

Structure and scope of our quarterly report

In line with our financial disclosure principles, we continuously evaluate the effectiveness and utility of our disclosures. As a result of this ongoing evaluation, we have removed certain repetitive content from our interim reports and, where appropriate, provide references to other information sources, such as other sections within the same report or previous quarterly or annual reports. In addition, we have made certain other changes that we believe further improve the quality of our interim reports. These include:

- The “Risk management and control” section has been shortened and focuses on key developments during the reporting period.
- The former “Balance sheet” and “Liquidity and funding” sections have been merged into one section called “Balance sheet, liquidity and funding management,” which also focuses on key developments during the reporting period.
- In the “Group performance” section, the regional performance information has been removed.
- The reporting tables in the “UBS business divisions and Corporate Center” section now include key performance indicator information on an adjusted basis.

→ Refer to the “Corporate governance” section of our Annual Report 2015 for more information on our financial disclosure principles

Comparative periods for management discussion and analysis

From the second quarter of 2016 onward, our commentary on quarterly results is based on a comparison with the results of the same quarter in the prior year. Previously, the comparative period was the immediately preceding quarter. Comparing our quarterly results with the results of the same quarter in the prior year reflects that our main businesses may show seasonal patterns and is aligned with peer practice. Consequently, the calculation of profit growth key performance indicators is now also based on a comparison with the same quarter in the prior year. This change does not affect any of our tabular disclosures and we also continue to provide commentary based on a comparison of the year-to-date period with the same year-to-date period in the prior year. Commentary on period-end risk, balance sheet, capital and other

resource metrics continues to be based on a comparison with the prior quarter-end.

Other financial reporting and accounting changes

Refer to “Note 1 Basis of accounting” in the “Consolidated financial statements” section of this report for more information on changes to the treatment of interest rate swaps traded with the London Clearing House and the derecognition of exchange-traded derivative client cash balances from the balance sheet.

Regulatory and legal developments

Revised requirements for Swiss systemically relevant banks effective 1 July 2016

In May 2016, the Swiss Federal Council adopted amendments to the too big to fail (TBTF) provisions, based on the cornerstones announced by the Swiss Federal Council in October 2015. The revised Capital Adequacy Ordinance forms the basis of a revised Swiss SRB framework, which became effective on 1 July 2016.

→ Refer to the “Capital management” section of this report for more information on the impact of the revised Swiss SRB requirements

Swiss corporate tax reform III

In June 2016, the Swiss Parliament approved legislation to reform the Swiss corporate tax code. The reform aims to align the individual cantonal corporate tax regimes with international standards, which would involve the elimination of reduced holding company tax rates and other corporate tax privileges. The new federal law is expected to become effective as of January 2017 and be fully implemented in 2019, following a transitional period for cantons to adjust their tax legislation. A referendum on the law would delay the effective date by approximately one year.

The cantons will be required to implement the revised tax laws. To mitigate the impact on corporate tax burden, the federal law provides a set of optional and mandatory measures for the cantons. In their legislative process, the cantons will then decide which of these measures they will implement.

The impact on UBS can only be assessed once there is more clarity on the measures that will be implemented on a cantonal level.

US incentive compensation regulation

In May 2016, US federal financial regulators, including the Board of Governors of the Federal Reserve System, jointly proposed regulations that would, among other things, (i) prescribe mandatory deferral amounts and periods for incentive compensation based on the size of the financial institution and (ii) require downward adjustment, forfeiture and/or clawback of incentive compensation in certain circumstances. The proposal would apply to incentive compensation plans of our principal operating entities in the US and would prescribe specific deferral and forfeiture requirements for executive officers, highly compensated employees and significant risk takers as defined in the proposal.

If implemented as proposed, these regulations would require changes to our incentive compensation programs for employees.

UK referendum on EU membership

A referendum on the UK's membership in the EU was held on 23 June 2016 with the majority voting for the UK's exit from the EU. It is currently expected that the UK government will exercise its right under Article 50 of the Lisbon Treaty to leave the EU. The

timing and the manner of the UK's withdrawal from the EU and the terms of any successor arrangements between the UK and the EU are currently unknown and may not become clear in the short term. We maintain significant operations in the UK. Limitations on providing financial services into the EU from our UK operations that could arise following the UK's exit from the EU could require us to make potentially significant changes to our operations in the UK and our legal structure.

Designation of UBS Americas Holding LLC as our intermediate holding company

We have designated UBS Americas Holding LLC as the intermediate holding company for our US subsidiaries as required under the enhanced prudential standards regulations pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). UBS Americas Holding LLC holds all of our US subsidiaries and is subject to US capital requirements, governance requirements and other prudential regulation. It will be subject to the US Comprehensive Capital Analysis and Review (CCAR) process beginning in 2017.

Group performance

Income statement

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|--------------|--------------|---------------|------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Net interest income | 1,164 | 1,712 | 1,490 | (32) | (22) | 2,876 | 3,127 |
| Credit loss (expense)/recovery | (7) | (3) | (13) | 133 | (46) | (9) | (29) |
| Net interest income after credit loss expense | 1,158 | 1,709 | 1,478 | (32) | (22) | 2,867 | 3,098 |
| Net fee and commission income | 4,087 | 4,093 | 4,409 | 0 | (7) | 8,180 | 8,810 |
| Net trading income | 1,891 | 1,013 | 1,647 | 87 | 15 | 2,904 | 3,781 |
| <i>of which: net trading income excluding own credit</i> | 1,891 | <i>1,013</i> | <i>1,387</i> | 87 | 36 | <i>2,904</i> | <i>3,296</i> |
| <i>of which: own credit on financial liabilities designated at fair value</i> | | | 259 | | | | 486 |
| Other income | 269 | 17 | 285 | | (6) | 286 | 970 |
| Total operating income | 7,404 | 6,833 | 7,818 | 8 | (5) | 14,237 | 16,659 |
| <i>of which: net interest and trading income</i> | 3,055 | <i>2,725</i> | <i>3,137</i> | 12 | (3) | <i>5,780</i> | <i>6,909</i> |
| Personnel expenses | 3,985 | 3,924 | 4,124 | 2 | (3) | 7,910 | 8,297 |
| General and administrative expenses | 1,666 | 1,664 | 1,695 | 0 | (2) | 3,330 | 3,408 |
| Depreciation and impairment of property, equipment and software | 240 | 243 | 209 | (1) | 15 | 483 | 429 |
| Amortization and impairment of intangible assets | 24 | 23 | 30 | 4 | (20) | 47 | 58 |
| Total operating expenses | 5,915 | 5,855 | 6,059 | 1 | (2) | 11,770 | 12,193 |
| Operating profit/(loss) before tax | 1,489 | 978 | 1,759 | 52 | (15) | 2,467 | 4,467 |
| Tax expense/(benefit) | 376 | 270 | 443 | 39 | (15) | 646 | 1,113 |
| Net profit/(loss) | 1,113 | 708 | 1,316 | 57 | (15) | 1,820 | 3,354 |
| Net profit/(loss) attributable to non-controlling interests | 79 | 0 | 106 | | (25) | 79 | 168 |
| Net profit/(loss) attributable to UBS Group AG shareholders | 1,034 | 707 | 1,209 | 46 | (14) | 1,741 | 3,186 |
| Comprehensive income | | | | | | | |
| Total comprehensive income | 1,558 | 349 | (584) | 346 | | 1,907 | 1,142 |
| Total comprehensive income attributable to non-controlling interests | 407 | (50) | 11 | | | 357 | (71) |
| Total comprehensive income attributable to UBS Group AG shareholders | 1,151 | 399 | (595) | 188 | | 1,550 | 1,213 |

Performance by business division and Corporate Center unit – reported and adjusted^{1,2}

| | For the quarter ended 30.6.16 | | | | | | | | |
|--|-------------------------------|----------------------------|------------------------------|------------------|-----------------|----------------------------|----------------|------------------------------------|--------------|
| CHF million | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services ³ | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 1,815 | 1,879 | 1,085 | 483 | 2,000 | 78 | 45 | 19 | 7,404 |
| of which: gain on sale of investment in Visa Europe | 21 | | 102 | | | | | | 123 |
| of which: gains on sales of real estate | | | | | | 120 | | | 120 |
| of which: net foreign currency translation losses ⁴ | | | | | | | (26) | | (26) |
| of which: losses on sales of subsidiaries and businesses | (23) | | | | | | | | (23) |
| Operating income (adjusted) | 1,817 | 1,879 | 983 | 483 | 2,000 | (42) | 71 | 19 | 7,210 |
| Operating expenses as reported | 1,297 | 1,643 | 551 | 369 | 1,716 | 190 | 2 | 148 | 5,915 |
| of which: personnel-related restructuring expenses ⁵ | 7 | 5 | 1 | 4 | 37 | 139 | 0 | 0 | 192 |
| of which: non-personnel-related restructuring expenses ⁵ | 6 | 0 | 0 | 6 | 4 | 168 | 0 | 0 | 185 |
| of which: restructuring expenses allocated from CC – Services ⁵ | 73 | 33 | 30 | 24 | 122 | (287) | 0 | 5 | 0 |
| Operating expenses (adjusted) | 1,211 | 1,605 | 520 | 335 | 1,553 | 170 | 2 | 143 | 5,538 |
| of which: expenses for provisions for litigation, regulatory and similar matters | 9 | 16 | 0 | (5) | 26 | 2 | 0 | 23 | 72 |
| Operating profit / (loss) before tax as reported | 518 | 237 | 534 | 114 | 284 | (113) | 44 | (129) | 1,489 |
| Operating profit / (loss) before tax (adjusted) | 606 | 275 | 463 | 148 | 447 | (213) | 70 | (124) | 1,672 |

| | For the quarter ended 31.3.16 | | | | | | | | |
|--|-------------------------------|----------------------------|------------------------------|------------------|-----------------|----------------------------|----------------|------------------------------------|--------------|
| CHF million | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services ³ | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 1,885 | 1,889 | 963 | 468 | 1,879 | (55) | (150) | (47) | 6,833 |
| of which: net foreign currency translation losses ⁴ | | | | | | | (123) | | (123) |
| Operating income (adjusted) | 1,885 | 1,889 | 963 | 468 | 1,879 | (55) | (27) | (47) | 6,956 |
| Operating expenses as reported | 1,327 | 1,678 | 564 | 378 | 1,625 | 148 | (2) | 135 | 5,855 |
| of which: personnel-related restructuring expenses ⁵ | 2 | 0 | 0 | 1 | 17 | 107 | 0 | 1 | 128 |
| of which: non-personnel-related restructuring expenses ⁵ | 14 | 0 | 0 | 2 | 2 | 118 | 0 | 0 | 137 |
| of which: restructuring expenses allocated from CC – Services ⁵ | 62 | 33 | 23 | 17 | 97 | (233) | 0 | 1 | 0 |
| Operating expenses (adjusted) | 1,248 | 1,645 | 541 | 358 | 1,508 | 156 | (2) | 133 | 5,590 |
| of which: expenses for provisions for litigation, regulatory and similar matters | 0 | 18 | (1) | 0 | (1) | 0 | 0 | 23 | 39 |
| Operating profit / (loss) before tax as reported | 557 | 211 | 399 | 90 | 253 | (203) | (148) | (183) | 978 |
| Operating profit / (loss) before tax (adjusted) | 636 | 244 | 422 | 110 | 370 | (211) | (25) | (181) | 1,366 |

Performance by business division and Corporate Center unit – reported and adjusted^{1,2} (continued)

| | For the quarter ended 30.6.15 | | | | | | | | |
|---|-------------------------------|----------------------------|------------------------------|------------------|-----------------|----------------------------|----------------|------------------------------------|--------------|
| <i>CHF million</i> | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services ³ | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 2,080 | 1,823 | 952 | 476 | 2,355 | (41) | 138 | 35 | 7,818 |
| <i>of which: own credit on financial liabilities designated at fair value</i> | | | | | | | 259 | | 259 |
| <i>of which: gains on sales of subsidiaries and businesses</i> | 56 | | | | | | | | 56 |
| <i>of which: gain on a further partial sale of investment in Markit</i> | | | | | 11 | | | | 11 |
| Operating income (adjusted) | 2,024 | 1,823 | 952 | 476 | 2,344 | (41) | (121) | 35 | 7,492 |
| Operating expenses as reported | 1,324 | 1,631 | 555 | 346 | 1,804 | 212 | 7 | 180 | 6,059 |
| <i>of which: personnel-related restructuring expenses⁵</i> | 18 | 0 | 0 | 0 | 0 | 85 | 0 | 7 | 110 |
| <i>of which: non-personnel-related restructuring expenses⁵</i> | 10 | 0 | 0 | 0 | 1 | 70 | 0 | 0 | 81 |
| <i>of which: restructuring expenses allocated from CC – Services⁵</i> | 41 | 24 | 16 | 4 | 65 | (155) | 0 | 6 | 0 |
| <i>of which: impairment of an intangible asset</i> | | | | | 11 | | | | 11 |
| Operating expenses (adjusted) | 1,255 | 1,607 | 538 | 342 | 1,727 | 212 | 7 | 167 | 5,857 |
| <i>of which: expenses for provisions for litigation, regulatory and similar matters</i> | 10 | 51 | 0 | 0 | (12) | 0 | 0 | 23 | 71 |
| Operating profit/(loss) before tax as reported | 756 | 191 | 397 | 130 | 551 | (253) | 132 | (145) | 1,759 |
| Operating profit/(loss) before tax (adjusted) | 769 | 215 | 414 | 134 | 617 | (253) | (127) | (132) | 1,635 |

¹ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ² Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ³ Corporate Center – Services operating expenses presented in this table are after service allocations to business divisions and other Corporate Center units. ⁴ Related to the disposal of foreign subsidiaries and branches. ⁵ Refer to “Note 18 Changes in organization and disposals” in the “Consolidated financial statements” section of this report for more information.

Performance by business division and Corporate Center unit – reported and adjusted^{1,2}

| CHF million | Year-to-date 30.6.16 | | | | | | | | |
|--|----------------------|----------------------------|------------------------------|------------------|-----------------|----------------------------|----------------|------------------------------------|--------------|
| | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services ³ | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 3,700 | 3,769 | 2,048 | 951 | 3,879 | 23 | (104) | (29) | 14,237 |
| of which: gain on sale of investment in Visa Europe | 21 | | 102 | | | | | | 123 |
| of which: gains on sales of real estate | | | | | | 120 | | | 120 |
| of which: net foreign currency translation losses ⁴ | | | | | | | (149) | | (149) |
| of which: losses on sales of subsidiaries and businesses | (23) | | | | | | | | (23) |
| Operating income (adjusted) | 3,702 | 3,769 | 1,946 | 951 | 3,879 | (97) | 45 | (29) | 14,166 |
| Operating expenses as reported | 2,624 | 3,320 | 1,115 | 747 | 3,342 | 338 | 0 | 283 | 11,770 |
| of which: personnel-related restructuring expenses ⁵ | 9 | 5 | 1 | 5 | 54 | 245 | 0 | 1 | 320 |
| of which: non-personnel-related restructuring expenses ⁵ | 20 | 0 | 0 | 8 | 6 | 287 | 0 | 0 | 322 |
| of which: restructuring expenses allocated from CC – Services ⁵ | 135 | 66 | 54 | 41 | 220 | (520) | 0 | 6 | 0 |
| Operating expenses (adjusted) | 2,459 | 3,249 | 1,060 | 693 | 3,062 | 325 | 0 | 277 | 11,128 |
| of which: expenses for provisions for litigation, regulatory and similar matters | 9 | 34 | (1) | (5) | 26 | 2 | 0 | 46 | 111 |
| Operating profit/(loss) before tax as reported | 1,076 | 448 | 933 | 204 | 537 | (315) | (104) | (312) | 2,467 |
| Operating profit/(loss) before tax (adjusted) | 1,243 | 519 | 886 | 258 | 817 | (422) | 45 | (306) | 3,038 |

| CHF million | Year-to-date 30.6.15 | | | | | | | | |
|--|----------------------|----------------------------|------------------------------|------------------|-----------------|----------------------------|----------------|------------------------------------|--------------|
| | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services ³ | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 4,327 | 3,624 | 1,931 | 987 | 5,012 | 333 | 451 | (6) | 16,659 |
| of which: own credit on financial liabilities designated at fair value | | | | | | | 486 | | 486 |
| of which: gains on sales of real estate | | | | | | 378 | | | 378 |
| of which: gains on sales of subsidiaries and businesses | 197 | | | | | | | | 197 |
| of which: gain on a further partial sale of investment in Markit | | | | | 11 | | | | 11 |
| Operating income (adjusted) | 4,130 | 3,624 | 1,931 | 987 | 5,001 | (45) | (35) | (6) | 15,587 |
| Operating expenses as reported | 2,621 | 3,179 | 1,106 | 688 | 3,695 | 549 | 2 | 351 | 12,193 |
| of which: personnel-related restructuring expenses ⁵ | 21 | 0 | 1 | 0 | 2 | 146 | 0 | 8 | 178 |
| of which: non-personnel-related restructuring expenses ⁵ | 14 | 0 | 0 | 0 | 3 | 300 | 0 | 0 | 318 |
| of which: restructuring expenses allocated from CC – Services ⁵ | 80 | 48 | 32 | 21 | 131 | (328) | 0 | 16 | 0 |
| of which: impairment of an intangible asset | | | | | 11 | | | | 11 |
| Operating expenses (adjusted) | 2,506 | 3,131 | 1,073 | 666 | 3,548 | 431 | 2 | 327 | 11,686 |
| of which: expenses for provisions for litigation, regulatory and similar matters | 25 | 66 | (2) | 0 | (3) | 8 | 0 | 35 | 130 |
| Operating profit/(loss) before tax as reported | 1,707 | 445 | 824 | 299 | 1,317 | (217) | 449 | (357) | 4,467 |
| Operating profit/(loss) before tax (adjusted) | 1,625 | 493 | 857 | 321 | 1,453 | (477) | (37) | (333) | 3,902 |

¹ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ² Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ³ Corporate Center – Services operating expenses presented in this table are after service allocations to business divisions and other Corporate Center units. ⁴ Related to the disposal of foreign subsidiaries and branches. ⁵ Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for more information.

Results: 2Q16 vs 2Q15

We recorded a profit before tax of CHF 1,489 million compared with CHF 1,759 million. Operating income decreased by CHF 414 million, mainly reflecting CHF 322 million lower net fee and commission income and an CHF 82 million decrease in combined net interest and trading income. Operating expenses decreased by CHF 144 million, largely due to CHF 139 million lower personnel expenses.

In addition to reporting our results in accordance with International Financial Reporting Standards (IFRS), we report adjusted results that exclude items that management believes are not representative of the underlying performance of our businesses. Such adjusted results are non-GAAP financial measures as defined by SEC regulations. For the second quarter of 2016, we excluded a gain of CHF 123 million on the sale of our investment in Visa Europe, gains on sales of real estate in Switzerland of CHF 120 million, net foreign currency translation losses of CHF 26 million, a loss of CHF 23 million on the sale of a subsidiary and net restructuring expenses of CHF 377 million. For the second quarter of 2015, we excluded an own credit gain of CHF 259 million, a gain of CHF 56 million on the sale of a business, a gain from a further partial sale of our investment in Markit of CHF 11 million, as well as net restructuring expenses of CHF 191 million and an impairment of an intangible asset of CHF 11 million.

On this adjusted basis, profit before tax was CHF 1,672 million compared with CHF 1,635 million in the same quarter a year earlier, mainly due to CHF 221 million lower personnel expenses and an increase in combined net interest and trading income of CHF 177 million, partly offset by a decline of CHF 322 million in net fee and commission income.

Due to our ongoing efforts to optimize our legal entity structure, we anticipate that further foreign currency translation gains and losses previously booked directly into equity through other comprehensive income will be released into profit and loss due to the disposal of foreign branches and subsidiaries. These net gains and losses will be treated as adjusting items and recorded in Corporate Center – Group Asset and Liability Management (Group ALM). The release of foreign currency translation gains and losses from equity to profit and loss does not affect shareholders' equity or regulatory capital. Foreign currency translation gains and losses are not released into profit and loss until a disposition, liquidation or closure of the relevant entity or branch is completed, which, in many cases, is subject to regulatory approvals, cessation of business, transfer of client assets or resolution of claims. We currently expect that any foreign currency translation gains or losses we record in the third quarter of 2016 will not be material. Additionally, we may generate around CHF 150 million in foreign currency translation losses in the fourth quarter of 2016, but, as discussed above, the timing of recognition is subject to significant uncertainty and these losses may be recognized in a different period than currently anticipated.

Operating income: 2Q16 vs 2Q15

Total operating income was CHF 7,404 million compared with CHF 7,818 million. On an adjusted basis, total operating income decreased by CHF 282 million to CHF 7,210 million, mainly reflecting a decrease of CHF 322 million in net fee and commission income and CHF 143 million lower other income, partly offset by an increase of CHF 177 million in combined net interest and trading income.

Net interest and trading income

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|--|-----------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Net interest and trading income | | | | | | | |
| Net interest income | 1,164 | 1,712 | 1,490 | (32) | (22) | 2,876 | 3,127 |
| Net trading income | 1,891 | 1,013 | 1,647 | 87 | 15 | 2,904 | 3,781 |
| Total net interest and trading income | 3,055 | 2,725 | 3,137 | 12 | (3) | 5,780 | 6,909 |
| Wealth Management | 736 | 750 | 711 | (2) | 4 | 1,486 | 1,517 |
| Wealth Management Americas | 446 | 439 | 375 | 2 | 19 | 885 | 732 |
| Personal & Corporate Banking | 643 | 643 | 628 | 0 | 2 | 1,286 | 1,315 |
| Asset Management | (1) | (8) | (2) | (88) | (50) | (9) | (8) |
| Investment Bank | 1,171 | 1,021 | 1,341 | 15 | (13) | 2,192 | 3,058 |
| of which: Corporate Client Solutions | 251 | 120 | 212 | 109 | 18 | 371 | 486 |
| of which: Investor Client Services | 920 | 901 | 1,128 | 2 | (18) | 1,820 | 2,572 |
| Corporate Center | 61 | (120) | 84 | (27) | (59) | 294 | 294 |
| of which: Services | (13) | (9) | (11) | 44 | 18 | (22) | 14 |
| of which: Group ALM | 58 | (68) | 130 | (55) | (10) | 397 | 397 |
| of which: own credit on financial liabilities designated at fair value | | | 259 | | | | 486 |
| of which: Non-core and Legacy Portfolio | 16 | (43) | (34) | | | (27) | (118) |
| Total net interest and trading income | 3,055 | 2,725 | 3,137 | 12 | (3) | 5,780 | 6,909 |

Net interest and trading income

Total combined net interest and trading income decreased by CHF 82 million to CHF 3,055 million. Excluding the own credit gain of CHF 259 million in the second quarter of 2015, net interest and trading income increased by CHF 177 million.

In Wealth Management, net interest and trading income increased by CHF 25 million to CHF 736 million, mainly due to higher deposit revenues, partly offset by lower allocations from Group ALM.

Wealth Management Americas net interest and trading income was CHF 71 million higher, primarily due to an increase in loan and deposit balances as well as higher interest rates.

In the Investment Bank, net interest and trading income decreased by CHF 170 million to CHF 1,171 million, primarily due to a reduction in Equities revenues, with lower revenues across all products, particularly in Asia Pacific, partly offset by higher Cash and Financing Services revenues in the Americas.

Group ALM net interest and trading income, excluding the effect of own credit, increased by CHF 187 million, mainly due to accounting asymmetries related to economic hedges and net gains related to hedge accounting ineffectiveness.

In Corporate Center – Non-core and Legacy Portfolio, net interest and trading income improved by CHF 50 million, mainly due to valuation gains on financial assets designated at fair value and other fair value gains due to market movements.

→ Refer to “Note 3 Net interest and trading income” in the “Consolidated financial statements” section of this report for more information

Net fee and commission income

Net fee and commission income was CHF 4,087 million compared with CHF 4,409 million.

Investment fund fees decreased by CHF 137 million to CHF 779 million, mainly in Wealth Management.

Underwriting fees declined by CHF 103 million to CHF 282 million due to lower equity underwriting revenues.

Net brokerage fees decreased by CHF 98 million to CHF 687 million, primarily in the Investment Bank and in Wealth Management, predominantly driven by reduced client activity due to persistent market uncertainty.

→ Refer to “Note 4 Net fee and commission income” in the “Consolidated financial statements” section of this report for more information

Credit loss (expense) / recovery

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|------------|-------------|---------------|-------------|--------------|-------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Wealth Management | (1) | 0 | (1) | | 0 | (1) | 0 |
| Wealth Management Americas | (1) | (1) | 0 | 0 | | (2) | 0 |
| Personal & Corporate Banking | 2 | 0 | (4) | | | 2 | (25) |
| Investment Bank | (6) | 2 | (8) | | (25) | (5) | (6) |
| Corporate Center | 0 | (3) | 0 | (100) | | (3) | 2 |
| of which: Non-core and Legacy Portfolio | 0 | (3) | 0 | (100) | | (3) | 2 |
| Total | (7) | (3) | (13) | 133 | (46) | (9) | (29) |

Other income

Other income was CHF 269 million compared with CHF 285 million. The second quarter of 2016 included a gain of CHF 123 million on the sale of our investment in Visa Europe, gains on sales of real estate in Switzerland of CHF 120 million, net foreign currency translation losses of CHF 26 million and a loss of CHF 23 million on the sale of a subsidiary. The same quarter a year earlier included a gain of CHF 56 million on the sale of a business and a gain of CHF 11 million from a further partial sale of our investment in Markit.

Excluding these items, adjusted other income decreased by CHF 143 million to CHF 75 million, mainly as the second quarter of 2015 included a gain of CHF 57 million related to the settlement of two litigation claims in Corporate Center – Non-core and Legacy Portfolio, and due to lower gains on sale of available-for-sale financial assets.

→ Refer to “Note 5 Other income” in the “Consolidated financial statements” section of this report for more information

Operating expenses

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|--|-----------------------|--------------|--------------|---------------|------------|---------------|---------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Operating expenses as reported | | | | | | | |
| Personnel expenses | 3,985 | 3,924 | 4,124 | 2 | (3) | 7,910 | 8,297 |
| General and administrative expenses | 1,666 | 1,664 | 1,695 | 0 | (2) | 3,330 | 3,408 |
| Depreciation and impairment of property, equipment and software | 240 | 243 | 209 | (1) | 15 | 483 | 429 |
| Amortization and impairment of intangible assets | 24 | 23 | 30 | 4 | (20) | 47 | 58 |
| Total operating expenses as reported | 5,915 | 5,855 | 6,059 | 1 | (2) | 11,770 | 12,193 |
| Adjusting items | | | | | | | |
| Personnel expenses ¹ | 192 | 128 | 110 | 50 | 75 | 320 | 178 |
| General and administrative expenses ¹ | 185 | 136 | 80 | 36 | 131 | 322 | 306 |
| Depreciation and impairment of property, equipment and software ¹ | 0 | 1 | 1 | (100) | (100) | 0 | 11 |
| Impairment of intangible assets | | | 11 | | (100) | | 11 |
| Total adjusting items | 377 | 265 | 202 | 42 | 87 | 642 | 506 |
| Operating expenses (adjusted)² | | | | | | | |
| Personnel expenses | 3,793 | 3,796 | 4,014 | 0 | (6) | 7,590 | 8,119 |
| of which: salaries and variable compensation | 2,330 | 2,245 | 2,487 | 4 | (6) | 4,575 | 5,044 |
| of which: Wealth Management Americas – Financial advisor compensation ³ | 911 | 909 | 878 | 0 | 4 | 1,820 | 1,748 |
| of which: other personnel expenses ⁴ | 552 | 642 | 649 | (14) | (15) | 1,194 | 1,327 |
| General and administrative expenses | 1,481 | 1,528 | 1,615 | (3) | (8) | 3,008 | 3,102 |
| of which: expenses for provisions for litigation, regulatory and similar matters | 72 | 39 | 71 | 85 | 1 | 111 | 130 |
| of which: other general and administrative expenses | 1,409 | 1,488 | 1,544 | (5) | (9) | 2,897 | 2,973 |
| Depreciation and impairment of property, equipment and software | 240 | 242 | 208 | (1) | 15 | 483 | 418 |
| Amortization and impairment of intangible assets | 24 | 23 | 19 | 4 | 26 | 47 | 47 |
| Total operating expenses (adjusted) | 5,538 | 5,590 | 5,857 | (1) | (5) | 11,128 | 11,686 |

¹ Represents restructuring expenses. Refer to “Note 18 Changes in organization and disposals” in the “Consolidated financial statements” section of this report for more information. ² Adjusted results are non-GAAP financial measures as defined by SEC regulations. ³ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment which are subject to vesting requirements. ⁴ Consists of expenses related to contractors, social security, pension and other post-employment benefit plans and other personnel expenses. Refer to “Note 6 Personnel expenses” in the “Consolidated financial statements” section of this report for more information.

Operating expenses: 2Q16 vs 2Q15

Total operating expenses decreased by CHF 144 million to CHF 5,915 million. Net restructuring expenses were CHF 377 million compared with CHF 191 million. Personnel-related restructuring expenses increased by CHF 82 million to CHF 192 million, and non-personnel-related restructuring expenses increased by CHF 104 million to CHF 185 million, driven by continued near- and offshoring initiatives and by IT platform optimization costs within Group Technology.

Excluding net restructuring expenses and an impairment of an intangible asset of CHF 11 million in the second quarter of 2015, adjusted total operating expenses decreased by CHF 319 million to CHF 5,538 million.

→ Refer to “**Note 18 Changes in organization and disposals**” in the “**Consolidated financial statements**” section of this report for more information on restructuring expenses

Personnel expenses

Personnel expenses decreased by CHF 139 million to CHF 3,985 million. On an adjusted basis, excluding net restructuring expenses, personnel expenses declined by CHF 221 million to CHF 3,793 million.

Adjusted expenses for salaries and variable compensation, excluding the effect of restructuring, decreased by CHF 157 million to CHF 2,330 million, mainly reflecting lower expenses for variable compensation.

Other personnel expenses decreased by CHF 97 million to CHF 552 million on an adjusted basis, primarily due to lower social security expenses and a decline in expenses for pension and other post-employment benefit plans, primarily related to lower net periodic pension costs for our Swiss pension plan, reflecting the effect of changes to demographic and financial assumptions.

→ Refer to “**Note 6 Personnel expenses**” in the “**Consolidated financial statements**” section of this report for more information

General and administrative expenses

General and administrative expenses decreased by CHF 29 million to CHF 1,666 million. On an adjusted basis, excluding net restructuring expenses, general and administrative expenses decreased by CHF 134 million, largely due to CHF 68 million lower expenses for outsourcing of IT and other services, and CHF 34 million lower occupancy costs. Net expenses for provisions for litigation, regulatory and similar matters were broadly unchanged at CHF 72 million.

At this point in time, we believe that the industry continues to operate in an environment in which expenses associated with litigation, regulatory and similar matters will remain elevated for the foreseeable future and we continue to be exposed to a number of significant claims and regulatory matters. The outcome of many of these matters, the timing of a resolution, and the potential effects of resolutions on our future business, financial results or financial condition, are extremely difficult to predict.

→ Refer to “**Note 7 General and administrative expenses**” in the “**Consolidated financial statements**” section of this report for more information

→ Refer to “**Note 16 Provisions and contingent liabilities**” in the “**Consolidated financial statements**” section of this report and to “**Material legal and regulatory risks arise in the conduct of our business**” in the “**Risk factors**” section of our Annual Report 2015 for more information

Depreciation, impairment and amortization

Depreciation and impairment of property, equipment and software was CHF 240 million compared with CHF 209 million, mainly reflecting higher depreciation expenses related to internally generated capitalized software.

Tax: 2Q16 vs 2Q15

We recognized a net income tax expense of CHF 376 million compared with CHF 443 million.

The current tax expense was CHF 227 million compared with CHF 247 million and related to taxable profits of UBS Switzerland AG and other subsidiaries. Deferred tax expenses were CHF 149 million compared with CHF 196 million and mainly related to the amortization of deferred tax assets previously recognized in relation to Swiss tax losses carried forward and deductible temporary differences to reflect their offset against profits for the quarter.

We expect the full year 2016 effective tax rate, excluding any effects on the tax rate from the reassessment of deferred tax assets, to be similar to the effective tax rate of 26% for the first half of 2016.

In March 2016, the UK government announced a proposed change in law which would reduce the proportion of banks' annual taxable profits that can be offset by UK tax losses carried forward from 50% to 25% with effect from 1 April 2016. The UK government also proposed to reduce the UK corporate income tax rate from 18% to 17% with effect from 1 April 2020. To the extent that these changes are enacted in the second half of 2016, we would expect to incur a reduction in recognized UK deferred tax assets of approximately CHF 110 million.

→ Refer to "Note 8 Income taxes" in the "Consolidated financial statements" section of this report for more information

Total comprehensive income attributable to UBS Group AG shareholders: 2Q16 vs 2Q15

Total comprehensive income attributable to UBS Group AG shareholders was positive CHF 1,151 million compared with negative CHF 595 million. Net profit attributable to UBS Group AG shareholders was CHF 1,034 million compared with CHF 1,209 million. Other comprehensive income (OCI) attributable to UBS Group AG shareholders was positive CHF 117 million compared with negative CHF 1,805 million.

In the second quarter of 2016, foreign currency translation OCI was CHF 334 million, primarily resulting from the strengthening of the US dollar against the Swiss franc, and the reclassification of net losses totaling CHF 26 million to the income statement. OCI related to foreign currency translation in the same quarter last year was negative CHF 727 million.

OCI related to cash flow hedges was CHF 181 million, mainly reflecting unrealized gains on hedging derivatives resulting from decreases in long-term interest rates across all major currencies. In the second quarter of 2015, OCI related to cash flow hedges was negative CHF 532 million.

Defined benefit plan OCI was negative CHF 202 million compared with negative CHF 402 million. We recorded net pre-tax OCI losses of CHF 255 million related to our non-Swiss pension

plans, mainly due to net increases in defined benefit obligations resulting from declines in applicable discount rates, partly offset by gains following increases in the fair value of underlying plan assets. Net pre-tax OCI related to the Swiss pension plan was positive CHF 57 million, as an OCI loss of CHF 625 million related to an increase in the defined benefit obligation, primarily reflecting a decline in the applicable discount rate, was more than offset by an OCI gain of CHF 388 million from the reversal of the excess of the pension surplus over the estimated future economic benefit and an OCI gain of CHF 293 million due to an increase in the fair value of the underlying plan assets.

OCI related to own credit on financial liabilities designated at fair value was negative CHF 157 million in the second quarter of 2016, mainly reflecting a tightening of credit spreads.

OCI associated with financial assets classified as available for sale was negative CHF 39 million compared with negative CHF 143 million, and mainly related to net gains that were reclassified from OCI to the income statement upon sale of investments, predominantly reflecting the gain on the sale of our investment in Visa Europe. This was partly offset by net unrealized gains following declines in long-term interest rates.

→ Refer to the "Statement of comprehensive income" in the "Consolidated financial statements" section of this report for more information

→ Refer to "Note 28 Pension and other post-employment benefit plans" in the "Consolidated financial statements" section of our Annual Report 2015 for more information on other comprehensive income related to defined benefit plans

Sensitivity to interest rate movements

As of 30 June 2016, we estimate that a parallel shift in yield curves by +100 basis points could lead to a combined increase in annual net interest income of approximately CHF 0.6 billion in Wealth Management, Wealth Management Americas and Personal & Corporate Banking. Of this increase, approximately CHF 0.5 billion would result from changes in US dollar interest rates. Including the estimated impact related to pension fund assets and liabilities, the immediate effect of such a shift on shareholders' equity would be an estimated decrease of approximately CHF 1.9 billion recognized in OCI, of which approximately CHF 1.4 billion would result from changes in US dollar interest rates. Since the majority of this negative OCI impact on shareholders' equity is related to cash flow hedges, and this is not recognized for the purposes of calculating regulatory capital, the immediate impact on regulatory capital would be an increase of approximately CHF 0.2 billion. The above estimates are based on an immediate increase in interest rates, equal across all currencies and relative to implied forward rates applied to our banking book and available-for-sale portfolios. The estimates further assume a static balance sheet and constant foreign exchange rates.

Net profit attributable to non-controlling interests: 2Q16 vs 2Q15

Net profit attributable to non-controlling interests was CHF 79 million compared with CHF 106 million. In the second quarter of 2016, dividends of CHF 79 million were paid to preferred noteholders for which no accrual was required to be established in a prior period.

For the remainder of 2016, we currently do not expect to attribute further net profit to non-controlling interests. For 2017, we currently expect to attribute approximately CHF 70 million, all in the second quarter, and for 2018, we expect to attribute less than CHF 10 million.

Key figures and personnel

Cost/income ratio: 2Q16 vs 2Q15

The cost/income ratio was 79.8% compared with 77.4%. On an adjusted basis, the cost/income ratio was 76.7% compared with 78.0%.

Return on tangible equity: 2Q16 vs 2Q15

The annualized return on tangible equity (RoTE) was 8.9% compared with 11.0%. On an adjusted basis, the annualized RoTE was 10.1% compared with 9.6%.

In light of current market conditions and continued macroeconomic and regulatory uncertainty, we are no longer providing expectations for annual adjusted return on tangible equity or adjusted cost/income ratio in the near term. We continue to expect to achieve our targeted adjusted return on tangible equity of greater than 15% and our targeted adjusted cost/income ratio in a normalized environment.

Common equity tier 1 capital ratio: 2Q16 vs 1Q16

Our fully applied CET1 capital ratio increased 0.2 percentage

points to 14.2%, reflecting a CHF 0.4 billion increase in CET1 capital, mainly resulting from the second quarter profit before tax and foreign currency translation effects, partly offset by accruals for capital returns to shareholders and effects from defined benefit plans and current tax.

→ Refer to the “Capital management” section of this report for more information

Risk-weighted assets: 2Q16 vs 1Q16

Risk-weighted assets (RWA) were broadly unchanged at CHF 214 billion on a fully applied basis, below our short- to medium-term expectation of around CHF 250 billion. Credit risk RWA increased by CHF 1 billion, mainly due to regulatory add-ons and foreign currency translation effects, partly offset by a decrease from methodology changes and model updates. Market risk RWA decreased by CHF 1 billion, largely driven by the introduction of lower risks-not-in-VaR (RniV) factors into the VaR model.

→ Refer to the “Capital management” section of this report for more information

Leverage ratio denominator: 2Q16 vs 1Q16

The Swiss SRB leverage ratio denominator (LRD) decreased by CHF 8 billion to CHF 898 billion on a fully applied basis, and was below our short- to medium-term expectation of around CHF 950 billion. The decline in the LRD was mainly driven by a decrease in asset size and incremental netting and collateral mitigation benefits, partly offset by foreign currency translation effects.

→ Refer to the “Capital management” section of this report for more information

Net new money and invested assets

Management's discussion and analysis on net new money and invested assets is provided in the “UBS business divisions and Corporate Center” section of this report.

Return on equity

| CHF million, except where indicated | As of or for the quarter ended | | | Year-to-date | |
|---|--------------------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Net profit | | | | | |
| Net profit attributable to UBS Group AG shareholders | 1,034 | 707 | 1,209 | 1,741 | 3,186 |
| Amortization and impairment of intangible assets | 24 | 23 | 30 | 47 | 58 |
| Pre-tax adjusting items ^{1,2} | 183 | 388 | (135) | 571 | (576) |
| Tax effect on adjusting items ³ | (40) | (85) | (22) | (126) | 30 |
| Adjusted net profit attributable to UBS Group AG shareholders | 1,201 | 1,033 | 1,082 | 2,233 | 2,698 |
| Equity | | | | | |
| Equity attributable to UBS Group AG shareholders | 52,876 | 54,845 | 50,211 | 52,876 | 50,211 |
| Less: goodwill and intangible assets ⁴ | 6,402 | 6,326 | 6,101 | 6,402 | 6,101 |
| Tangible equity attributable to UBS Group AG shareholders | 46,474 | 48,519 | 44,110 | 46,474 | 44,110 |
| Return on equity | | | | | |
| Return on equity (%) | 7.7 | 5.1 | 9.4 | 6.4 | 12.4 |
| Return on tangible equity (%) | 8.9 | 6.0 | 11.0 | 7.4 | 14.4 |
| Adjusted return on tangible equity (%) ¹ | 10.1 | 8.5 | 9.6 | 9.3 | 12.0 |

¹ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ² Refer to the “Performance by business division and Corporate Center unit – reported and adjusted” table in this section for more information. ³ Generally reflects an indicative tax rate of 22% on pre-tax adjusting items. ⁴ Goodwill and intangible assets used in the calculation of tangible equity attributable to UBS Group AG shareholders as of 30 June 2015 have been adjusted to reflect the non-controlling interests in UBS AG.

Net new money¹

| CHF billion | For the quarter ended | | | Year-to-date | |
|---|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Wealth Management | 6.0 | 15.5 | 1.8 | 21.5 | 16.1 |
| Wealth Management (adjusted)² | 6.0 | 15.5 | 8.4 | 21.5 | 22.7 |
| Wealth Management Americas | 2.3 | 13.6 | (0.7) | 15.9 | 3.9 |
| Asset Management | (7.7) | (2.9) | 9.0 | (10.6) | 14.1 |
| <i>of which: excluding money market flows</i> | (8.8) | (5.9) | 8.3 | (14.7) | 15.8 |
| <i>of which: money market flows</i> | 1.1 | 3.0 | 0.7 | 4.1 | (1.7) |

¹ Net new money excludes interest and dividend income. ² Adjusted net new money excludes the negative effect on net new money (second quarter of 2015: CHF 6.6 billion) from our balance sheet and capital optimization program.

Invested assets

| CHF billion | As of | | | % change from | |
|---|--------------|---------|---------|---------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 31.3.16 | 30.6.15 |
| Wealth Management | 935 | 925 | 945 | 1 | (1) |
| Wealth Management Americas | 1,053 | 1,009 | 977 | 4 | 8 |
| Asset Management | 633 | 628 | 650 | 1 | (3) |
| <i>of which: excluding money market funds</i> | 572 | 568 | 592 | 1 | (3) |
| <i>of which: money market funds</i> | 61 | 60 | 58 | 2 | 5 |

Personnel: 2Q16 vs 1Q16

We employed 60,093 personnel as of 30 June 2016, a net decrease of 454 compared with 31 March 2016. Investment Bank personnel decreased by 204, mainly driven by ongoing cost reduction programs. Wealth Management personnel decreased by 197, mainly as the number of non-client-facing staff decreased by 120, primarily reflecting ongoing cost reduction programs. The number of Wealth Management client advisors decreased by 77, mainly related to the exit from the Australian domestic business, which was completed in the second quarter of 2016.

Results: 6M16 vs 6M15

Net profit attributable to UBS Group AG shareholders was CHF 1,741 million in the first half of 2016 compared with CHF 3,186 million in the same period a year earlier. Profit before tax was CHF 2,467 million compared with CHF 4,467 million, largely reflecting a decrease of CHF 2,422 million in operating income, driven by CHF 1,129 million lower combined net interest and trading income, a decline of CHF 684 million in other income and CHF 630 million lower net fee and commission income. Operating expenses decreased by CHF 423 million, largely driven by CHF 387 million lower personnel expenses.

On an adjusted basis, operating profit before tax declined to CHF 3,038 million from CHF 3,902 million, reflecting a decrease in operating income, partly offset by lower operating expenses.

Adjusted operating income decreased by CHF 1,421 million to CHF 14,166 million, mainly reflecting CHF 643 million lower combined net interest and trading income, partly as the first quarter of 2015 benefited from higher volatility and client activity levels

following the Swiss National Bank's actions in January 2015, a decrease of CHF 630 million in net fee and commission income and CHF 169 million lower adjusted other income.

Adjusted operating expenses decreased by CHF 558 million to CHF 11,128 million, mainly due to reduced expenses for variable compensation, a decline in expenses for pension and other post-employment benefit plans and lower outsourcing costs.

→ Refer to the table "Performance by business division and Corporate Center unit – reported and adjusted" for more information

→ Refer to the "Current market climate" section of our Annual Report 2015 for more information on the SNB actions in January 2015

Outlook

Sustained market volatility, underlying macroeconomic uncertainty and heightened geopolitical tensions, exacerbated by the impact of the UK referendum vote to end EU membership, will lead to continued client risk aversion and generally low transaction volumes. These conditions are unlikely to change in the foreseeable future. Furthermore, lower than anticipated and negative interest rates and the relative strength of the Swiss franc, particularly against the euro, continue to present considerable headwinds. In addition, the changes to the Swiss bank capital standards and proposed further changes to the international regulatory framework for banks will result in increasing capital requirements and costs. UBS is well positioned to benefit from even a moderate improvement in conditions and remains committed to executing its strategy with discipline to mitigate these effects.

UBS business divisions and Corporate Center

Management report

Wealth Management

Wealth Management¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|--------------------------------|--------------|--------------|---------------|-------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Net interest income | 582 | 579 | 568 | 1 | 2 | 1,162 | 1,128 |
| Recurring net fee income ² | 883 | 901 | 976 | (2) | (10) | 1,784 | 1,925 |
| Transaction-based income ² | 347 | 402 | 459 | (14) | (24) | 749 | 1,048 |
| Other income | 4 | 3 | 78 | 33 | (95) | 7 | 227 |
| Income | 1,817 | 1,885 | 2,081 | (4) | (13) | 3,702 | 4,327 |
| Credit loss (expense)/recovery | (1) | 0 | (1) | | 0 | (1) | 0 |
| Total operating income | 1,815 | 1,885 | 2,080 | (4) | (13) | 3,700 | 4,327 |
| Personnel expenses | 590 | 615 | 656 | (4) | (10) | 1,205 | 1,316 |
| General and administrative expenses | 140 | 128 | 134 | 9 | 4 | 268 | 245 |
| Services (to) / from other business divisions and Corporate Center | 565 | 583 | 533 | (3) | 6 | 1,148 | 1,055 |
| <i>of which: services from CC – Services</i> | <i>545</i> | <i>562</i> | <i>519</i> | <i>(3)</i> | <i>5</i> | <i>1,107</i> | <i>1,027</i> |
| Depreciation and impairment of property, equipment and software | 0 | 1 | 1 | (100) | (100) | 1 | 3 |
| Amortization and impairment of intangible assets | 1 | 1 | 1 | 0 | 0 | 2 | 2 |
| Total operating expenses³ | 1,297 | 1,327 | 1,324 | (2) | (2) | 2,624 | 2,621 |
| Business division operating profit/(loss) before tax | 518 | 557 | 756 | (7) | (31) | 1,076 | 1,707 |
| Adjusted results⁴ | | | | | | | |
| Total operating income as reported | 1,815 | 1,885 | 2,080 | (4) | (13) | 3,700 | 4,327 |
| <i>of which: gains/(losses) on sales of subsidiaries and businesses</i> | <i>(23)</i> | | <i>56</i> | | | <i>(23)</i> | <i>197</i> |
| <i>of which: gain on sale of investment in Visa Europe</i> | <i>21</i> | | | | | <i>21</i> | |
| Total operating income (adjusted) | 1,817 | 1,885 | 2,024 | (4) | (10) | 3,702 | 4,130 |
| Total operating expenses as reported | 1,297 | 1,327 | 1,324 | (2) | (2) | 2,624 | 2,621 |
| <i>of which: personnel-related restructuring expenses</i> | <i>7</i> | <i>2</i> | <i>18</i> | | | <i>9</i> | <i>21</i> |
| <i>of which: non-personnel-related restructuring expenses</i> | <i>6</i> | <i>14</i> | <i>10</i> | | | <i>20</i> | <i>14</i> |
| <i>of which: restructuring expenses allocated from CC – Services</i> | <i>73</i> | <i>62</i> | <i>41</i> | | | <i>135</i> | <i>80</i> |
| Total operating expenses (adjusted) | 1,211 | 1,248 | 1,255 | (3) | (4) | 2,459 | 2,506 |
| Business division operating profit/(loss) before tax as reported | 518 | 557 | 756 | (7) | (31) | 1,076 | 1,707 |
| Business division operating profit/(loss) before tax (adjusted) | 606 | 636 | 769 | (5) | (21) | 1,243 | 1,625 |
| Key performance indicators⁵ | | | | | | | |
| Pre-tax profit growth (%) | (31.5) | (41.4) | 113.0 | | | (37.0) | 75.3 |
| Cost/income ratio (%) | 71.4 | 70.4 | 63.6 | | | 70.9 | 60.6 |
| Net new money growth (%) | 2.6 | 6.5 | 0.7 | | | 4.5 | 3.3 |
| Gross margin on invested assets (bps) | 78 | 81 | 87 | (4) | (10) | 79 | 89 |
| Net margin on invested assets (bps) | 22 | 24 | 32 | (8) | (31) | 23 | 35 |
| Adjusted key performance indicators⁵ | | | | | | | |
| Pre-tax profit growth (%) | (21.2) | (25.7) | 95.7 | | | (23.5) | 54.5 |
| Cost/income ratio (%) | 66.6 | 66.2 | 62.0 | | | 66.4 | 60.7 |
| Net new money growth (%) | 2.6 | 6.5 | 3.5 | | | 4.5 | 4.6 |
| Gross margin on invested assets (bps) | 78 | 81 | 85 | (4) | (8) | 79 | 85 |
| Net margin on invested assets (bps) | 26 | 27 | 32 | (4) | (19) | 27 | 34 |

Wealth Management¹ (continued)

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|--------------------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Additional information | | | | | | | |
| Recurring income ⁶ | 1,465 | 1,480 | 1,544 | (1) | (5) | 2,946 | 3,053 |
| Recurring income as a percentage of income (%) | 80.6 | 78.5 | 74.2 | | | 79.6 | 70.6 |
| Average attributed equity (CHF billion) ⁷ | 3.5 | 3.5 | 3.4 | 0 | 3 | 3.5 | 3.5 |
| Return on attributed equity (%) | 59.2 | 63.7 | 88.9 | | | 61.5 | 97.5 |
| Risk-weighted assets (fully applied, CHF billion) ⁸ | 26.0 | 26.1 | 25.8 | 0 | 1 | 26.0 | 25.8 |
| Return on risk-weighted assets, gross (%) ⁹ | 27.9 | 29.3 | 32.3 | | | 28.6 | 33.7 |
| Leverage ratio denominator (fully applied, CHF billion) ¹⁰ | 119.4 | 117.4 | 129.7 | 2 | (8) | 119.4 | 129.7 |
| Goodwill and intangible assets (CHF billion) | 1.3 | 1.3 | 1.3 | 0 | 0 | 1.3 | 1.3 |
| Net new money (CHF billion) | 6.0 | 15.5 | 1.8 | | | 21.5 | 16.1 |
| Net new money adjusted (CHF billion) ¹¹ | 6.0 | 15.5 | 8.4 | | | 21.5 | 22.7 |
| Invested assets (CHF billion) | 935 | 925 | 945 | 1 | (1) | 935 | 945 |
| Client assets (CHF billion) | 1,105 | 1,092 | 1,115 | 1 | (1) | 1,105 | 1,115 |
| Loans, gross (CHF billion) | 102.8 | 102.4 | 110.9 | 0 | (7) | 102.8 | 110.9 |
| Due to customers (CHF billion) | 187.0 | 181.5 | 173.2 | 3 | 8 | 187.0 | 173.2 |
| Personnel (full-time equivalents) | 10,135 | 10,332 | 10,257 | (2) | (1) | 10,135 | 10,257 |
| Client advisors (full-time equivalents) | 3,949 | 4,026 | 4,079 | (2) | (3) | 3,949 | 4,079 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Refer to "Operating income" in the "Group performance" section of our Annual Report 2015 for the definitions of recurring net fee income and transaction-based income. ³ Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ⁴ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁵ Refer to the "Measurement of performance" section of our Annual Report 2015 for the definitions of our key performance indicators. ⁶ Recurring income consists of net interest income and recurring net fee income. ⁷ Refer to the "Capital management" section of this report for more information. ⁸ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁹ Based on fully applied risk-weighted assets. ¹⁰ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ¹¹ Adjusted net new money excludes the negative effect on net new money (second quarter of 2015: CHF 6.6 billion) from our balance sheet and capital optimization program.

Regional breakdown of key figures^{1,2}

| As of or for the quarter ended 30.6.16 | Europe | Asia Pacific | Switzerland | Emerging markets | of which: ultra high net worth | of which: Global Family Office ³ |
|---|--------|--------------|-------------|------------------|--------------------------------|---|
| Net new money (CHF billion) | (0.5) | 6.8 | 2.2 | (2.3) | 4.8 | 2.4 |
| Net new money growth (%) | (0.6) | 10.2 | 5.1 | (6.1) | 3.8 | 11.0 |
| Invested assets (CHF billion) | 338 | 271 | 174 | 150 | 506 | 91 |
| Gross margin on invested assets (bps) | 71 | 71 | 88 | 97 | 52 | 42 ⁴ |
| Client advisors (full-time equivalents) | 1,363 | 1,062 | 769 | 674 | 727 ⁵ | |

¹ Refer to the "Measurement of performance" section of our Annual Report 2015 for the definitions of our key performance indicators. ² Based on the Wealth Management business area structure, and excluding minor functions with 81 client advisors, CHF 2 billion of invested assets, and CHF 0.2 billion of net new money outflows in the second quarter of 2016. ³ Joint venture between Wealth Management and the Investment Bank. Global Family Office is reported as a sub-segment of ultra high net worth and is included in the ultra high net worth figures. ⁴ Gross margin includes income booked in the Investment Bank. Gross margin only based on income booked in Wealth Management is 23 basis points. ⁵ Represents client advisors who exclusively serve ultra high net worth clients. In addition to these, other client advisors may also serve certain ultra high net worth clients, but not exclusively.

Results: 2Q16 vs 2Q15

Profit before tax decreased by CHF 238 million to CHF 518 million and adjusted profit before tax decreased by CHF 163 million to CHF 606 million, mainly reflecting lower transaction-based and recurring net fee income.

Operating income

Total operating income decreased by CHF 265 million to CHF 1,815 million. The second quarter of 2016 included a loss on the sale of a subsidiary of CHF 23 million and a gain of CHF 21 million on the sale of our investment in Visa Europe. Excluding these items and a CHF 56 million gain on the sale of our Belgian domestic business in the second quarter of 2015, adjusted operating income decreased by CHF 207 million to CHF 1,817 million, mainly due to lower transaction-based income and recurring net fee income.

Net interest income increased by CHF 14 million to CHF 582 million, mainly due to higher deposit revenues, partly offset by lower allocations from Corporate Center – Group Asset and Liability Management (Group ALM).

Recurring net fee income decreased by CHF 93 million to CHF 883 million due to a decrease in average invested assets, reflecting the ongoing effects of cross-border outflows, negative market performance and our exit from the Australian and Belgian domestic businesses. In addition, investment fund fees and custody revenues declined, reflecting changes in clients' asset allocation, driven by market uncertainty. This was partly offset by the positive effects of an increase in discretionary and advisory mandate penetration. Compared with the prior quarter, recurring net fee income decreased by CHF 18 million, largely due to a decline in average invested assets and the ongoing effects of cross-border outflows.

Transaction-based income decreased by CHF 112 million to CHF 347 million with decreases across all regions, most notably in Asia Pacific. The overall decrease was mainly related to reduced client activity in equities and fixed income cash products, investment funds and structured products.

Operating expenses

Total operating expenses decreased by CHF 27 million to CHF 1,297 million. Excluding net restructuring expenses of CHF 86 million compared with CHF 69 million, adjusted operating expenses decreased by CHF 44 million to CHF 1,211 million. Personnel expenses decreased by CHF 66 million to CHF 590 million. Excluding net restructuring expenses of CHF 7 million compared with

CHF 18 million, adjusted personnel expenses decreased by CHF 55 million, driven by lower variable compensation expenses and a decrease in personnel levels, as well as lower pension-related costs. This was partly offset by CHF 9 million higher adjusted general and administrative expenses, mostly related to professional fees.

Net new money

Net new money was CHF 6.0 billion compared with adjusted net new money of CHF 8.4 billion in the same quarter of the prior year, excluding the negative effect of CHF 6.6 billion in the second quarter of 2015 from our balance sheet and capital optimization program. The annualized net new money growth rate was 2.6% compared with 3.5%. Net new money in the second quarter of 2016 was driven by strong net inflows from Asia Pacific and Switzerland, partly offset by net outflows in emerging markets and Europe, which included cross-border outflows. Net new money from ultra high net worth clients was CHF 4.8 billion compared with adjusted net new money of CHF 7.1 billion.

In the first quarter of 2016, net new money was CHF 15.5 billion, driven by net inflows from all regions, with particularly strong flows from Asia Pacific.

Invested assets: 2Q16 vs 1Q16

Invested assets increased by CHF 10 billion to CHF 935 billion due to positive market performance of CHF 7 billion, net new money of CHF 6 billion and positive foreign currency translation effects of CHF 4 billion. This was offset by a net reduction of CHF 7 billion related to the sale and acquisition of subsidiaries and businesses that did not affect net new money. Discretionary and advisory mandate penetration increased to 27.1% of invested assets compared with 27.0%.

Personnel: 2Q16 vs 1Q16

Wealth Management employed 10,135 personnel compared with 10,332. The number of client advisors decreased by 77, mainly related to the exit from the Australian domestic business, which was completed during the second quarter of 2016. Excluding this, the number of client advisors was slightly up in Asia Pacific. The number of client advisors in Europe also increased, driven by an acquisition in Italy. The number of non-client-facing staff decreased by 120, primarily reflecting ongoing cost reduction programs.

Results: 6M16 vs 6M15

Profit before tax decreased by CHF 631 million to CHF 1,076 million. Adjusted profit before tax decreased by CHF 382 million to CHF 1,243 million, mainly reflecting lower transaction-based and recurring net fee income.

Total operating income decreased by CHF 627 million to CHF 3,700 million. Excluding a loss on the sale of a subsidiary of CHF 23 million compared with gains of CHF 197 million, and a CHF 21 million gain on the sale of our investment in Visa Europe, adjusted operating income decreased by CHF 428 million, mainly due to lower transaction-based income and recurring net fee income.

Net interest income increased by CHF 34 million to CHF 1,162 million, mainly as deposit revenues were higher, partly offset by lower allocations from Group ALM.

Recurring net fee income decreased by CHF 141 million to CHF 1,784 million, reflecting the ongoing effects of cross-border outflows, negative market performance and our exit from the Australian and Belgian domestic businesses. In addition, investment fund fees and custody revenues declined, reflecting changes in clients' asset allocation, driven by market uncertainty. This was

partly offset by the positive effects of an increase in discretionary and advisory mandate penetration.

Transaction-based income decreased by CHF 299 million to CHF 749 million, with declines across all regions, most notably in Asia Pacific and Europe. The overall decrease was mainly related to reduced client activity in investment funds, structured products and equity and fixed income cash products, due to persistent market uncertainty.

Total operating expenses increased by CHF 3 million to CHF 2,624 million. Excluding net restructuring expenses of CHF 164 million compared with CHF 115 million, adjusted operating expenses decreased by CHF 47 million to CHF 2,459 million. Personnel expenses decreased by CHF 111 million to CHF 1,205 million. Excluding net restructuring expenses of CHF 9 million compared with CHF 21 million, adjusted personnel expenses decreased by CHF 99 million, driven by lower expenses for variable compensation and decreased pension-related costs. This was partly offset by CHF 38 million higher adjusted net expenses for services from other business divisions and Corporate Center and CHF 17 million higher adjusted general and administrative expenses.

Wealth Management Americas

Wealth Management Americas – in US dollars¹

| USD million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|--------------------------------|--------------|--------------|---------------|------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Net interest income | 357 | 351 | 301 | 2 | 19 | 708 | 579 |
| Recurring net fee income ² | 1,191 | 1,182 | 1,217 | 1 | (2) | 2,372 | 2,404 |
| Transaction-based income ² | 369 | 361 | 425 | 2 | (13) | 730 | 857 |
| Other income | 8 | 6 | 4 | 33 | 100 | 14 | 9 |
| Income | 1,924 | 1,900 | 1,947 | 1 | (1) | 3,825 | 3,848 |
| Credit loss (expense)/recovery | (1) | (1) | 0 | 0 | | (2) | 0 |
| Total operating income | 1,924 | 1,899 | 1,947 | 1 | (1) | 3,823 | 3,848 |
| Personnel expenses | 1,224 | 1,209 | 1,199 | 1 | 2 | 2,432 | 2,383 |
| Financial advisor compensation ³ | 724 | 714 | 750 | 1 | (3) | 1,439 | 1,482 |
| Compensation commitments with recruited financial advisors ⁴ | 209 | 199 | 188 | 5 | 11 | 408 | 374 |
| Salaries and other personnel costs | 291 | 295 | 260 | (1) | 12 | 586 | 527 |
| General and administrative expenses | 137 | 145 | 213 | (6) | (36) | 282 | 339 |
| Services (to) / from other business divisions and Corporate Center | 307 | 320 | 317 | (4) | (3) | 628 | 625 |
| of which: services from CC – Services | 304 | 317 | 314 | (4) | (3) | 620 | 619 |
| Depreciation and impairment of property, equipment and software | 0 | 0 | 1 | | (100) | 1 | 1 |
| Amortization and impairment of intangible assets | 14 | 13 | 13 | 8 | 8 | 27 | 26 |
| Total operating expenses⁵ | 1,682 | 1,688 | 1,743 | 0 | (3) | 3,369 | 3,375 |
| Business division operating profit/(loss) before tax | 242 | 212 | 205 | 14 | 18 | 453 | 473 |
| Adjusted results⁶ | | | | | | | |
| Total operating income as reported | 1,924 | 1,899 | 1,947 | 1 | (1) | 3,823 | 3,848 |
| Total operating income (adjusted) | 1,924 | 1,899 | 1,947 | 1 | (1) | 3,823 | 3,848 |
| Total operating expenses as reported | 1,682 | 1,688 | 1,743 | 0 | (3) | 3,369 | 3,375 |
| of which: personnel-related restructuring expenses | 5 | 0 | 0 | | | 5 | 0 |
| of which: non-personnel-related restructuring expenses | 0 | 0 | 0 | | | 0 | 0 |
| of which: restructuring expenses allocated from CC – Services | 33 | 33 | 26 | | | 67 | 51 |
| Total operating expenses (adjusted) | 1,643 | 1,655 | 1,717 | (1) | (4) | 3,297 | 3,324 |
| Business division operating profit/(loss) before tax as reported | 242 | 212 | 205 | 14 | 18 | 453 | 473 |
| Business division operating profit/(loss) before tax (adjusted) | 281 | 245 | 231 | 15 | 22 | 525 | 524 |
| Key performance indicators⁷ | | | | | | | |
| Pre-tax profit growth (%) | 18.0 | (20.9) | (13.9) | | | (4.2) | (7.3) |
| Cost/income ratio (%) | 87.4 | 88.8 | 89.5 | | | 88.1 | 87.7 |
| Net new money growth (%) | 0.9 | 5.3 | (0.3) | | | 3.1 | 0.8 |
| Gross margin on invested assets (bps) | 72 | 73 | 74 | (1) | (3) | 73 | 74 |
| Net margin on invested assets (bps) | 9 | 8 | 8 | 13 | 13 | 9 | 9 |
| Adjusted key performance indicators⁷ | | | | | | | |
| Pre-tax profit growth (%) | 21.6 | (16.4) | (6.1) | | | 0.2 | (1.1) |
| Cost/income ratio (%) | 85.4 | 87.1 | 88.2 | | | 86.2 | 86.4 |
| Net new money growth (%) | 0.9 | 5.3 | (0.3) | | | 3.1 | 0.8 |
| Gross margin on invested assets (bps) | 72 | 73 | 74 | (1) | (3) | 73 | 74 |
| Net margin on invested assets (bps) | 11 | 9 | 9 | 22 | 22 | 10 | 10 |

Wealth Management Americas – in US dollars¹ (continued)

| USD million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Additional information | | | | | | | |
| Recurring income ⁸ | 1,547 | 1,533 | 1,519 | 1 | 2 | 3,080 | 2,982 |
| Recurring income as a percentage of income (%) | 80.4 | 80.7 | 78.0 | | | 80.5 | 77.5 |
| Average attributed equity (USD billion) ⁹ | 2.6 | 2.5 | 2.6 | 4 | 0 | 2.6 | 2.6 |
| Return on attributed equity (%) | 37.2 | 33.9 | 31.5 | | | 35.5 | 37.1 |
| Risk-weighted assets (fully applied, USD billion) ¹⁰ | 23.2 | 23.0 | 23.0 | 1 | 1 | 23.2 | 23.0 |
| Return on risk-weighted assets, gross (%) ¹¹ | 33.3 | 33.9 | 34.3 | | | 33.6 | 34.4 |
| Leverage ratio denominator (fully applied, USD billion) ¹² | 65.2 | 63.3 | 60.7 | 3 | 7 | 65.2 | 60.7 |
| Goodwill and intangible assets (USD billion) | 3.7 | 3.7 | 3.7 | 0 | 0 | 3.7 | 3.7 |
| Net new money (USD billion) | 2.4 | 13.6 | (0.7) | | | 15.9 | 4.0 |
| Net new money including interest and dividend income (USD billion) ¹³ | 8.4 | 19.1 | 5.1 | | | 27.5 | 15.4 |
| Invested assets (USD billion) | 1,077 | 1,050 | 1,045 | 3 | 3 | 1,077 | 1,045 |
| Client assets (USD billion) | 1,127 | 1,099 | 1,099 | 3 | 3 | 1,127 | 1,099 |
| Loans, gross (USD billion) | 50.1 | 48.7 | 47.3 | 3 | 6 | 50.1 | 47.3 |
| Due to customers (USD billion) | 84.9 | 86.5 | 73.4 | (2) | 16 | 84.9 | 73.4 |
| Recruitment loans to financial advisors | 3,234 | 3,254 | 2,853 | (1) | 13 | 3,234 | 2,853 |
| Other loans to financial advisors | 501 | 543 | 455 | (8) | 10 | 501 | 455 |
| Personnel (full-time equivalents) | 13,643 | 13,682 | 13,235 | 0 | 3 | 13,643 | 13,235 |
| Financial advisors (full-time equivalents) | 7,116 | 7,145 | 6,948 | 0 | 2 | 7,116 | 6,948 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Refer to "Operating income" in the "Group performance" section of our Annual Report 2015 for the definitions of recurring net fee income and transaction-based income. ³ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, assets and other variables. ⁴ Compensation commitments with recruited financial advisors represents expenses related to compensation commitments granted to financial advisors at the time of recruitment which are subject to vesting requirements. ⁵ Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ⁶ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁷ Refer to the "Measurement of performance" section of our Annual Report 2015 for the definitions of our key performance indicators. ⁸ Recurring income consists of net interest income and recurring net fee income. ⁹ Refer to the "Capital management" section of this report for more information. ¹⁰ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ¹¹ Based on fully applied risk-weighted assets. ¹² Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ¹³ Presented in line with historical reporting practice in the US market.

Results: 2Q16 vs 2Q15

Profit before tax was USD 242 million compared with USD 205 million and adjusted profit before tax increased by USD 50 million to USD 281 million, due to lower operating expenses, partly offset by lower operating income.

Operating income

Total operating income decreased by USD 23 million to USD 1,924 million, mainly due to lower transaction-based income and recurring net fee income, partly offset by higher net interest income.

Net interest income increased by USD 56 million to USD 357 million, mainly due to growth in loan and deposit balances as well as higher interest rates. The average mortgage portfolio balance increased 10% and the average securities-backed lending portfolio balance increased 6%.

Recurring net fee income decreased by USD 26 million to USD 1,191 million, mainly due to lower mutual fund fees, reflecting lower average mutual fund assets.

Transaction-based income decreased by USD 56 million to USD 369 million due to lower client activity.

Operating expenses

Total operating expenses decreased by USD 61 million to USD 1,682 million and adjusted operating expenses decreased by USD 74 million to USD 1,643 million, mainly due to USD 73 million lower net expenses for provisions for litigation, regulatory and similar matters and other provisions, and USD 17 million lower adjusted expenses for services from other business divisions and Corporate Center, mostly related to Group Operations. This was partly offset by USD 20 million higher adjusted personnel expenses, mainly due to higher salary costs and other personnel costs, as well as higher expenses for compensation commitments, reflecting the recruitment of financial advisors. This was partly offset by lower financial advisor compensation due to lower compensable revenue.

Net new money

Net new money was USD 2.4 billion compared with net outflows of USD 0.7 billion in the same quarter of the prior year, primarily due to higher inflows from net recruiting. Outflows associated with seasonal income tax payments were approximately USD 3.1 billion compared with USD 3.9 billion. The annualized net new money growth rate was 0.9% compared with negative 0.3%.

In the first quarter of 2016, net new money was USD 13.6 billion and predominantly related to net inflows from newly recruited advisors as well as from financial advisors employed with UBS for more than one year.

Invested assets: 2Q16 vs 1Q16

Invested assets increased by USD 27 billion to USD 1,077 billion, reflecting positive market performance of USD 25 billion and net new money of USD 2 billion. Managed account assets increased by USD 11 billion to USD 372 billion and comprised 34.5% of total invested assets compared with 34.4%.

Results: 6M16 vs 6M15

Profit before tax was USD 453 million compared with USD 473 million. Excluding net restructuring expenses of USD 72 million compared with USD 51 million, adjusted profit before tax was largely unchanged at USD 525 million.

Total operating income decreased by USD 25 million to USD 3,823 million. Net interest income increased by USD 129 million to USD 708 million, reflecting higher interest rates as well as growth in loan and deposit balances. Recurring net fee income decreased by USD 32 million to USD 2,372 million due to lower mutual fund fees, reflecting lower average mutual fund assets. Transaction-based income decreased by USD 127 million to USD 730 million due to lower client activity.

Total operating expenses decreased by USD 6 million to USD 3,369 million and adjusted operating expenses decreased by USD 27 million to USD 3,297 million. This was mainly due to USD 65 million lower net expenses for provisions for litigation, regulatory and similar matters and other provisions, and USD 13 million lower adjusted net expenses for services from other business divisions and Corporate Center. This was partly offset by USD 44 million higher adjusted personnel expenses, mainly due to increased expenses for compensation commitments and higher salaries and other personnel costs, reflecting the recruitment of financial advisors, as well as initial expenses associated with the transition to a new health care benefit plan. This was partly offset by lower financial advisor compensation due to lower compensable revenues.

Wealth Management Americas – in Swiss francs¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|--------------------------------|--------------|--------------|---------------|-----------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Net interest income | 348 | 349 | 282 | 0 | 23 | 698 | 545 |
| Recurring net fee income ² | 1,163 | 1,176 | 1,140 | (1) | 2 | 2,339 | 2,263 |
| Transaction-based income ² | 360 | 360 | 398 | 0 | (10) | 720 | 807 |
| Other income | 8 | 6 | 3 | 33 | 167 | 14 | 8 |
| Income | 1,880 | 1,891 | 1,823 | (1) | 3 | 3,771 | 3,624 |
| Credit loss (expense)/recovery | (1) | (1) | 0 | 0 | | (2) | 0 |
| Total operating income | 1,879 | 1,889 | 1,823 | (1) | 3 | 3,769 | 3,624 |
| Personnel expenses | 1,195 | 1,202 | 1,122 | (1) | 7 | 2,398 | 2,245 |
| Financial advisor compensation ³ | 707 | 711 | 702 | (1) | 1 | 1,418 | 1,396 |
| Compensation commitments with recruited financial advisors ⁴ | 204 | 198 | 176 | 3 | 16 | 402 | 353 |
| Salaries and other personnel costs | 284 | 293 | 244 | (3) | 16 | 577 | 497 |
| General and administrative expenses | 134 | 144 | 199 | (7) | (33) | 277 | 319 |
| Services (to)/from other business divisions and Corporate Center | 300 | 318 | 297 | (6) | 1 | 618 | 589 |
| of which: services from CC – Services | 297 | 315 | 293 | (6) | 1 | 611 | 583 |
| Depreciation and impairment of property, equipment and software | 0 | 0 | 1 | | (100) | 1 | 1 |
| Amortization and impairment of intangible assets | 13 | 13 | 12 | 0 | 8 | 26 | 25 |
| Total operating expenses⁵ | 1,643 | 1,678 | 1,631 | (2) | 1 | 3,320 | 3,179 |
| Business division operating profit/(loss) before tax | 237 | 211 | 191 | 12 | 24 | 448 | 445 |
| Adjusted results⁶ | | | | | | | |
| Total operating income as reported | 1,879 | 1,889 | 1,823 | (1) | 3 | 3,769 | 3,624 |
| Total operating income (adjusted) | 1,879 | 1,889 | 1,823 | (1) | 3 | 3,769 | 3,624 |
| Total operating expenses as reported | 1,643 | 1,678 | 1,631 | (2) | 1 | 3,320 | 3,179 |
| of which: personnel-related restructuring expenses | 5 | 0 | 0 | | | 5 | 0 |
| of which: non-personnel-related restructuring expenses | 0 | 0 | 0 | | | 0 | 0 |
| of which: restructuring expenses allocated from CC – Services | 33 | 33 | 24 | | | 66 | 48 |
| Total operating expenses (adjusted) | 1,605 | 1,645 | 1,607 | (2) | 0 | 3,249 | 3,131 |
| Business division operating profit/(loss) before tax as reported | 237 | 211 | 191 | 12 | 24 | 448 | 445 |
| Business division operating profit/(loss) before tax (adjusted) | 275 | 244 | 215 | 13 | 28 | 519 | 493 |
| Key performance indicators⁷ | | | | | | | |
| Pre-tax profit growth (%) | 24.1 | (16.6) | (9.5) | | | 0.7 | (1.8) |
| Cost/income ratio (%) | 87.4 | 88.7 | 89.5 | | | 88.0 | 87.7 |
| Net new money growth (%) | 0.9 | 5.3 | (0.3) | | | 3.1 | 0.8 |
| Gross margin on invested assets (bps) | 73 | 74 | 73 | (1) | 0 | 73 | 72 |
| Net margin on invested assets (bps) | 9 | 8 | 8 | 13 | 13 | 9 | 9 |
| Adjusted key performance indicators⁷ | | | | | | | |
| Pre-tax profit growth (%) | 27.9 | (11.9) | (1.4) | | | 5.3 | 4.7 |
| Cost/income ratio (%) | 85.4 | 87.0 | 88.2 | | | 86.2 | 86.4 |
| Net new money growth (%) | 0.9 | 5.3 | (0.3) | | | 3.1 | 0.8 |
| Gross margin on invested assets (bps) | 73 | 74 | 73 | (1) | 0 | 73 | 72 |
| Net margin on invested assets (bps) | 11 | 10 | 9 | 10 | 22 | 10 | 10 |

Wealth Management Americas – in Swiss francs¹ (continued)

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Additional information | | | | | | | |
| Recurring income ⁸ | 1,512 | 1,525 | 1,422 | (1) | 6 | 3,037 | 2,808 |
| Recurring income as a percentage of income (%) | 80.4 | 80.6 | 78.0 | | | 80.5 | 77.5 |
| Average attributed equity (CHF billion) ⁹ | 2.5 | 2.5 | 2.4 | 0 | 4 | 2.5 | 2.4 |
| Return on attributed equity (%) | 37.9 | 33.8 | 31.8 | | | 35.8 | 37.1 |
| Risk-weighted assets (fully applied, CHF billion) ¹⁰ | 22.6 | 22.1 | 21.5 | 2 | 5 | 22.6 | 21.5 |
| Return on risk-weighted assets, gross (%) ¹¹ | 33.6 | 34.4 | 33.7 | | | 34.0 | 33.4 |
| Leverage ratio denominator (fully applied, CHF billion) ¹² | 63.7 | 60.9 | 56.8 | 5 | 12 | 63.7 | 56.8 |
| Goodwill and intangible assets (CHF billion) | 3.6 | 3.6 | 3.5 | 0 | 3 | 3.6 | 3.5 |
| Net new money (CHF billion) | 2.3 | 13.6 | (0.7) | | | 15.9 | 3.9 |
| Net new money including interest and dividend income (CHF billion) ¹³ | 8.2 | 19.1 | 4.8 | | | 27.3 | 14.6 |
| Invested assets (CHF billion) | 1,053 | 1,009 | 977 | 4 | 8 | 1,053 | 977 |
| Client assets (CHF billion) | 1,101 | 1,056 | 1,028 | 4 | 7 | 1,101 | 1,028 |
| Loans, gross (CHF billion) | 48.9 | 46.8 | 44.2 | 4 | 11 | 48.9 | 44.2 |
| Due to customers (CHF billion) | 83.0 | 83.2 | 68.6 | 0 | 21 | 83.0 | 68.6 |
| Recruitment loans to financial advisors | 3,161 | 3,128 | 2,668 | 1 | 18 | 3,161 | 2,668 |
| Other loans to financial advisors | 490 | 522 | 425 | (6) | 15 | 490 | 425 |
| Personnel (full-time equivalents) | 13,643 | 13,682 | 13,235 | 0 | 3 | 13,643 | 13,235 |
| Financial advisors (full-time equivalents) | 7,116 | 7,145 | 6,948 | 0 | 2 | 7,116 | 6,948 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Refer to "Operating income" in the "Group performance" section of our Annual Report 2015 for the definitions of recurring net fee income and transaction-based income. ³ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, assets and other variables. ⁴ Compensation commitments with recruited financial advisors represents expenses related to compensation commitments granted to financial advisors at the time of recruitment which are subject to vesting requirements. ⁵ Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ⁶ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁷ Refer to the "Measurement of performance" section of our Annual Report 2015 for the definitions of our key performance indicators. ⁸ Recurring income consists of net interest income and recurring net fee income. ⁹ Refer to the "Capital management" section of this report for more information. ¹⁰ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ¹¹ Based on fully applied risk-weighted assets. ¹² Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ¹³ Presented in line with historical reporting practice in the US market.

Personal & Corporate Banking

Personal & Corporate Banking¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|--------------------------------|------------|------------|---------------|------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Net interest income | 558 | 560 | 560 | 0 | 0 | 1,117 | 1,128 |
| Recurring net fee income ² | 140 | 139 | 135 | 1 | 4 | 279 | 269 |
| Transaction-based income ² | 254 | 244 | 241 | 4 | 5 | 498 | 525 |
| Other income | 131 | 20 | 21 | 555 | 524 | 151 | 35 |
| Income | 1,083 | 963 | 956 | 12 | 13 | 2,046 | 1,956 |
| Credit loss (expense) / recovery | 2 | 0 | (4) | | | 2 | (25) |
| Total operating income | 1,085 | 963 | 952 | 13 | 14 | 2,048 | 1,931 |
| Personnel expenses | 212 | 213 | 221 | 0 | (4) | 425 | 447 |
| General and administrative expenses | 60 | 61 | 64 | (2) | (6) | 121 | 117 |
| Services (to) / from other business divisions and Corporate Center | 274 | 287 | 265 | (5) | 3 | 561 | 534 |
| <i>of which: services from CC – Services</i> | <i>298</i> | <i>311</i> | <i>292</i> | <i>(4)</i> | <i>2</i> | <i>609</i> | <i>584</i> |
| Depreciation and impairment of property, equipment and software | 4 | 4 | 4 | 0 | 0 | 8 | 8 |
| Amortization and impairment of intangible assets | 0 | 0 | 0 | | | 0 | 0 |
| Total operating expenses³ | 551 | 564 | 555 | (2) | (1) | 1,115 | 1,106 |
| Business division operating profit / (loss) before tax | 534 | 399 | 397 | 34 | 35 | 933 | 824 |
| Adjusted results⁴ | | | | | | | |
| Total operating income as reported | 1,085 | 963 | 952 | 13 | 14 | 2,048 | 1,931 |
| <i>of which: gain on sale of investment in Visa Europe</i> | <i>102</i> | | | | | <i>102</i> | |
| Total operating income (adjusted) | 983 | 963 | 952 | 2 | 3 | 1,946 | 1,931 |
| Total operating expenses as reported | 551 | 564 | 555 | (2) | (1) | 1,115 | 1,106 |
| <i>of which: personnel-related restructuring expenses</i> | <i>1</i> | <i>0</i> | <i>0</i> | | | <i>1</i> | <i>1</i> |
| <i>of which: non-personnel-related restructuring expenses</i> | <i>0</i> | <i>0</i> | <i>0</i> | | | <i>0</i> | <i>0</i> |
| <i>of which: restructuring expenses allocated from CC – Services</i> | <i>30</i> | <i>23</i> | <i>16</i> | | | <i>54</i> | <i>32</i> |
| Total operating expenses (adjusted) | 520 | 541 | 538 | (4) | (3) | 1,060 | 1,073 |
| Business division operating profit / (loss) before tax as reported | 534 | 399 | 397 | 34 | 35 | 933 | 824 |
| Business division operating profit / (loss) before tax (adjusted) | 463 | 422 | 414 | 10 | 12 | 886 | 857 |
| Key performance indicators⁵ | | | | | | | |
| Pre-tax profit growth (%) | 34.5 | (6.6) | 12.1 | | | 13.2 | 11.4 |
| Cost / income ratio (%) | 50.9 | 58.6 | 58.1 | | | 54.5 | 56.5 |
| Net interest margin (bps) | 165 | 166 | 164 | (1) | 1 | 165 | 165 |
| Net new business volume growth for personal banking (%) | 3.0 | 4.9 | 3.1 | | | 3.9 | 3.2 |
| Adjusted key performance indicators⁵ | | | | | | | |
| Pre-tax profit growth (%) | 11.8 | (4.7) | 12.8 | | | 3.4 | 11.7 |
| Cost / income ratio (%) | 53.0 | 56.2 | 56.3 | | | 54.5 | 54.9 |
| Net interest margin (bps) | 165 | 166 | 164 | (1) | 1 | 165 | 165 |
| Net new business volume growth for personal banking (%) | 3.0 | 4.9 | 3.1 | | | 3.9 | 3.2 |

Personal & Corporate Banking¹ (continued)

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Additional information | | | | | | | |
| Average attributed equity (CHF billion) ⁶ | 4.0 | 4.1 | 3.9 | (2) | 3 | 4.1 | 4.0 |
| Return on attributed equity (%) | 53.4 | 38.9 | 40.7 | | | 46.1 | 41.7 |
| Risk-weighted assets (fully applied, CHF billion) ⁷ | 36.9 | 36.9 | 34.7 | 0 | 6 | 36.9 | 34.7 |
| Return on risk-weighted assets, gross (%) ⁸ | 11.7 | 10.8 | 11.0 | | | 11.3 | 11.4 |
| Leverage ratio denominator (fully applied, CHF billion) ⁹ | 152.8 | 152.2 | 162.4 | 0 | (6) | 152.8 | 162.4 |
| Goodwill and intangible assets (CHF billion) | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 |
| Business volume for personal banking (CHF billion) | 148 | 148 | 144 | 0 | 3 | 148 | 144 |
| Net new business volume for personal banking (CHF billion) | 1.1 | 1.8 | 1.1 | | | 2.9 | 2.3 |
| Client assets (CHF billion) | 442 | 440 | 435 | 0 | 2 | 442 | 435 |
| Due to customers (CHF billion) | 132.7 | 133.5 | 129.4 | (1) | 3 | 132.7 | 129.4 |
| Loans, gross (CHF billion) | 134.8 | 135.0 | 135.8 | 0 | (1) | 134.8 | 135.8 |
| Secured loan portfolio as a percentage of total loan portfolio, gross (%) | 93.1 | 93.1 | 93.4 | | | 93.1 | 93.4 |
| Impaired loan portfolio as a percentage of total loan portfolio, gross (%) ¹⁰ | 0.6 | 0.7 | 0.7 | | | 0.6 | 0.7 |
| Personnel (full-time equivalents) | 5,035 | 5,092 | 5,086 | (1) | (1) | 5,035 | 5,086 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Refer to "Operating income" in the "Group performance" section of our Annual Report 2015 for the definitions of recurring net fee income and transaction-based income. ³ Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ⁴ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁵ Refer to the "Measurement of performance" section of our Annual Report 2015 for the definitions of our key performance indicators. ⁶ Refer to the "Capital management" section of this report for more information. ⁷ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁸ Based on fully applied risk-weighted assets. ⁹ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ¹⁰ Refer to the "Risk management and control" section of this report for more information on impaired loan exposures.

Results: 2Q16 vs 2Q15

Profit before tax increased by CHF 137 million to CHF 534 million and adjusted profit before tax increased by CHF 49 million to CHF 463 million, reflecting higher operating income and lower operating expenses.

Operating income

Total operating income increased by CHF 133 million to CHF 1,085 million, mainly as the second quarter of 2016 included a gain of CHF 102 million on the sale of our investment in Visa Europe. Excluding this gain, adjusted operating income increased by CHF 31 million to CHF 983 million.

Net interest income decreased by CHF 2 million to CHF 558 million, due to lower allocations from Corporate Center – Group Asset and Liability Management (Group ALM) and lower deposit-related income driven by the adverse effect of persistently low interest rates on our replication portfolios, largely offset by higher loan-related income.

Recurring net fee income increased by CHF 5 million to CHF 140 million, mainly reflecting higher account-keeping fees.

Transaction-based income increased by CHF 13 million to CHF 254 million, mainly due to higher allocations from Group ALM as well as a higher level of foreign exchange transactions.

Other income increased by CHF 110 million to CHF 131 million, predominantly reflecting the aforementioned gain on the sale of our investment in Visa Europe.

Operating expenses

Total operating expenses decreased by CHF 4 million to CHF 551 million and adjusted operating expenses decreased by CHF 18 million to CHF 520 million. The decrease in adjusted operating expenses was due to a CHF 10 million decrease in adjusted personnel expenses driven by a reduction in pension-related costs, CHF 4 million lower general and administrative expenses, mostly related to lower net provision expenses, and CHF 5 million lower adjusted expenses for services from other business divisions and Corporate Center, reflecting lower expenses from Group Technology.

Net new business volume growth for personal banking

The annualized net new business volume growth rate for our personal banking business was 3.0% compared with 3.1% in the second quarter of 2015. Net new client assets and, to a lesser extent, net new loans, were positive, in line with our strategy to grow our high-quality loans business moderately and selectively.

Personnel: 2Q16 vs 1Q16

Personal & Corporate Banking employed 5,035 personnel as of 30 June 2016, a decrease of 57 compared with 5,092 as of 31 March 2016, mainly reflecting seasonality.

Results: 6M16 vs 6M15

Profit before tax increased by CHF 109 million to CHF 933 million. Excluding the CHF 102 million gain related to the sale of our investment in Visa Europe and net restructuring expenses, adjusted profit before tax increased by CHF 29 million to CHF 886 million, reflecting higher operating income and lower operating expenses.

Total operating income increased by CHF 117 million to CHF 2,048 million. Excluding the aforementioned gain related to the sale of our investment in Visa Europe, adjusted operating income increased by CHF 15 million to CHF 1,946 million, primarily reflecting lower credit loss expenses, partly offset by lower transaction-based income. Net interest income decreased by CHF 11 million to CHF 1,117 million, mainly reflecting lower allocations from Group ALM and lower deposit-related income driven by the adverse effect of persistently low interest rates on our replication portfolios, largely offset by higher loan-related income. Recurring net fee income increased by CHF 10 million to CHF 279 million, mainly reflecting higher account-keeping fees. Transaction-based income decreased by CHF 27 million to CHF 498 million, partly as the first half of 2015 included gains as a result of hedge ineffectiveness, following the Swiss National Bank's actions in January 2015. Moreover, income from foreign exchange trading decreased as the prior year benefited from higher client activity following the SNB's actions. Other income increased by CHF 116 million to CHF 151 million, mainly reflecting the aforementioned gain on the sale of our investment in Visa Europe as well as higher income from non-asset-based products. Net credit loss recovery was CHF 2 million compared with a net expense of CHF 25 million. In the first half of 2016, net recoveries related to previously impaired positions were largely offset by expenses for allowances for newly impaired positions. In the prior year, credit loss expenses mainly related to expenses for allowances for newly impaired positions.

Total operating expenses increased by CHF 9 million to CHF 1,115 million and adjusted operating expenses decreased by CHF 13 million to CHF 1,060 million, driven by CHF 22 million lower personnel expenses, reflecting a decrease in pension-related costs and lower variable compensation expenses.

Asset Management

Asset Management¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|------------|------------|---------------|-------------|--------------|------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Net management fees ² | 458 | 446 | 456 | 3 | 0 | 904 | 900 |
| Performance fees | 24 | 23 | 20 | 4 | 20 | 47 | 87 |
| Total operating income | 483 | 468 | 476 | 3 | 1 | 951 | 987 |
| Personnel expenses | 184 | 183 | 175 | 1 | 5 | 367 | 342 |
| General and administrative expenses | 58 | 57 | 55 | 2 | 5 | 115 | 110 |
| Services (to)/from other business divisions and Corporate Center | 125 | 137 | 114 | (9) | 10 | 262 | 233 |
| <i>of which: services from CC – Services</i> | <i>132</i> | <i>142</i> | <i>118</i> | <i>(7)</i> | <i>12</i> | <i>275</i> | <i>241</i> |
| Depreciation and impairment of property, equipment and software | 0 | 0 | 0 | | | 1 | 1 |
| Amortization and impairment of intangible assets | 1 | 1 | 1 | 0 | 0 | 2 | 3 |
| Total operating expenses³ | 369 | 378 | 346 | (2) | 7 | 747 | 688 |
| Business division operating profit/(loss) before tax | 114 | 90 | 130 | 27 | (12) | 204 | 299 |

Adjusted results⁴

| | | | | | | | |
|---|------------|------------|------------|------------|-------------|------------|------------|
| Total operating income as reported | 483 | 468 | 476 | 3 | 1 | 951 | 987 |
| Total operating income (adjusted) | 483 | 468 | 476 | 3 | 1 | 951 | 987 |
| Total operating expenses as reported | 369 | 378 | 346 | (2) | 7 | 747 | 688 |
| <i>of which: personnel-related restructuring expenses</i> | <i>4</i> | <i>1</i> | <i>0</i> | | | <i>5</i> | <i>0</i> |
| <i>of which: non-personnel-related restructuring expenses</i> | <i>6</i> | <i>2</i> | <i>0</i> | | | <i>8</i> | <i>0</i> |
| <i>of which: restructuring expenses allocated from CC – Services</i> | <i>24</i> | <i>17</i> | <i>4</i> | | | <i>41</i> | <i>21</i> |
| Total operating expenses (adjusted) | 335 | 358 | 342 | (6) | (2) | 693 | 666 |
| Business division operating profit/(loss) before tax as reported | 114 | 90 | 130 | 27 | (12) | 204 | 299 |
| Business division operating profit/(loss) before tax (adjusted) | 148 | 110 | 134 | 35 | 10 | 258 | 321 |

Key performance indicators⁵

| | | | | | | | |
|---|--------|--------|------|----|------|--------|------|
| Pre-tax profit growth (%) | (12.3) | (46.4) | 23.8 | | | (31.8) | 31.1 |
| Cost/income ratio (%) | 76.4 | 80.8 | 72.7 | | | 78.5 | 69.7 |
| Net new money growth excluding money market flows (%) | (6.2) | (4.0) | 5.5 | | | (5.0) | 5.3 |
| Gross margin on invested assets (bps) | 31 | 29 | 29 | 7 | 7 | 30 | 30 |
| Net margin on invested assets (bps) | 7 | 6 | 8 | 17 | (13) | 6 | 9 |

Adjusted key performance indicators⁵

| | | | | | | | |
|---|-------|--------|------|----|----|--------|------|
| Pre-tax profit growth (%) | 10.4 | (40.9) | 25.2 | | | (19.6) | 37.2 |
| Cost/income ratio (%) | 69.4 | 76.5 | 71.8 | | | 72.9 | 67.5 |
| Net new money growth excluding money market flows (%) | (6.2) | (4.0) | 5.5 | | | (5.0) | 5.3 |
| Gross margin on invested assets (bps) | 31 | 29 | 29 | 7 | 7 | 30 | 30 |
| Net margin on invested assets (bps) | 9 | 7 | 8 | 29 | 13 | 8 | 10 |

Information by business line

| Operating income | | | | | | | |
|-----------------------------------|------------|------------|------------|----------|----------|------------|------------|
| Equities, Multi Asset & O'Connor | 220 | 221 | 215 | 0 | 2 | 440 | 454 |
| Fixed Income | 75 | 72 | 73 | 4 | 3 | 147 | 145 |
| Global Real Estate | 114 | 108 | 92 | 6 | 24 | 223 | 185 |
| Infrastructure and Private Equity | 16 | 15 | 15 | 7 | 7 | 31 | 29 |
| Solutions | 26 | 23 | 29 | 13 | (10) | 49 | 74 |
| Fund Services | 31 | 30 | 51 | 3 | (39) | 62 | 99 |
| Total operating income | 483 | 468 | 476 | 3 | 1 | 951 | 987 |

Asset Management¹ (continued)

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|--------------------------------|--------------|------------|---------------|------------|---------------|-------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Gross margin on invested assets (bps) | | | | | | | |
| Equities, Multi Asset & O'Connor | 28 | 28 | 25 | 0 | 12 | 28 | 26 |
| Fixed Income | 15 | 14 | 14 | 7 | 7 | 14 | 14 |
| Global Real Estate | 85 | 82 | 78 | 4 | 9 | 84 | 79 |
| Infrastructure and Private Equity | 71 | 63 | 67 | 13 | 6 | 67 | 64 |
| Solutions | 20 | 18 | 24 | 11 | (17) | 19 | 31 |
| Total gross margin | 31 | 29 | 29 | 7 | 7 | 30 | 30 |
| Net new money (CHF billion) | | | | | | | |
| Equities, Multi Asset & O'Connor | (2.9) | (0.5) | 4.1 | | | (3.4) | 7.0 |
| Fixed Income | (4.4) | (3.8) | 2.4 | | | (8.2) | 1.4 |
| Global Real Estate | 0.7 | 0.5 | 1.3 | | | 1.2 | 1.8 |
| Infrastructure and Private Equity | (0.3) | (0.2) | 0.1 | | | (0.5) | 0.1 |
| Solutions | (0.8) | 1.1 | 1.1 | | | 0.2 | 3.8 |
| Total net new money | (7.7) | (2.9) | 9.0 | | | (10.6) | 14.1 |
| Net new money excluding money market flows | (8.8) | (5.9) | 8.3 | | | (14.7) | 15.8 |
| of which: from third parties | (5.9) | (4.5) | 5.3 | | | (10.4) | 7.8 |
| of which: from UBS's wealth management businesses | (2.9) | (1.4) | 3.0 | | | (4.3) | 8.0 |
| Money market flows | 1.1 | 3.0 | 0.7 | | | 4.1 | (1.7) |
| of which: from third parties | 1.8 | 2.2 | 1.7 | | | 4.1 | 0.5 |
| of which: from UBS's wealth management businesses | (0.7) | 0.8 | (1.0) | | | 0.0 | (2.2) |
| Invested assets (CHF billion) | | | | | | | |
| Equities, Multi Asset & O'Connor | 313 | 311 | 340 | 1 | (8) | 313 | 340 |
| Fixed Income | 204 | 204 | 205 | 0 | 0 | 204 | 205 |
| Global Real Estate | 54 | 53 | 47 | 2 | 15 | 54 | 47 |
| Infrastructure and Private Equity | 9 | 9 | 9 | 0 | 0 | 9 | 9 |
| Solutions | 52 | 51 | 48 | 2 | 8 | 52 | 48 |
| Total invested assets | 633 | 628 | 650 | 1 | (3) | 633 | 650 |
| of which: excluding money market funds | 572 | 568 | 592 | 1 | (3) | 572 | 592 |
| of which: money market funds | 61 | 60 | 58 | 2 | 5 | 61 | 58 |
| Assets under administration by Fund Services | | | | | | | |
| Assets under administration (CHF billion) ⁶ | 417 | 407 | 520 | 2 | (20) | 417 | 520 |
| Net new assets under administration (CHF billion) ⁷ | 2.5 | 7.8 | 11.6 | | | 10.3 | 17.3 |
| Gross margin on assets under administration (bps) | 3 | 3 | 4 | 0 | (25) | 3 | 4 |
| Additional information | | | | | | | |
| Average attributed equity (CHF billion) ⁸ | 1.4 | 1.4 | 1.6 | 0 | (13) | 1.4 | 1.7 |
| Return on attributed equity (%) | 32.6 | 25.7 | 32.5 | | | 29.1 | 36.2 |
| Risk-weighted assets (fully applied, CHF billion) ⁹ | 2.4 | 2.4 | 3.4 | 0 | (29) | 2.4 | 3.4 |
| Return on risk-weighted assets, gross (%) ¹⁰ | 80.5 | 74.9 | 55.2 | | | 77.6 | 55.6 |
| Leverage ratio denominator (fully applied, CHF billion) ¹¹ | 2.6 | 2.5 | 14.2 | 4 | (82) | 2.6 | 14.2 |
| Goodwill and intangible assets (CHF billion) | 1.4 | 1.4 | 1.3 | 0 | 8 | 1.4 | 1.3 |
| Personnel (full-time equivalents) | 2,340 | 2,329 | 2,434 | 0 | (4) | 2,340 | 2,434 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Net management fees include transaction fees, fund administration revenues (including net interest and trading income from lending activities and foreign exchange hedging as part of the fund services offering), gains or losses from seed money and co-investments, funding costs, gains and losses on the sale of subsidiaries and businesses and other items that are not performance fees. ³ Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ⁴ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁵ Refer to the "Measurement of performance" section of our Annual Report 2015 for the definitions of our key performance indicators. ⁶ Includes UBS and third-party fund assets, for which the fund services unit provides professional services, including fund setup, accounting and reporting for traditional investment funds and alternative funds. ⁷ Inflows of assets under administration from new and existing funds less outflows from existing funds or fund exits. ⁸ Refer to the "Capital management" section of this report for more information. ⁹ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ¹⁰ Based on fully applied risk-weighted assets. ¹¹ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable.

Results: 2Q16 vs 2Q15

Profit before tax was CHF 114 million compared with CHF 130 million and adjusted profit before tax was CHF 148 million compared with CHF 134 million.

Operating income

Total operating income was CHF 483 million compared with CHF 476 million. Net management fees were largely unchanged at CHF 458 million. Higher revenues in Global Real Estate, driven by higher invested asset levels, were offset by lower Fund Services revenues, following the sale of our Alternative Fund Services (AFS) business in the fourth quarter of 2015. Performance fees increased by CHF 4 million to CHF 24 million, mainly in Global Real Estate.

Approximately 1% of performance fee-eligible assets of our hedge fund businesses, which are reported within Equities, Multi Asset & O'Connor and Solutions, exceeded high-water marks as of 30 June 2016 compared with 59% as of 30 June 2015, reflecting continued challenging market conditions.

Operating expenses

Total operating expenses increased by CHF 23 million to CHF 369 million and adjusted operating expenses decreased by CHF 7 million to CHF 335 million. Adjusted personnel expenses increased by CHF 5 million, mainly due to higher salary costs as a result of increased staffing levels in Traditional Investments and Global Real Estate, partly offset by a decrease due to the aforementioned sale of AFS. This was more than offset by CHF 9 million lower adjusted expenses for services from other business divisions and Corporate Center.

Net new money

Excluding money market flows, net new money outflows were CHF 8.8 billion compared with net inflows of CHF 8.3 billion in the same quarter of the prior year, which resulted in an annualized net new money growth rate of negative 6.2% compared with positive 5.5%. Net new money outflows were mainly driven by asset allocation shifts, including from active to passive invest-

ments, and clients' liquidity needs. By client segment, net outflows from third parties were CHF 5.9 billion compared with net inflows of CHF 5.3 billion. Net outflows from clients of UBS's wealth management businesses were CHF 2.9 billion compared with net inflows of CHF 3.0 billion, mainly from fixed income and multi-assets.

Money market net inflows were CHF 1.1 billion compared with CHF 0.7 billion in the same quarter of the prior year. By client segment, net inflows from third parties were CHF 1.8 billion compared with CHF 1.7 billion, mainly from clients serviced from the Americas. Net outflows from clients of UBS's wealth management businesses were CHF 0.7 billion compared with CHF 1.0 billion, mainly from clients serviced from the Americas and Europe.

In the first quarter of 2016, net new money outflows were CHF 5.9 billion excluding money market flows and included a CHF 7.2 billion pricing-related outflow from one client and CHF 3.8 billion of outflows driven by client liquidity needs, both from lower-margin passive products.

Invested assets: 2Q16 vs 1Q16

Invested assets increased to CHF 633 billion from CHF 628 billion, due to positive market performance of CHF 8 billion and positive foreign currency translation effects of CHF 5 billion, offset by total net new money outflows of CHF 8 billion.

As of 30 June 2016, CHF 189 billion, or 30%, of invested assets were managed in indexed strategies and CHF 61 billion, or 10%, were in money market assets. The remaining 60% of invested assets were managed in active, non-money market strategies. On a regional basis, 35% of invested assets related to clients serviced from Switzerland, 24% from the Americas, 21% from Europe, Middle East and Africa, and 20% from Asia Pacific.

Assets under administration: 2Q16 vs 1Q16

Total assets under administration increased to CHF 417 billion from CHF 407 billion due to positive market performance of CHF 7 billion, net new assets under administration of CHF 2 billion and positive foreign currency translation effects of CHF 1 billion.

Personnel: 2Q16 vs 1Q16

As of 30 June 2016, Asset Management employed 2,340 personnel, broadly unchanged from 31 March 2016.

Compared with 30 June 2015, personnel decreased by 94, reflecting a decline of approximately 280 related to the aforementioned sale of AFS, partly offset by increases in Traditional Investments and Global Real Estate.

Results: 6M16 vs 6M15

Profit before tax was CHF 204 million compared with CHF 299 million. Excluding net restructuring expenses of CHF 54 million

compared with CHF 22 million, adjusted profit before tax was CHF 258 million compared with CHF 321 million.

Total operating income was CHF 951 million compared with CHF 987 million, mainly due to lower performance fees in our hedge fund businesses, and lower net management fees in Fund Services, reflecting the sale of our AFS business, partly offset by higher net management fees in Global Real Estate.

Total operating expenses increased by CHF 59 million to CHF 747 million and adjusted operating expenses increased by CHF 27 million to CHF 693 million. This was mainly due to an increase in adjusted personnel expenses of CHF 20 million, driven by higher salary costs as a result of increased staffing levels, excluding the effect of the aforementioned sale of AFS.

Investment performance as of 30 June 2016

| | Annualized | | |
|--|------------|-----------|-----------|
| | 1 year | 3 years | 5 years |
| Active funds versus benchmark | | | |
| <i>Percentage of fund assets equaling or exceeding benchmark</i> | | | |
| Equities ¹ | 62 | 64 | 66 |
| Fixed income ¹ | 55 | 77 | 72 |
| Multi-asset ¹ | 12 | 38 | 35 |
| Total traditional investments | 42 | 60 | 57 |
| Real estate ² | 15 | 23 | 17 |

Active funds versus peers

| <i>Percentage of fund assets ranking in first or second quartile/equaling or exceeding peer index</i> | | | |
|---|-----------|-----------|-----------|
| Equities ¹ | 72 | 81 | 78 |
| Fixed income ¹ | 72 | 60 | 71 |
| Multi-asset ¹ | 53 | 60 | 72 |
| Total traditional investments | 66 | 66 | 73 |
| Real estate ² | 12 | 71 | 84 |
| Hedge funds ³ | 49 | 74 | 72 |

Passive funds tracking accuracy

| <i>Percentage of passive fund assets within applicable tracking tolerance</i> | | | |
|---|----|----|----|
| All asset classes ⁴ | 83 | 93 | 93 |

¹ Percentage of active fund assets above benchmark (gross of fees)/peer median. Based on the universe of European-domiciled active wholesale funds available to UBS's wealth management businesses and other wholesale intermediaries as of 30 June 2016. Source of comparison versus peers: ThomsonReuters LIM (Lipper Investment Management). Source of comparison versus benchmark: UBS. Universe represents approximately 70% of all active fund assets and 25% of all actively managed assets (including segregated accounts) in these asset classes globally as of 30 June 2016. ² Percentage of real estate fund assets above benchmark (gross of fees)/peer median. Universe (versus benchmark) includes all fully discretionary real estate funds with a benchmark representing approximately 70% of real estate gross invested assets as of 31 March 2016. Source: IPD, NFI-ODCE, SXI Real Estate Funds TR. Universe (versus peers) includes all real estate funds with externally verifiable peer groups representing approximately 23% of real estate gross invested assets as of 31 March 2016. Source: ThomsonReuters LIM (Lipper Investment Management). ³ Percentage of fund assets above appropriate HFRI peer indices. Universe of key hedge funds and fund-of-fund products managed on a fully discretionary basis representing approximately 34% of total O'Connor and Hedge Fund Solutions invested assets. ⁴ Percentage of passive fund assets within applicable tracking tolerance on a gross of fees basis. Performance information represents a universe of European-domiciled institutional and wholesale funds representing approximately 50% of total passive invested assets as of 30 June 2016. Source: UBS.

Investment Bank

Investment Bank¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|--------------------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Corporate Client Solutions | 668 | 474 | 822 | 41 | (19) | 1,142 | 1,601 |
| Advisory | 166 | 132 | 184 | 26 | (10) | 298 | 356 |
| Equity Capital Markets | 195 | 154 | 337 | 27 | (42) | 348 | 643 |
| Debt Capital Markets | 237 | 145 | 180 | 63 | 32 | 382 | 323 |
| Financing Solutions | 98 | 62 | 106 | 58 | (8) | 159 | 225 |
| Risk Management | (27) | (18) | 15 | 50 | | (45) | 54 |
| Investor Client Services | 1,339 | 1,403 | 1,540 | (5) | (13) | 2,742 | 3,417 |
| Equities | 878 | 920 | 1,128 | (5) | (22) | 1,798 | 2,284 |
| Foreign Exchange, Rates and Credit | 461 | 483 | 413 | (5) | 12 | 943 | 1,133 |
| Income | 2,006 | 1,877 | 2,363 | 7 | (15) | 3,883 | 5,018 |
| Credit loss (expense) / recovery | (6) | 2 | (8) | | (25) | (5) | (6) |
| Total operating income | 2,000 | 1,879 | 2,355 | 6 | (15) | 3,879 | 5,012 |
| Personnel expenses | 828 | 728 | 940 | 14 | (12) | 1,555 | 1,948 |
| General and administrative expenses | 192 | 170 | 162 | 13 | 19 | 362 | 351 |
| Services (to) / from other business divisions and Corporate Center | 687 | 718 | 685 | (4) | 0 | 1,405 | 1,366 |
| of which: services from CC – Services | 661 | 691 | 669 | (4) | (1) | 1,352 | 1,336 |
| Depreciation and impairment of property, equipment and software | 6 | 6 | 6 | 0 | 0 | 13 | 13 |
| Amortization and impairment of intangible assets | 3 | 3 | 11 | 0 | (73) | 6 | 18 |
| Total operating expenses² | 1,716 | 1,625 | 1,804 | 6 | (5) | 3,342 | 3,695 |
| Business division operating profit / (loss) before tax | 284 | 253 | 551 | 12 | (48) | 537 | 1,317 |
| Adjusted results³ | | | | | | | |
| Total operating income as reported | 2,000 | 1,879 | 2,355 | 6 | (15) | 3,879 | 5,012 |
| of which: gain on a further partial sale of investment in Markit | | | 11 | | | | 11 |
| Total operating income (adjusted) | 2,000 | 1,879 | 2,344 | 6 | (15) | 3,879 | 5,001 |
| Total operating expenses as reported | 1,716 | 1,625 | 1,804 | 6 | (5) | 3,342 | 3,695 |
| of which: personnel-related restructuring expenses | 37 | 17 | 0 | | | 54 | 2 |
| of which: non-personnel-related restructuring expenses | 4 | 2 | 1 | | | 6 | 3 |
| of which: restructuring expenses allocated from CC – Services | 122 | 97 | 65 | | | 220 | 131 |
| of which: impairment of an intangible asset | | | 11 | | | | 11 |
| Total operating expenses (adjusted) | 1,553 | 1,508 | 1,727 | 3 | (10) | 3,062 | 3,548 |
| Business division operating profit / (loss) before tax as reported | 284 | 253 | 551 | 12 | (48) | 537 | 1,317 |
| Business division operating profit / (loss) before tax (adjusted) | 447 | 370 | 617 | 21 | (28) | 817 | 1,453 |
| Key performance indicators⁴ | | | | | | | |
| Pre-tax profit growth (%) | (48.5) | (67.0) | (2.3) | | | (59.2) | 31.8 |
| Cost / income ratio (%) | 85.5 | 86.6 | 76.3 | | | 86.1 | 73.6 |
| Return on attributed equity (%) ⁵ | 14.8 | 13.1 | 30.2 | | | 13.9 | 36.1 |
| Return on assets, gross (%) | 3.0 | 2.9 | 3.3 | | | 3.0 | 3.5 |
| Average VaR (1-day, 95% confidence, 5 years of historical data) | 9 | 10 | 11 | (10) | (18) | 10 | 12 |
| Adjusted key performance indicators⁴ | | | | | | | |
| Pre-tax profit growth (%) | (27.6) | (55.7) | 12.6 | | | (43.8) | 31.3 |
| Cost / income ratio (%) | 77.4 | 80.3 | 73.4 | | | 78.9 | 70.9 |
| Return on attributed equity (%) ⁵ | 23.2 | 19.2 | 33.8 | | | 21.2 | 39.8 |
| Return on assets, gross (%) | 3.0 | 2.9 | 3.3 | | | 3.0 | 3.4 |
| Average VaR (1-day, 95% confidence, 5 years of historical data) | 9 | 10 | 11 | (10) | (18) | 10 | 12 |

Investment Bank¹ (continued)

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Additional information | | | | | | | |
| Total assets (CHF billion) ⁶ | 282.2 | 256.6 | 263.8 | 10 | 7 | 282.2 | 263.8 |
| Average attributed equity (CHF billion) ⁵ | 7.7 | 7.7 | 7.3 | 0 | 5 | 7.7 | 7.3 |
| Risk-weighted assets (fully applied, CHF billion) ⁷ | 63.8 | 63.4 | 63.3 | 1 | 1 | 63.8 | 63.3 |
| Return on risk-weighted assets, gross (%) ⁸ | 12.6 | 11.9 | 14.8 | | | 12.3 | 15.5 |
| Leverage ratio denominator (fully applied, CHF billion) ⁹ | 267.2 | 262.2 | 289.9 | 2 | (8) | 267.2 | 289.9 |
| Goodwill and intangible assets (CHF billion) | 0.1 | 0.1 | 0.1 | 0 | 0 | 0.1 | 0.1 |
| Compensation ratio (%) | 41.3 | 38.8 | 39.8 | | | 40.0 | 38.8 |
| Impaired loan portfolio as a percentage of total loan portfolio, gross (%) ¹⁰ | 1.4 | 1.7 | 0.2 | | | 1.4 | 0.2 |
| Personnel (full-time equivalents) | 5,014 | 5,218 | 5,192 | (4) | (3) | 5,014 | 5,192 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ³ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁴ Refer to the "Measurement of performance" section of our Annual Report 2015 for the definitions of our key performance indicators. ⁵ Refer to the "Capital management" section of this report for more information. ⁶ Based on third-party view, i.e., without intercompany balances. ⁷ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁸ Based on fully applied risk-weighted assets. ⁹ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ¹⁰ Refer to the "Risk management and control" section of this report for more information on impaired loan exposures.

Results: 2Q16 vs 2Q15

Profit before tax was CHF 284 million compared with CHF 551 million and adjusted profit before tax was CHF 447 million compared with CHF 617 million, mainly as a result of lower revenues in our Equities business and in Corporate Client Solutions, partly offset by lower operating expenses.

Operating income

Total operating income decreased to CHF 2,000 million from CHF 2,355 million. Corporate Client Solutions revenues were CHF 154 million lower, mainly due to lower revenues from public offerings in Equity Capital Markets, as the fee pool decreased 42%. Investor Client Services revenues decreased by CHF 201 million, reflecting lower revenues in our Equities business, partly offset by improved performance in Foreign Exchange, Rates and Credit. Net credit loss expenses remained at a low level. Excluding a gain of CHF 11 million from a partial sale of our investment in the financial information services company Markit in the second quarter of 2015, adjusted operating income decreased to CHF 2,000 million from CHF 2,344 million. In US dollar terms, adjusted operating income decreased 18%.

Operating income by business unit:**Corporate Client Solutions**

Corporate Client Solutions revenues decreased to CHF 668 million from CHF 822 million, mainly due to lower revenues in Equity

Capital Markets and Risk Management, partly offset by higher revenues in Debt Capital Markets. In US dollar terms, revenues decreased 22%.

Advisory revenues decreased to CHF 166 million from CHF 184 million, reflecting lower revenues from private transactions, partly offset by increased revenues from merger and acquisition transactions.

Equity Capital Markets revenues decreased to CHF 195 million from a strong CHF 337 million, mainly due to lower revenues from public offerings in Asia Pacific. On a global basis, the fee pool decreased 42%.

Debt Capital Markets revenues increased to CHF 237 million from CHF 180 million, mainly due to higher leveraged finance revenues in the Americas.

Financing Solutions revenues decreased to CHF 98 million from CHF 106 million, reflecting a decline in structured financing revenues.

Risk Management revenues were negative CHF 27 million compared with positive CHF 15 million, largely reflecting tightening credit spreads in the second quarter of 2016.

Investor Client Services

Investor Client Services revenues decreased to CHF 1,339 million from CHF 1,540 million, mainly due to a significant decrease in Equities revenues, partly offset by higher revenues in Foreign Exchange, Rates and Credit. In US dollar terms, revenues decreased 17%.

Equities

Equities revenues decreased to CHF 878 million from CHF 1,128 million with lower revenues across all products, particularly in Asia Pacific. This decrease was partly offset by higher Cash and Financing Services revenues in the Americas.

Cash revenues decreased to CHF 308 million from CHF 345 million, mainly due to lower client activity.

Derivatives revenues decreased to CHF 144 million from CHF 332 million, reflecting lower client activity and weaker trading revenues.

Financing Services revenues decreased to CHF 424 million from CHF 463 million, driven by lower Equity Finance revenues as client activity declined.

Foreign Exchange, Rates and Credit

Foreign Exchange, Rates and Credit revenues increased to CHF 461 million from CHF 413 million.

Revenues in both Foreign Exchange and Rates and Credit increased across the majority of products, reflecting higher client activity and market volatility levels, partly driven by the outcome of the UK referendum on EU membership.

Operating expenses

Total operating expenses decreased to CHF 1,716 million from CHF 1,804 million. Excluding net restructuring expenses of CHF 163 million compared with CHF 66 million and an impairment loss of CHF 11 million on an intangible asset in the prior-year quarter, adjusted operating expenses decreased by CHF 174 million to CHF 1,553 million.

Personnel expenses decreased to CHF 828 million from CHF 940 million. Excluding restructuring expenses of CHF 37 million in the second quarter of 2016, adjusted personnel expenses decreased to CHF 791 million from CHF 940 million, mainly due to lower performance-related variable compensation expenses.

General and administrative expenses increased to CHF 192 million from CHF 162 million. Excluding restructuring expenses of CHF 4 million compared with CHF 1 million, adjusted general and administrative expenses increased to CHF 188 million from CHF 161 million, mainly due to CHF 38 million higher net expenses for provisions for litigation, regulatory and similar matters.

Net expenses for services from other business divisions and Corporate Center increased slightly. Excluding restructuring expenses of CHF 122 million compared with CHF 65 million, adjusted net expenses for services from other business divisions and Corporate Center decreased to CHF 565 million from CHF 620 million, mainly due to lower net expenses from Group Technology.

Risk-weighted assets and leverage ratio denominator: 2Q16 vs 1Q16

Risk-weighted assets

Fully applied risk-weighted assets (RWA) slightly increased to CHF 64 billion as of 30 June 2016 and remained below our short- to medium-term expectation of around CHF 85 billion. The increase was mainly due to CHF 1 billion higher market risk RWA as a result of changes in the risk profile within Equities. Credit risk RWA were stable. A decrease following the application of revised credit conversion factors to off-balance sheet exposures was largely offset by an increase due to higher FINMA multipliers.

→ Refer to the “Capital management” section of this report for more information

Leverage ratio denominator

The fully applied leverage ratio denominator (LRD) increased by CHF 5 billion to CHF 267 billion as of 30 June 2016 and remained below our short- to medium-term expectation of around CHF 325 billion.

→ Refer to the “Capital management” and “Balance sheet, liquidity and funding management” sections of this report for more information

Personnel: 2Q16 vs 1Q16

The Investment Bank employed 5,014 personnel as of 30 June 2016, a decrease of 204 compared with 5,218 as of 31 March 2016, mainly driven by ongoing cost reduction programs.

Results: 6M16 vs 6M15

Profit before tax was CHF 537 million compared with CHF 1,317 million and adjusted profit before tax was CHF 817 million compared with CHF 1,453 million, mainly as a result of lower revenues in both Investor Client Services and Corporate Client Solutions, partly offset by lower operating expenses.

Revenues in Corporate Client Solutions decreased to CHF 1,142 million from CHF 1,601 million. Advisory revenues decreased by CHF 58 million to CHF 298 million, reflecting lower revenues from private transactions. Equity Capital Markets revenues decreased to CHF 348 million from CHF 643 million, reflecting a market fee pool decline of 45%. Debt Capital Markets revenues increased to CHF 382 million from CHF 323 million driven by higher leveraged finance revenues. Financing Solutions revenues decreased to CHF 159 million from CHF 225 million, reflecting subdued client activity and margin compression. Risk Management revenues were negative CHF 45 million compared with positive CHF 54 million, mainly due to tightening credit spreads and as the prior-year period included a gain on a portfolio macro hedge. In US dollar terms, Corporate Client Solutions revenues decreased 32%.

Investor Client Services revenues decreased to CHF 2,742 million from CHF 3,417 million, as revenues in both Equities and Foreign Exchange, Rates and Credit declined. Equities revenues decreased by CHF 486 million to CHF 1,798 million, with lower revenues across all products, particularly in Asia Pacific. This decrease was partly offset by higher revenues across all products in the Americas. Cash revenues decreased to CHF 633 million from CHF 728 million, mainly due to lower commission income, reflecting lower client activity levels. Derivatives revenues decreased to CHF 383 million from CHF 703 million, mainly as a result of lower client activity and weaker trading revenues. Financing Services revenues decreased to CHF 772 million from CHF 871 million, due to lower Equity Finance revenues, notably

in Asia Pacific. Foreign Exchange, Rates and Credit revenues decreased to CHF 943 million from CHF 1,133 million, mainly as the first quarter of 2015 benefited from higher volatility and client activity levels following the Swiss National Bank's actions in January 2015. In US dollar terms, Investor Client Services revenues decreased 23%.

Total operating expenses decreased to CHF 3,342 million from CHF 3,695 million. Excluding net restructuring expenses of CHF 280 million compared with CHF 136 million and an impairment loss on an intangible asset of CHF 11 million in the first half of 2015, adjusted operating expenses decreased to CHF 3,062 million from CHF 3,548 million, mainly due to lower performance-related variable compensation expenses.

Corporate Center

Corporate Center¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Total operating income | 142 | (252) | 131 | | 8 | (110) | 778 |
| Personnel expenses | 975 | 983 | 1,011 | (1) | (4) | 1,959 | 1,999 |
| General and administrative expenses | 1,083 | 1,104 | 1,081 | (2) | 0 | 2,187 | 2,266 |
| Services (to) / from business divisions | (1,952) | (2,043) | (1,895) | (4) | 3 | (3,995) | (3,776) |
| Depreciation and impairment of property, equipment and software | 228 | 232 | 196 | (2) | 16 | 460 | 403 |
| Amortization and impairment of intangible assets | 5 | 5 | 5 | 0 | 0 | 11 | 11 |
| Total operating expenses² | 340 | 282 | 399 | 21 | (15) | 621 | 903 |
| Operating profit/(loss) before tax | (198) | (534) | (267) | (63) | (26) | (731) | (125) |
| Adjusted results³ | | | | | | | |
| Total operating income as reported | 142 | (252) | 131 | | 8 | (110) | 778 |
| of which: own credit | | | 259 | | | | 486 |
| of which: gains on sales of real estate | 120 | | | | | 120 | 378 |
| of which: net foreign currency translation gains/(losses) | (26) | (123) | | | | (149) | |
| Total operating income (adjusted) | 48 | (129) | (128) | | | (81) | (86) |
| Total operating expenses as reported | 340 | 282 | 399 | 21 | (15) | 621 | 903 |
| of which: personnel-related restructuring expenses | 139 | 107 | 92 | | | 246 | 154 |
| of which: non-personnel-related restructuring expenses | 168 | 118 | 70 | | | 287 | 300 |
| of which: restructuring expenses allocated from CC – Services | (282) | (232) | (149) | | | (514) | (312) |
| Total operating expenses (adjusted) | 315 | 288 | 387 | 9 | (19) | 602 | 760 |
| Operating profit/(loss) before tax as reported | (198) | (534) | (267) | (63) | (26) | (731) | (125) |
| Operating profit/(loss) before tax (adjusted) | (267) | (417) | (514) | (36) | (48) | (683) | (846) |
| Additional information | | | | | | | |
| Average attributed equity (CHF billion) ⁴ | 29.6 | 28.7 | 25.9 | 3 | 14 | 29.2 | 26.0 |
| Total assets (CHF billion) ⁵ | 374.4 | 380.8 | 351.0 | (2) | 7 | 374.4 | 351.0 |
| Risk-weighted assets (fully applied, CHF billion) ⁶ | 62.1 | 62.7 | 61.1 | (1) | 2 | 62.1 | 61.1 |
| Leverage ratio denominator (fully applied, CHF billion) ⁷ | 292.6 | 310.6 | 291.4 | (6) | 0 | 292.6 | 291.4 |
| Personnel (full-time equivalents) | 23,925 | 23,894 | 23,443 | 0 | 2 | 23,925 | 23,443 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ³ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁴ Refer to the "Capital management" section of this report for more information. ⁵ Based on third-party view, i.e., without intercompany balances. ⁶ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁷ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable.

Corporate Center – Services

Corporate Center – Services¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Total operating income | 78 | (55) | (41) | | | 23 | 333 |
| Personnel expenses | 947 | 968 | 965 | (2) | (2) | 1,916 | 1,915 |
| General and administrative expenses | 1,016 | 1,042 | 1,027 | (2) | (1) | 2,058 | 2,166 |
| Depreciation and impairment of property, equipment and software | 228 | 232 | 196 | (2) | 16 | 460 | 403 |
| Amortization and impairment of intangible assets | 5 | 5 | 5 | 0 | 0 | 11 | 11 |
| Total operating expenses before allocations to BDs and other CC units | 2,197 | 2,247 | 2,194 | (2) | 0 | 4,444 | 4,495 |
| Services (to) / from business divisions and other CC units | (2,007) | (2,099) | (1,982) | (4) | 1 | (4,106) | (3,946) |
| <i>of which: services to Wealth Management</i> | (545) | (562) | (519) | (3) | 5 | (1,107) | (1,027) |
| <i>of which: services to Wealth Management Americas</i> | (297) | (315) | (293) | (6) | 1 | (611) | (583) |
| <i>of which: services to Personal & Corporate Banking</i> | (298) | (311) | (292) | (4) | 2 | (609) | (584) |
| <i>of which: services to Asset Management</i> | (132) | (142) | (118) | (7) | 12 | (275) | (241) |
| <i>of which: services to Investment Bank</i> | (661) | (691) | (669) | (4) | (1) | (1,352) | (1,336) |
| <i>of which: services to CC – Group ALM</i> | (26) | (29) | (19) | (10) | 37 | (55) | (34) |
| <i>of which: services to CC – Non-core and Legacy Portfolio</i> | (55) | (56) | (79) | (2) | (30) | (111) | (159) |
| Total operating expenses² | 190 | 148 | 212 | 28 | (10) | 338 | 549 |
| Operating profit/(loss) before tax | (113) | (203) | (253) | (44) | (55) | (315) | (217) |
| Adjusted results³ | | | | | | | |
| Total operating income as reported | 78 | (55) | (41) | | | 23 | 333 |
| <i>of which: gains on sales of real estate</i> | 120 | | | | | 120 | 378 |
| Total operating income (adjusted) | (42) | (55) | (41) | (24) | 2 | (97) | (45) |
| Total operating expenses as reported before allocations | 2,197 | 2,247 | 2,194 | (2) | 0 | 4,444 | 4,495 |
| <i>of which: personnel-related restructuring expenses</i> | 139 | 107 | 85 | | | 245 | 146 |
| <i>of which: non-personnel-related restructuring expenses</i> | 168 | 118 | 70 | | | 287 | 300 |
| Total operating expenses (adjusted) before allocations | 1,890 | 2,022 | 2,040 | (7) | (7) | 3,912 | 4,049 |
| Services (to) / from BDs and other CC units | (2,007) | (2,099) | (1,982) | (4) | 1 | (4,106) | (3,946) |
| <i>of which: restructuring expenses allocated to BDs and other CC units</i> | (287) | (233) | (155) | | | (520) | (328) |
| Total operating expenses as reported after allocations | 190 | 148 | 212 | 28 | (10) | 338 | 549 |
| Total operating expenses (adjusted) after allocations | 170 | 156 | 212 | 9 | (20) | 325 | 431 |
| Operating profit/(loss) before tax as reported | (113) | (203) | (253) | (44) | (55) | (315) | (217) |
| Operating profit/(loss) before tax (adjusted) | (213) | (211) | (253) | 1 | (16) | (422) | (477) |
| Additional information | | | | | | | |
| Average attributed equity (CHF billion) ⁴ | 23.2 | 22.2 | 19.7 | 5 | 18 | 22.7 | 19.6 |
| Total assets (CHF billion) ⁵ | 22.3 | 22.2 | 19.3 | 0 | 16 | 22.3 | 19.3 |
| Risk-weighted assets (fully applied, CHF billion) ⁶ | 23.9 | 24.0 | 20.3 | 0 | 18 | 23.9 | 20.3 |
| Leverage ratio denominator (fully applied, CHF billion) ⁷ | 5.1 | 5.1 | 4.8 | 0 | 6 | 5.1 | 4.8 |
| Personnel (full-time equivalents) | 23,721 | 23,695 | 23,221 | 0 | 2 | 23,721 | 23,221 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ³ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁴ Refer to the "Capital management" section of this report for more information. ⁵ Based on third-party view, i.e., without intercompany balances. ⁶ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁷ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable.

Results: 2Q16 vs 2Q15

Corporate Center – Services recorded a loss before tax of CHF 113 million compared with CHF 253 million and on an adjusted basis recorded a loss before tax of CHF 213 million compared with CHF 253 million.

Operating income

Operating income was positive CHF 78 million compared with negative CHF 41 million. Excluding gains on sale of real estate in Switzerland of CHF 120 million, adjusted operating income was negative CHF 42 million compared with negative CHF 41 million and mainly related to funding costs.

Operating expenses

Operating expenses before service allocations to business divisions and other Corporate Center units

On a gross basis before allocations to the business divisions and other Corporate Center units, total operating expenses increased by CHF 3 million to CHF 2,197 million. Excluding net restructuring expenses of CHF 307 million compared with CHF 155 million, adjusted operating expenses before allocations decreased by CHF 149 million to CHF 1,890 million.

Personnel expenses decreased by CHF 18 million to CHF 947 million. On an adjusted basis, excluding net restructuring expenses of CHF 139 million compared with CHF 85 million, personnel expenses decreased by CHF 72 million, mainly as a result of outsourcing, near- and offshoring initiatives and lower pension-related costs. General and administrative expenses decreased by CHF 11 million to CHF 1,016 million and included net restructuring expenses of CHF 169 million compared with CHF 69 million, driven by continued near- and offshoring initiatives and by IT platform optimization costs within Group Technology. Excluding net restructuring expenses, adjusted general and administrative expenses decreased by CHF 111 million, reflecting lower outsourcing and occupancy costs. Depreciation expenses increased to CHF 228 million from CHF 196 million, primarily related to internally generated capitalized software.

Services to/from business divisions and other Corporate Center units

Corporate Center – Services allocated expenses of CHF 2,007 million to the business divisions and other Corporate Center units compared with CHF 1,982 million.

Excluding allocated net restructuring expenses of CHF 287 million compared with CHF 155 million, net allocated expenses for services to business divisions and other Corporate Center units were CHF 1,720 million compared with CHF 1,827 million, mainly reflecting the aforementioned cost reductions.

Operating expenses after service allocations to/from business divisions and other Corporate Center units

Corporate Center – Services retains costs related to Group governance functions and other corporate activities, certain strategic and regulatory projects and certain retained restructuring expenses. Total operating expenses remaining in Corporate Center – Services after allocations decreased to CHF 190 million from CHF 212 million and to CHF 170 million from CHF 212 million on an adjusted basis, mainly due to lower retained costs related to strategic and regulatory projects.

Personnel: 2Q16 vs 1Q16

As of 30 June 2016, Corporate Center – Services employed 23,721 personnel compared with 23,695 as of 31 March 2016, reflecting increases in our near- and offshore locations, partly offset by a reduction in onshore personnel.

Results: 6M16 vs 6M15

Corporate Center – Services recorded a loss before tax of CHF 315 million compared with CHF 217 million and on an adjusted basis recorded a loss before tax of CHF 422 million compared with CHF 477 million.

Total operating income was CHF 23 million compared with CHF 333 million. Excluding gains on sales of real estate of CHF 120 million compared with CHF 378 million, adjusted income was negative CHF 97 million compared with negative CHF 45 million, mainly due to lower income from the investment of the Group's equity allocated from Corporate Center – Group Asset and Liability Management.

On a gross basis before allocations, total operating expenses decreased by CHF 51 million to CHF 4,444 million. Excluding net restructuring expenses of CHF 532 million compared with CHF 446 million, adjusted operating expenses before allocations decreased by CHF 137 million to CHF 3,912 million, mainly reflecting a reduction in personnel expenses, primarily as a result of near- and offshoring initiatives, and a decrease in outsourcing and occupancy costs. These reductions were partly offset by increased depreciation expenses for internally generated capitalized software.

Corporate Center – Services allocated expenses of CHF 4,106 million to the business divisions and other Corporate Center units compared with CHF 3,946 million. Excluding allocated net restructuring expenses of CHF 520 million compared with CHF 328 million, net allocated expenses were CHF 3,586 million compared with CHF 3,618 million, mainly reflecting the aforementioned cost reductions. Total operating expenses remaining in Corporate Center – Services after allocations decreased to CHF 338 million from CHF 549 million mainly as the first half of 2015 included retained real estate restructuring expenses of CHF 112 million. On an adjusted basis, retained expenses decreased to CHF 325 million from CHF 431 million due to lower retained costs for strategic and regulatory projects.

Corporate Center – Group Asset and Liability Management

Corporate Center – Group ALM¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|--------------|--------------|---------------|-------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Business division-aligned risk management net income | 209 | 218 | 208 | (4) | 0 | 427 | 449 |
| Capital investment and issuance net income | 24 | 33 | 55 | (27) | (56) | 57 | 164 |
| Group structural risk management net income | (143) | (101) | (146) | 42 | (2) | (243) | (256) |
| Total risk management net income before allocations | 90 | 151 | 117 | (40) | (23) | 240 | 356 |
| Allocations to business divisions and other CC units | (143) | (168) | (191) | (15) | (25) | (311) | (480) |
| of which: Wealth Management | (101) | (106) | (105) | (5) | (4) | (207) | (236) |
| of which: Wealth Management Americas | (23) | (21) | (29) | 10 | (21) | (44) | (52) |
| of which: Personal & Corporate Banking | (85) | (94) | (88) | (10) | (3) | (180) | (210) |
| of which: Asset Management | (2) | (3) | (4) | (33) | (50) | (5) | (9) |
| of which: Investment Bank | 57 | 59 | 52 | (3) | 10 | 116 | 86 |
| of which: CC – Services | (16) | (21) | (31) | (24) | (48) | (36) | (86) |
| of which: CC – Non-core and Legacy Portfolio | 28 | 18 | 15 | 56 | 87 | 46 | 27 |
| Total risk management net income after allocations | (53) | (17) | (74) | 212 | (28) | (70) | (124) |
| Accounting asymmetries related to economic hedges | 61 | (89) | (58) | | | (28) | (102) |
| Hedge accounting ineffectiveness ² | 11 | 39 | (32) | (72) | | 50 | 134 |
| Other | 52 | 40 | 42 | 30 | 24 | 93 | 57 |
| Total operating income (adjusted)³ | 71 | (27) | (121) | | | 45 | (35) |
| Net foreign currency translation gains / (losses) | (26) | (123) | | | | (149) | |
| Own credit | | | 259 | | | | 486 |
| Total operating income as reported | 45 | (150) | 138 | | (67) | (104) | 451 |
| Personnel expenses | 8 | 8 | 7 | 0 | 14 | 15 | 15 |
| General and administrative expenses | 5 | 3 | 4 | 67 | 25 | 8 | 8 |
| Depreciation and impairment of property, equipment and software | 0 | 0 | 0 | | | 0 | 0 |
| Amortization and impairment of intangible assets | 0 | 0 | 0 | | | 0 | 0 |
| Services (to) / from business divisions and other CC units | (11) | (13) | (5) | (15) | 120 | (23) | (20) |
| Total operating expenses⁴ | 2 | (2) | 7 | | (71) | 0 | 2 |
| Operating profit / (loss) before tax as reported | 44 | (148) | 132 | | (67) | (104) | 449 |
| Operating profit / (loss) before tax (adjusted)³ | 70 | (25) | (127) | | | 45 | (37) |
| Additional information | | | | | | | |
| Average attributed equity (CHF billion) ⁵ | 4.1 | 4.2 | 3.3 | (2) | 24 | 4.2 | 3.4 |
| Total assets (CHF billion) ⁶ | 251.5 | 258.8 | 218.3 | (3) | 15 | 251.5 | 218.3 |
| Risk-weighted assets (fully applied, CHF billion) ⁷ | 6.9 | 7.1 | 9.2 | (3) | (25) | 6.9 | 9.2 |
| Leverage ratio denominator (fully applied, CHF billion) ⁸ | 254.8 | 264.5 | 216.2 | (4) | 18 | 254.8 | 216.2 |
| Personnel (full-time equivalents) | 134 | 127 | 122 | 6 | 10 | 134 | 122 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Does not include ineffectiveness of hedges of net investments in foreign operations. ³ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁴ Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ⁵ Refer to the "Capital management" section of this report for more information. ⁶ Based on third-party view, i.e., without intercompany balances. ⁷ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁸ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable.

Results: 2Q16 vs 2Q15

Corporate Center – Group Asset and Liability Management (Group ALM) recorded a profit before tax of CHF 44 million compared with CHF 132 million and on an adjusted basis recorded a profit before tax of CHF 70 million compared with a loss of CHF 127 million, mainly as a result of accounting asymmetries related to economic hedges.

Operating income

Total operating income decreased to CHF 45 million from CHF 138 million. Excluding a net foreign currency translation loss of CHF 26 million in the second quarter of 2016, as well as an own credit gain of CHF 259 million in the second quarter of 2015, adjusted total operating income retained by Group ALM was positive CHF 71 million compared with negative CHF 121 million. This increase was primarily due to accounting asymmetries related to economic hedges.

→ Refer to the “Corporate Center – Group Asset and Liability Management” section of our first quarter 2016 report for more information on the business activities of Group ALM

Business division-aligned risk management net income

Net income from business division-aligned risk management activities was CHF 209 million compared with CHF 208 million, reflecting an increase in interest rate risk management revenues in the banking book for Wealth Management and Personal & Corporate Banking, offset by lower revenues from the investment of surplus funding from Wealth Management deposits.

Capital investment and issuance net income

Net income from capital investment and issuance activities was CHF 24 million compared with CHF 55 million, mainly due to an increase in net interest expense resulting from issuances over the previous year of additional tier 1 capital and senior unsecured debt that will contribute to our total loss-absorbing capacity (TLAC).

Group structural risk management net income

Net income from Group structural risk management activities was negative CHF 143 million compared with negative CHF 146 million. An increase in income of CHF 78 million from the management of the Group’s high-quality liquid assets (HQLA), mainly due to wider spreads between certain HQLA and internal funding liabilities, was largely offset by an increase in net interest expense of CHF 74 million from issuances of long-term debt over the previous year.

Allocations to business divisions and other Corporate Center units

Combined allocations from risk management activities to business divisions and other Corporate Center units were CHF 143 million compared with CHF 191 million. This primarily reflects the allocation of the aforementioned higher interest expense for issuances of additional tier 1 capital and TLAC instruments, which is fully

allocated to business divisions and other Corporate Center units in proportion to their attributed equity. In addition, cost allocations from Group structural risk management activities increased. This allocation is based on consumption of funding and liquidity risk by the business divisions and other Corporate Center units.

Total risk management net income after allocations

Group ALM retained negative CHF 53 million from its risk management activities after allocations compared with negative CHF 74 million, reflecting the aforementioned increase in cost allocations from Group structural risk management activities.

Retained income from risk management activities is entirely related to Group structural risk management and is mainly the net result of costs from buffers that are maintained by Group ALM at levels above the total consumption of the business divisions and the revenues generated by Group ALM from the management of the Group’s HQLA portfolio relative to the benchmark rates used to allocate the costs. Retained income from risk management activities can vary significantly quarter on quarter. However, under current market conditions, we expect it to average around negative CHF 50 million per quarter in the short term.

Accounting asymmetries related to economic hedges

Net income retained by Group ALM due to accounting asymmetries related to economic hedges was positive CHF 61 million compared with negative CHF 58 million, primarily due to a fair value gain of CHF 95 million on certain internal funding transactions due to the tightening of funding spreads, compared with a loss of CHF 56 million. This was partly offset as the gain related to HQLA classified as available for sale decreased to CHF 17 million from CHF 76 million. The lower magnitude of this asymmetrical result reflects the change applied since the first quarter of 2016 to classify the majority of newly purchased HQLA debt securities as financial assets designated at fair value through profit or loss, instead of classifying them as financial assets available for sale.

→ Refer to the “Corporate Center – Group Asset and Liability Management” section of our first quarter 2016 report for more information on the accounting asymmetry related to financial assets available for sale

Hedge accounting ineffectiveness

Net income related to hedge accounting ineffectiveness on hedge-accounted derivatives was positive CHF 11 million compared with negative CHF 32 million. This ineffectiveness primarily arises from changes in the spread between LIBOR and the overnight index swap rate due to differences in the way these impact the valuation of the hedged items and hedging instruments through either the benchmark rate determining cash flows or the discount rate.

Other

Other net income was CHF 52 million compared with CHF 42 million. This net income mainly relates to interest income retained by Group ALM on behalf of non-controlling interests.

Balance sheet, risk-weighted assets, leverage ratio denominator: 2Q16 vs 1Q16

Balance sheet assets

Balance sheet assets decreased by CHF 7 billion to CHF 251 billion, mainly reflecting a decrease in the net funds transferred to Group ALM by the business divisions.

→ Refer to the “Balance sheet, liquidity and funding management” section of this report for more information

Risk-weighted assets

Fully applied risk-weighted assets were stable at CHF 7 billion as of 30 June 2016.

→ Refer to the “Capital management” section of this report for more information

Leverage ratio denominator

The Swiss SRB leverage ratio denominator decreased to CHF 255 billion from CHF 265 billion, mainly reflecting a decrease in the net funds transferred to Group ALM by the business divisions, as well as a reduction in off-balance sheet exposures.

→ Refer to the “Capital management” section of this report for more information

Results: 6M16 vs 6M15

Group ALM recorded a loss before tax of CHF 104 million compared with a profit before tax of CHF 449 million and on an adjusted basis recorded a profit before tax of CHF 45 million compared with a loss before tax of CHF 37 million.

Total operating income was negative CHF 104 million compared with positive CHF 451 million. Excluding net foreign currency translation losses of CHF 149 million in the first half of 2016 and an own credit gain of CHF 486 million in the first half of 2015, adjusted total operating income was positive CHF 45 million compared with negative CHF 35 million.

Net income from risk management activities before allocations decreased by CHF 116 million to CHF 240 million. This was mainly

due to a decrease in net income from capital investment and issuance activities of CHF 107 million to CHF 57 million, driven by lower revenues from the investment of the Group's equity and by higher interest expenses related to the issuance of capital and TLAC instruments. Revenues related to business division-aligned risk management decreased by CHF 22 million to CHF 427 million, mainly due to a decrease in revenues from investment of surplus funding from Wealth Management deposits.

Net income from Group structural risk management activities was largely unchanged at negative CHF 243 million compared with negative CHF 256 million.

Revenue allocations to business divisions and other Corporate Center units decreased by CHF 169 million to CHF 311 million, mainly due to the aforementioned reductions in capital investment and issuance net income and business division-aligned risk management net income.

Net income after allocations from Group structural risk management improved by CHF 54 million to negative CHF 70 million, mainly due to an increase in revenues from the Group's HQLA portfolios that are retained by Group ALM.

Net income retained by Group ALM due to accounting asymmetries related to economic hedges was negative CHF 28 million compared with negative CHF 102 million. This improvement was mainly due to a fair value gain of CHF 109 million compared with a loss of CHF 87 million on certain internal funding transactions, resulting from the tightening of funding spreads, partly offset by a loss of CHF 91 million compared with a gain of CHF 5 million related to HQLA classified as available for sale.

Net income related to hedge accounting ineffectiveness on hedge-accounted derivatives was CHF 50 million compared with CHF 134 million. This ineffectiveness primarily arises from changes in the spread between LIBOR and the overnight index swap rate due to differences in the way these impact the valuation of the hedged items and hedging instruments through either the benchmark rate determining cash flows or the discount rate.

Other net income was CHF 93 million compared with CHF 57 million and mainly related to interest income retained by Group ALM on behalf of non-controlling interests.

Corporate Center – Non-core and Legacy Portfolio

Corporate Center – Non-core and Legacy Portfolio¹

| CHF million, except where indicated | As of or for the quarter ended | | | % change from | | Year-to-date | |
|--|--------------------------------|--------------|--------------|---------------|-------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Results | | | | | | | |
| Income | 19 | (44) | 35 | | (46) | (26) | (8) |
| Credit loss (expense)/recovery | 0 | (3) | 0 | | | (3) | 2 |
| Total operating income | 19 | (47) | 35 | | (46) | (29) | (6) |
| Personnel expenses | 20 | 7 | 38 | 186 | (47) | 28 | 69 |
| General and administrative expenses | 62 | 60 | 50 | 3 | 24 | 122 | 92 |
| Services (to)/from business divisions and other CC units | 65 | 69 | 92 | (6) | (29) | 134 | 190 |
| <i>of which: services from CC – Services</i> | <i>55</i> | <i>56</i> | <i>79</i> | <i>(2)</i> | <i>(30)</i> | <i>111</i> | <i>159</i> |
| Depreciation and impairment of property, equipment and software | 0 | 0 | 0 | | | 0 | 0 |
| Amortization and impairment of intangible assets | 0 | 0 | 0 | | | 0 | 0 |
| Total operating expenses² | 148 | 135 | 180 | 10 | (18) | 283 | 351 |
| Operating profit/(loss) before tax | (129) | (183) | (145) | (30) | (11) | (312) | (357) |
| Adjusted results³ | | | | | | | |
| Total operating income as reported | 19 | (47) | 35 | | (46) | (29) | (6) |
| Total operating income (adjusted) | 19 | (47) | 35 | | (46) | (29) | (6) |
| Total operating expenses as reported | 148 | 135 | 180 | 10 | (18) | 283 | 351 |
| <i>of which: personnel-related restructuring expenses</i> | <i>0</i> | <i>1</i> | <i>7</i> | | | <i>1</i> | <i>8</i> |
| <i>of which: non-personnel-related restructuring expenses</i> | <i>0</i> | <i>0</i> | <i>0</i> | | | <i>0</i> | <i>0</i> |
| <i>of which: restructuring expenses allocated from CC – Services</i> | <i>5</i> | <i>1</i> | <i>6</i> | | | <i>6</i> | <i>16</i> |
| Total operating expenses (adjusted) | 143 | 133 | 167 | 8 | (14) | 277 | 327 |
| Operating profit/(loss) before tax as reported | (129) | (183) | (145) | (30) | (11) | (312) | (357) |
| Operating profit/(loss) before tax (adjusted) | (124) | (181) | (132) | (31) | (6) | (306) | (333) |
| Additional information | | | | | | | |
| Average attributed equity (CHF billion) ⁴ | 2.3 | 2.3 | 2.9 | 0 | (21) | 2.3 | 3.1 |
| Total assets (CHF billion) ⁵ | 100.5 | 99.8 | 113.4 | 1 | (11) | 100.5 | 113.4 |
| Risk-weighted assets (fully applied, CHF billion) ⁶ | 31.3 | 31.6 | 31.6 | (1) | (1) | 31.3 | 31.6 |
| Leverage ratio denominator (fully applied, CHF billion) ⁷ | 32.7 | 41.1 | 70.4 | (20) | (54) | 32.7 | 70.4 |
| Personnel (full-time equivalents) | 70 | 73 | 101 | (4) | (31) | 70 | 101 |

¹ Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. ² Refer to "Note 18 Changes in organization and disposals" in the "Consolidated financial statements" section of this report for information on restructuring expenses. ³ Adjusted results are non-GAAP financial measures as defined by SEC regulations. ⁴ Refer to the "Capital management" section of this report for more information. ⁵ Based on third-party view, i.e., without intercompany balances. ⁶ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁷ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable.

Results: 2Q16 vs 2Q15

Corporate Center – Non-core and Legacy Portfolio recorded a loss before tax of CHF 129 million compared with CHF 145 million.

Operating income

Total operating income was CHF 19 million compared with CHF 35 million and included valuation gains on financial assets designated at fair value and other fair value gains due to market movements. The second quarter of 2015 included a gain of CHF 57 million related to the settlement of two litigation claims, partly offset by losses related to unwind and novation activities.

Operating expenses

Total operating expenses decreased to CHF 148 million from CHF 180 million, predominantly as net expenses for services from business divisions and other Corporate Center units decreased by CHF 27 million resulting from lower service consumption.

Balance sheet, risk-weighted assets and leverage ratio denominator: 2Q16 vs 1Q16**Balance sheet assets**

Balance sheet assets increased by CHF 1 billion to CHF 101 billion. Positive replacement values (PRVs) increased by CHF 1 billion, mainly related to our over-the-counter (OTC) rates derivative exposures, where the movement was driven by interest rate

movements partly offset by trade terminations and maturities as well as currency movements. Assets classified as Level 3 in the fair value hierarchy totaled CHF 2 billion as of 30 June 2016.

Risk-weighted assets

Risk-weighted assets (RWA) were broadly unchanged at CHF 31 billion.

→ Refer to the “Capital management” section of this report for more information

Leverage ratio denominator

The Swiss SRB leverage ratio denominator decreased to CHF 33 billion from CHF 41 billion, mainly due to a reduction in derivative exposures due to improved netting of long and short written credit derivative positions.

→ Refer to the “Capital management” section of this report for more information

Results: 6M16 vs 6M15

Non-core and Legacy Portfolio recorded a loss before tax of CHF 312 million compared with a loss of CHF 357 million. Operating income was negative CHF 29 million compared with negative CHF 6 million. Operating expenses decreased by CHF 68 million to CHF 283 million, mainly as net expenses for services from business divisions and other Corporate Center units decreased by CHF 56 million.

Composition of Non-core and Legacy Portfolio

An overview of the composition of Non-core and Legacy Portfolio is presented in the table below. The groupings of positions by category and the order in which these are listed are not necessarily

representative of the magnitude of the risks associated with them, nor do the metrics shown in the tables necessarily represent the risk measures used to manage and control these positions.

CHF billion

| Exposure category | Description | RWA ¹ | | Total assets ² | | LRD ³ | |
|---|--|------------------|---------|---------------------------|---------|------------------|---------|
| | | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 |
| Rates (linear) | Consists of linear OTC products (primarily vanilla interest rate, inflation, basis and cross-currency swaps for all major currencies and some emerging markets) and non-linear OTC products (vanilla and structured options). More than 95% of gross PRV is collateralized. Uncollateralized exposures are well diversified across counterparties, of which the majority is rated investment grade. Approximately 50% of gross PRV is due to mature by end-2021. | 4.2 | 3.4 | 62.0 | 60.1 | 12.7 | 14.5 |
| Rates (non-linear) | | 0.6 | 0.9 | 23.0 | 23.8 | 1.8 | 2.7 |
| Credit | Consists primarily of a residual structured credit book that is largely hedged against market risk. The remaining counterparty risk is fully collateralized and diversified across multiple names. The residual structured credit book is expected to materially run off by end-2018. Also includes corporate lending and residual distressed credit positions, with a similar expected run-off profile. | 0.5 | 0.5 | 1.4 | 1.8 | 3.1 | 6.7 |
| Securitizations | Consists primarily of a portfolio of CDS positions referencing ABS assets with related cash and synthetic hedges to mitigate the impact of directional movements. The majority of the remaining positions are expected to run off by end-2018. | 1.0 | 1.3 | 1.4 | 1.5 | 1.5 | 1.6 |
| Auction preferred stock (APS) and auction rate securities (ARSs) | Portfolio of long-dated APS and municipal ARSs. All APS were rated A or above and all ARS exposures were rated Ba1 or above as of 30 June 2016. | 0.8 | 0.8 | 2.6 | 2.6 | 2.6 | 2.6 |
| Muni swaps and options | Swaps and options with US state and local governments. Over 95% of the PRV is with counterparties that were rated investment grade as of 30 June 2016. | 0.4 | 0.5 | 3.4 | 3.3 | 2.6 | 2.4 |
| Other | Exposures to CVA and related hedging activity, as well as a diverse portfolio of smaller positions. | 2.3 | 2.6 | 6.7 | 6.7 | 8.4 | 10.6 |
| Operational risk | Operational risk RWA allocated to Non-core and Legacy Portfolio. | 21.5 | 21.5 | – | – | – | – |
| Total | | 31.3 | 31.6 | 100.5 | 99.8 | 32.7 | 41.1 |

¹ Fully applied and phase-in RWA. ² Total assets of CHF 100.5 billion as of 30 June 2016 (CHF 99.8 billion as of 31 March 2016) include positive replacement values (gross exposure excluding the impact of any counterparty netting) of CHF 84.8 billion (CHF 83.5 billion as of 31 March 2016). ³ Swiss SRB leverage ratio denominator.

Risk, treasury and capital management

Management report

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Risk management and control

This section provides information on key developments during the reporting period and should be read in conjunction with the "Risk management and control" section of our Annual Report 2015.

Credit risk

Overall credit risk exposures were broadly unchanged during the second quarter of 2016 and net credit loss expenses remained low at CHF 7 million. Market volatility remained high during the quarter, particularly in the lead-up to, and following, the UK referendum on EU membership. The high market volatility led to an increase in the level of margin calls within our security-backed lending businesses. Margin calls were largely resolved within the normal process and did not result in any material losses. Our Swiss lending portfolios continued to perform well, although we remain watchful for signs of deterioration in the Swiss economy that could impact some of our counterparties and lead to an increase in credit loss expenses in future periods from the low levels recently observed.

We continue to closely monitor exposures to counterparties in the oil and gas sector. As of 30 June 2016, our total funded and unfunded net banking products exposure to this sector was CHF 5.1 billion, CHF 0.3 billion lower than on 31 March 2016. Net additional allowances of CHF 3 million were recognized against these exposures during the quarter in the Investment Bank, bringing total specific and collective allowances against oil and gas exposures to CHF 59 million. Several counterparties filed for bankruptcy during the second quarter of 2016, but loan loss expectations are still relatively contained provided energy prices do not retrace earlier lows. Using an assumed average oil price of USD 25 per barrel through the end of 2017, we estimate that any additional credit loss expense would be less than CHF 100 million. In arriving at this estimate, we have considered, among other things, the estimated effect of the decline in the value of oil and gas reserves pledged in support of reserve-based loans in the exploration and production segment, assumed higher default rates and lower recoveries for the oil field services segment, and made other significant assumptions. We have not taken into account any broader macroeconomic effects of a prolonged period of depressed energy prices, nor have we considered indirect effects. All of these factors may result in actual losses being materially higher or lower than this estimate, and there can be no certainty over the timing of recognition of actual losses.

After the modest volumes during the first quarter of the year, leveraged loan underwriting activity in the Investment Bank increased. Distribution was sound and included the small number of sub-investment grade deals which had been retained beyond their original targeted distribution date as discussed in our first quarter 2016 report.

Market risk

We continued to manage market risks at low levels, and incurred no significant trading losses during the period of high market volatility around the date of the UK referendum. Average 1-day, 95% confidence level, management value-at-risk (VaR) was largely unchanged at CHF 11 million. With management VaR at such low levels, the measure is relatively volatile and is affected by sizable client trades such as equity block transactions or option expiries. There was one new Group VaR negative backtesting exception in the second quarter of 2016. This brought the total number of negative exceptions within a 250 business day window to nine, increasing the FINMA VaR multiplier for the market risk RWA calculation from 3.75 to 3.85. The significant market volatility contributed to this latest exception, as did adjustments to trading revenues arising from non-daily marking or valuation processes, which result in the recognition of profits and losses disconnected from the previous day's backtesting VaR. We have ongoing initiatives to reduce such adjustments. As outlined in our first quarter 2016 report, we do not believe that the recent increase in the number of negative backtesting exceptions indicates a deficiency in our VaR model.

→ Refer to "Market risk" in the "Risk, treasury and capital management" section of our first quarter 2016 report for more information on our backtesting exceptions

As of 30 June 2016, the interest rate sensitivity of our banking book to a +1 basis point parallel shift in yield curves was negative CHF 0.2 million compared with negative CHF 1.7 million as of 31 March 2016. The CHF 1.5 million reduction was driven by Wealth Management Americas whose modeled client rate duration for the non-maturity deposits rose in response to lower market rates.

Country risk

We are closely following developments in Europe following the UK referendum on EU membership, with potential adverse consequences for the UK economy and the weak EU economic recovery. In this context, peripheral European countries continue to cause concerns.

In the second quarter of 2016, our direct exposure to peripheral European countries remained limited, although we have significant country risk exposure to major EU economies, including the UK.

The Global Recession scenario, which is the binding scenario in our suite of combined stress testing scenarios, has a renewed eurozone crisis at its core, such that potential effects are captured

in the calculation of our post-stress fully applied common equity tier 1 (CET1) capital ratio.

Following the UK referendum on EU membership, bank share prices fell sharply, particularly those of Italian banks. The Italian banking sector's preexisting challenges are accentuated by the current market environment, which limits Italian banks' options to raise capital on their own. We continue to closely monitor this sector. Of our total country risk exposure to Italy of CHF 3,024 million at the end of June, CHF 307 million was to Italian banks.

As disclosed in our Annual Report 2015, we are comfortable with our direct exposure to China and our exposure to other emerging markets countries is generally well diversified.

→ Refer to the "Risk management and control" section of our Annual Report 2015 for more information

Key risk metrics

Banking and traded products exposure by business division and Corporate Center unit

| 30.6.16 | | | | | | | | | |
|---|-------------------|----------------------------|------------------------------|------------------|-----------------|---------------|----------------|------------------------------------|---------|
| CHF million | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | Group |
| Banking products | | | | | | | | | |
| Gross exposure ^{1,2,3,4} | 109,946 | 51,913 | 153,752 | 382 | 61,607 | 654 | 99,984 | 1,137 | 479,374 |
| of which: loans (on-balance sheet) | 102,804 | 48,931 | 134,777 | 4 | 16,304 | 18 | 6,434 | 189 | 309,460 |
| of which: guarantees and loan commitments (off-balance sheet) | 3,735 | 952 | 17,559 | 0 | 34,313 | 10 | 0 | 948 | 57,516 |
| Total impaired exposure, gross | 76 | 27 | 1,105 | | 193 | | | 30 | 1,431 |
| of which: impaired loan exposure, gross | 76 | 27 | 851 | | 166 | | | 30 | 1,149 |
| Total allowances and provisions for credit losses | 62 | 28 | 495 | 0 | 89 | 0 | 0 | 16 | 691 |
| Traded products^{1,5} | | | | | | | | | |
| Gross exposure | 7,229 | 1,566 | 1,939 | 0 | | | 42,036 | | 52,769 |
| of which: over-the-counter derivatives | 6,177 | 29 | 1,850 | 0 | | | 20,003 | | 28,058 |
| of which: securities financing transactions | 0 | 250 | 0 | 0 | | | 15,057 | | 15,306 |
| of which: exchange-traded derivatives | 1,052 | 1,287 | 89 | 0 | | | 6,976 | | 9,405 |

| 31.3.16 | | | | | | | | | |
|---|-------------------|----------------------------|------------------------------|------------------|-----------------|---------------|----------------|------------------------------------|---------|
| CHF million | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | Group |
| Banking products | | | | | | | | | |
| Gross exposure ^{1,2,3,4} | 109,032 | 49,839 | 152,396 | 383 | 65,828 | 628 | 112,572 | 1,490 | 492,169 |
| of which: loans (on-balance sheet) | 102,434 | 46,832 | 135,041 | 3 | 15,583 | 11 | 6,728 | 103 | 306,736 |
| of which: guarantees and loan commitments (off-balance sheet) | 3,691 | 1,147 | 15,620 | 0 | 39,894 | 11 | 0 | 1,354 | 61,718 |
| Total impaired exposure, gross | 88 | 27 | 1,166 | | 217 | | | 30 | 1,527 |
| of which: impaired loan exposure, gross | 88 | 27 | 892 | | 201 | | | 30 | 1,237 |
| Total allowances and provisions for credit losses | 66 | 29 | 503 | 0 | 82 | 0 | 0 | 15 | 694 |
| Traded products^{1,5} | | | | | | | | | |
| Gross exposure | 6,625 | 1,397 | 1,525 | 0 | | | 37,114 | | 46,661 |
| of which: over-the-counter derivatives | 5,746 | 8 | 1,459 | 0 | | | 17,813 | | 25,027 |
| of which: securities financing transactions | 0 | 264 | 0 | 0 | | | 14,082 | | 14,346 |
| of which: exchange-traded derivatives | 878 | 1,125 | 66 | 0 | | | 5,219 | | 7,288 |

¹ Internal management view of credit risk, which differs in certain respects from IFRS. ² Does not include reclassified securities and similar acquired securities held by CC – Non-core and Legacy Portfolio. ³ Excludes loans designated at fair value. ⁴ As of 30 June 2016, IFRS loans exposure for the Investment Bank and CC – Non-core and Legacy Portfolio was CHF 11,828 million (31 March 2016: CHF 11,539 million) and CHF 2,732 million (31 March 2016: CHF 2,940 million), respectively. For all other business divisions and Corporate Center units, IFRS loans exposure was the same as the internal management view. ⁵ As counterparty risk for traded products is managed at counterparty level, no further split between exposures in the Investment Bank, CC – Non-core and Legacy Portfolio and CC – Group ALM is provided.

Wealth Management, Wealth Management Americas and Personal & Corporate Banking loan portfolios, gross

| | Wealth Management | | Wealth Management Americas | | Personal & Corporate Banking | |
|---|-------------------|---------|----------------------------|---------|------------------------------|---------|
| <i>CHF million</i> | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 |
| Secured by residential property | 32,131 | 32,068 | 8,736 | 8,349 | 96,735 | 97,069 |
| Secured by commercial / industrial property | 2,003 | 1,920 | 0 | 0 | 18,531 | 18,848 |
| Secured by cash | 15,465 | 15,106 | 1,247 | 1,051 | 1,882 | 1,984 |
| Secured by securities | 46,378 | 46,922 | 38,050 | 36,582 | 1,638 | 1,658 |
| Secured by guarantees and other collateral | 6,284 | 6,003 | 607 | 603 | 6,720 | 6,207 |
| Unsecured loans | 543 | 415 | 290 | 247 | 9,272 | 9,275 |
| Total loans, gross | 102,804 | 102,434 | 48,931 | 46,832 | 134,777 | 135,041 |
| Total loans, net of allowances | 102,742 | 102,369 | 48,902 | 46,804 | 134,316 | 134,572 |

Management value-at-risk (1-day, 95% confidence, 5 years of historical data) by business division and Corporate Center unit and general market risk type¹

| <i>CHF million</i> | Min. | Max. | Period end | Average | Average by risk type | | | | |
|---------------------------------------|----------|-----------|------------|-----------|----------------------|----------------|----------------|------------------|-------------|
| | | | | | Equity | Interest rates | Credit spreads | Foreign exchange | Commodities |
| Wealth Management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Wealth Management Americas | 0 | 1 | 1 | 1 | 0 | 1 | 1 | 0 | 0 |
| Personal & Corporate Banking | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Asset Management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment Bank | 7 | 15 | 8 | 9 | 4 | 9 | 3 | 3 | 1 |
| CC – Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CC – Group ALM | 6 | 8 | 8 | 7 | 0 | 7 | 0 | 0 | 0 |
| CC – Non-core and Legacy Portfolio | 4 | 4 | 4 | 4 | 0 | 3 | 2 | 1 | 0 |
| Diversification effect ^{2,3} | | | (10) | (10) | 0 | (10) | (2) | (1) | 0 |
| Total 30.6.16 | 8 | 18 | 11 | 11 | 4 | 11 | 4 | 3 | 1 |
| Total 31.3.16 | 9 | 16 | 10 | 12 | 6 | 10 | 4 | 4 | 1 |

¹ Statistics at individual levels may not be summed to deduce the corresponding aggregate figures. The minima and maxima for each level may occur on different days, and likewise, the VaR for each business line or risk type, being driven by the extreme loss tail of the corresponding distribution of simulated profits and losses for that business line or risk type, may well be driven by different days in the historical time series, rendering invalid the simple summation of figures to arrive at the aggregate total. ² Difference between the sum of the standalone VaR for the business divisions and Corporate Center units and the VaR for the Group as a whole. ³ As the minimum and maximum occur on different days for different business divisions and Corporate Center units, it is not meaningful to calculate a portfolio diversification effect.

Interest rate sensitivity – banking book^{1,2}

| CHF million | -200 bps | -100 bps | + 1bp | +100 bps | +200 bps |
|---|--------------|--------------|--------------|------------|---------------|
| CHF | (7.3) | (7.3) | 0.3 | 30.7 | 60.5 |
| EUR | (136.1) | (136.8) | (0.3) | (29.1) | (53.2) |
| GBP | (186.8) | (100.6) | 0.1 | 2.3 | (7.2) |
| USD | 548.6 | 409.4 | (0.4) | (6.5) | (35.4) |
| Other | (5.6) | (8.2) | 0.0 | 5.1 | 10.4 |
| Total effect on interest rate-sensitive banking book positions 30.6.16 | 212.7 | 156.5 | (0.2) | 2.5 | (24.8) |
| Total effect on interest rate-sensitive banking book positions 31.3.16 | 209.5 | 130.7 | (1.7) | (163.8) | (348.6) |

¹ Does not include interest rate sensitivities for credit valuation adjustments on monoline credit protection, US and non-US reference-linked notes. ² In the prevailing negative interest rate environment for the Swiss franc in particular, and to a lesser extent for the euro, interest rates for Wealth Management and Personal & Corporate Banking client transactions are generally being floored at non-negative levels. Accordingly, for the purposes of this disclosure table, downward moves of 100/200 basis points are floored to ensure that the resulting shocked interest rates do not turn negative. The flooring results in non-linear sensitivity behavior.

Exposures to eurozone countries rated lower than AAA/Aaa by at least one major rating agency

| CHF million | 30.6.16 | | | | | | 31.3.16 | | |
|----------------------|------------------|----------------------------|-----------------|---------------|---------------------|---------------|---------|----------------------------|-------|
| | Banking products | | Traded products | | Trading inventory | Total | | Total | |
| | Before hedges | Net of hedges ¹ | Before hedges | Net of hedges | Net long per issuer | Net of hedges | | Net of hedges ¹ | |
| Austria | 27 | 27 | 315 | 192 | 653 | 996 | 873 | 560 | 435 |
| Belgium | 93 | 93 | 124 | 124 | 62 | 279 | 279 | 392 | 392 |
| Finland | 113 | 81 | 44 | 44 | 493 | 651 | 618 | 654 | 622 |
| France | 1,040 | 772 | 1,379 | 1,249 | 2,326 | 4,746 | 4,347 | 5,646 | 5,207 |
| Greece | 15 | 15 | 1 | 1 | 2 | 18 | 18 | 7 | 7 |
| Ireland ² | 77 | 77 | 1,263 | 1,263 | 124 | 1,464 | 1,464 | 775 | 775 |
| Italy | 2,388 | 1,962 | 564 | 502 | 72 | 3,024 | 2,535 | 1,495 | 1,004 |
| Netherlands | 1,549 | 1,077 | 1,088 | 938 | 3,352 | 5,989 | 5,366 | 6,659 | 6,009 |
| Portugal | 125 | 60 | 7 | 7 | 5 | 137 | 72 | 144 | 79 |
| Spain | 968 | 710 | 417 | 417 | 588 | 1,973 | 1,715 | 1,286 | 1,019 |
| Other ³ | 76 | 76 | 7 | 7 | 9 | 93 | 93 | 120 | 120 |

¹ Not deducted from the "Net of hedges" exposures are total allowances and provisions for credit losses of CHF 50 million (of which: Malta CHF 36 million, Ireland CHF 6 million and France CHF 5 million). ² The majority of the Ireland exposure relates to funds and foreign bank subsidiaries. ³ Represents aggregate exposures to Andorra, Cyprus, Estonia, Latvia, Lithuania, Malta, Monaco, Montenegro, San Marino, Slovakia and Slovenia.

Balance sheet, liquidity and funding management

Strategy, objectives and governance

This section provides balance sheet, liquidity and funding management information and should be read in conjunction with the “Treasury management” section of our Annual Report 2015, which provides more information about the Group’s strategy, objectives and governance for liquidity and funding management.

Balances disclosed in this section represent quarter-end positions, unless indicated otherwise. Intra-quarter balances fluctuate in the ordinary course of business and may differ from quarter-end positions.

Assets and liquidity management

Balance sheet assets

As of 30 June 2016, balance sheet assets totaled CHF 989 billion, an increase of CHF 23 billion from 31 March 2016, mainly due to an increase in positive replacement values (PRVs). Total assets excluding PRVs increased by CHF 5 billion to CHF 791 billion, but were broadly unchanged when excluding currency effects.

PRVs were CHF 18 billion higher, primarily resulting from a CHF 16 billion increase in the Investment Bank, mainly related to foreign exchange contracts, reflecting fair value changes due to currency movements and client-driven increases, both primarily

following the outcome of the UK referendum on EU membership. Financial assets designated at fair value, available for sale and held to maturity increased by CHF 12 billion on a combined basis, mainly due to a rebalancing of our high-quality liquid assets (HQLA). Other assets increased by CHF 10 billion, primarily due to a reclassification of CHF 5 billion from trading portfolio assets to other assets upon agreement to sell a certain business in Wealth Management. This sale is expected to close in the second half of 2016. In addition, cash collateral receivables on derivative instruments increased by CHF 4 billion, mainly due to the increase in replacement values, partly offset by the derecognition of certain exchange-traded derivative client cash balances.

These increases were partly offset by an CHF 11 billion reduction in cash and balances with central banks, primarily due to the aforementioned rebalancing of our HQLA. Trading portfolio assets decreased by CHF 4 billion, mainly due to the aforementioned reclassification to other assets. Collateral trading assets, which consist of reverse repurchase agreements and cash collateral on securities borrowed, decreased by CHF 3 billion.

→ Refer to “Note 1 Basis of accounting” in the “Consolidated financial statements” section of this report for more information on the derecognition of certain exchange-traded derivative client cash balances

→ Refer to the “Consolidated financial statements” section of this report for more information

IFRS balance sheet assets

| CHF billion | | As of | | % change from | |
|---|--|----------------|----------|---------------|----------|
| | | 31.3.16 | 31.12.15 | 31.3.16 | 31.12.15 |
| | | 30.6.16 | | | |
| Cash and balances with central banks | | 94.2 | 105.7 | 91.3 | (11) |
| Lending ¹ | | 319.8 | 318.4 | 323.9 | 0 |
| Collateral trading ² | | 102.7 | 106.0 | 93.5 | (3) |
| Trading portfolio | | 101.2 | 105.3 | 124.0 | (4) |
| Positive replacement values | | 198.4 | 180.5 | 167.4 | 10 |
| Financial assets at FV/AFS/HTM ³ | | 87.3 | 75.1 | 68.7 | 16 |
| Other assets ⁴ | | 85.7 | 75.8 | 74.0 | 13 |
| Total IFRS assets | | 989.4 | 966.9 | 942.8 | 2 |

¹ Consists of due from banks and loans. ² Consists of reverse repurchase agreements and cash collateral on securities borrowed. ³ Consists of financial assets designated at fair value, financial assets available for sale and financial assets held to maturity. ⁴ Includes cash collateral receivables on derivative instruments and prime brokerage receivables.

High-quality liquid assets

The total weighted liquidity value of HQLA increased by CHF 4 billion to CHF 219 billion in the second quarter of 2016, primarily reflecting an CHF 11 billion increase in eligible securities, partly offset by a CHF 7 billion decrease in cash balances, largely to

meet liquidity requirements applicable to our US operations from July 2016.

→ Refer to the “Treasury management” section of our Annual Report 2015 for more information on high-quality liquid assets

High-quality liquid assets

| CHF billion | Average 2Q16 | | | | Average 1Q16 | | | |
|---|---|---|---|----------------------|---|---|---|----------------------|
| | Level 1 weighted liquidity value ¹ | Level 2 weighted liquidity value ¹ | Total weighted liquidity value ¹ | Total carrying value | Level 1 weighted liquidity value ¹ | Level 2 weighted liquidity value ¹ | Total weighted liquidity value ¹ | Total carrying value |
| Cash balances ² | 122 | 0 | 122 | 122 | 129 | 0 | 129 | 129 |
| Securities | 88 | 8 | 96 | 98 | 75 | 10 | 85 | 87 |
| of which: on-balance sheet ³ | 66 | 5 | 71 | 72 | 50 | 4 | 54 | 55 |
| of which: off-balance sheet | 23 | 3 | 25 | 26 | 25 | 6 | 31 | 32 |
| Total high-quality liquid assets⁴ | 211 | 8 | 219 | 220 | 204 | 11 | 215 | 216 |

¹ Calculated after the application of haircuts. ² Includes cash and balances with central banks and other eligible balances as prescribed by FINMA. ³ Includes financial assets designated at fair value, available for sale and held to maturity and trading portfolio assets. ⁴ Calculated in accordance with FINMA requirements.

Liquidity coverage ratio

In the second quarter of 2016, our three-month average total LCR decreased one percentage point to 133%, remaining above the 110% Group LCR minimum communicated by FINMA. The decrease was driven by a CHF 4 billion increase in expected net cash outflows, largely offset by the aforementioned CHF 4 billion increase in HQLA.

The increase in expected net cash outflows of CHF 4 billion was mainly related to structured unsecured debt.

→ Refer to the "Treasury management" section of our Annual Report 2015 for more information on liquidity management and the liquidity coverage ratio

Liquidity coverage ratio

| CHF billion, except where indicated | | Average 2Q16 | | Average 1Q16 | |
|-------------------------------------|---|------------------|-----------------------------|------------------|-----------------------------|
| | | Unweighted value | Weighted value ¹ | Unweighted value | Weighted value ¹ |
| High-quality liquid assets | | | | | |
| 1 | High-quality liquid assets | 220 | 219 | 216 | 215 |
| Cash outflows | | | | | |
| 2 | Retail deposits and deposits from small business customers | 226 | 25 | 224 | 25 |
| 3 | of which: stable deposits | 36 | 1 | 37 | 1 |
| 4 | of which: less stable deposits | 190 | 24 | 187 | 23 |
| 5 | Unsecured wholesale funding | 201 | 120 | 196 | 118 |
| 6 | of which: operational deposits (all counterparties) | 35 | 9 | 35 | 8 |
| 7 | of which: non-operational deposits (all counterparties) | 148 | 94 | 148 | 96 |
| 8 | of which: unsecured debt | 17 | 17 | 14 | 14 |
| 9 | Secured wholesale funding | | 30 | | 34 |
| 10 | Additional requirements: | 110 | 49 | 121 | 60 |
| 11 | of which: outflows related to derivatives and other transactions | 61 | 34 | 68 | 43 |
| 12 | of which: outflows related to loss of funding on debt products ² | 0 | 0 | 1 | 1 |
| 13 | of which: committed credit and liquidity facilities | 49 | 15 | 52 | 16 |
| 14 | Other contractual funding obligations | 37 | 33 | 33 | 29 |
| 15 | Other contingent funding obligations | 202 | 7 | 210 | 8 |
| 16 | Total cash outflows | | 264 | | 273 |
| Cash inflows | | | | | |
| 17 | Secured lending | 149 | 49 | 141 | 54 |
| 18 | Inflows from fully performing exposures | 57 | 30 | 61 | 31 |
| 19 | Other cash inflows | 21 | 21 | 29 | 29 |
| 20 | Total cash inflows | 227 | 100 | 231 | 113 |

| CHF billion, except where indicated | | Average 2Q16 | | Average 1Q16 | |
|-------------------------------------|-------------------------------------|-----------------------------------|--|-----------------------------------|--|
| | | Total adjusted value ³ | | Total adjusted value ³ | |
| 21 | High-quality liquid assets | 219 | | 215 | |
| 22 | Net cash outflows | 164 | | 160 | |
| 23 | Liquidity coverage ratio (%) | 133 | | 134 | |

¹ Calculated after the application of haircuts and inflow and outflow rates. ² Includes outflows related to loss of funding on asset-backed securities, covered bonds, other structured financing instruments, asset-backed commercial papers, structured entities (conduits), securities investment vehicles and other such financing facilities. ³ Calculated after the application of haircuts and inflow and outflow rates as well as, where applicable, caps on Level 2 assets and cash inflows.

Liabilities and funding management

Liabilities

Total liabilities increased by CHF 26 billion to CHF 936 billion as of 30 June 2016. Negative replacement values increased by CHF 17 billion, broadly in line with the aforementioned increases in PRV. Customer deposits, which represent 60% of our funding sources, increased by CHF 8 billion, primarily in Wealth Management, mainly reflecting client inflows. The "Funding by product and currency" table and "Asset funding" chart on the following page provide more information on our funding sources.

Long-term debt issued, which consists of financial liabilities designated at fair value and long-term debt held at amortized cost, increased by CHF 5 billion. Long-term debt held at amortized cost, which is comprised of both senior and subordinated debt, increased by CHF 3 billion to CHF 75 billion, primarily due to the issuance of CHF 4.9 billion equivalent US dollar-denominated senior unsecured debt that will contribute to our total loss-absorbing capacity. This issuance consisted of three tranches: (i) USD 2 billion 10-year fixed-rate with a coupon of 4.125%, (ii) USD 2 billion 5-year fixed-rate with a coupon of 3.0% and (iii) USD 1 billion 5-year floating-rate notes linked to the three-month US dollar LIBOR. These issuances were partly offset by the maturity and early call of instruments equivalent to CHF 1.7 billion in aggregate, comprising: (i) a EUR 1.0 billion 5-year 3.0% fixed-rate covered bond, (ii) a CHF 0.2 billion 10-year 2.75% fixed-rate senior unsecured bond, (iii) a CHF 0.3 billion 10-year 3.125% fixed-rate subordinated tier 2 bond and (iv) a GBP 0.1 billion 15-year 5.25% fixed-rate subordinated tier 2 bond, which was called after ten years. Financial liabilities designated at fair value increased by CHF 2 billion, primarily due to an increase in credit-linked structured debt.

Short-term borrowings, which include short-term debt issued and interbank borrowing, increased by CHF 4 billion, primarily reflecting increased deposits from other banks.

These increases were partly offset by a CHF 9 billion reduction in other liabilities, mainly due to a reduction in prime brokerage payables. Collateral trading liabilities were broadly unchanged.

→ Refer to the "Capital management" section of this report for more information on instruments contributing to our total loss-absorbing capacity

→ Refer to the "Consolidated financial statements" section of this report for more information

Equity

Equity attributable to UBS Group AG shareholders decreased by CHF 1,969 million to CHF 52,876 million.

Total comprehensive income attributable to UBS Group AG shareholders was CHF 1,151 million, reflecting net profit of CHF 1,034 million and other comprehensive income (OCI) of CHF 117 million.

The distribution of capital contribution reserves of UBS Group AG reduced share premium by CHF 3,164 million, partly offset by employee share-based compensation, which increased share premium by CHF 250 million, mainly due to the amortization of deferred equity compensation awards.

Net treasury share activity reduced equity attributable to UBS Group AG shareholders by CHF 196 million, reflecting treasury share purchases to hedge our share delivery obligations related to employee share and option participation plans.

Equity attributable to non-controlling interests decreased by CHF 1,255 million to CHF 686 million as we executed early call options for the following preferred notes: (i) a USD 1 billion perpetual 6.243% fixed-rate hybrid tier 1 capital instrument called after 10 years and (ii) a USD 0.3 billion perpetual floating-rate hybrid tier 1 capital instrument called after 13 years.

→ Refer to the "Consolidated financial statements" and "Group performance" sections of this report for more information

IFRS balance sheet liabilities and equity

| CHF billion | As of | | | % change from | |
|--|--------------|--------------|--------------|---------------|------------|
| | 30.6.16 | 31.3.16 | 31.12.15 | 31.3.16 | 31.12.15 |
| Short-term borrowings ¹ | 45.3 | 41.2 | 33.1 | 10 | 37 |
| Due to customers | 409.1 | 401.5 | 390.2 | 2 | 5 |
| Collateral trading ² | 14.3 | 12.9 | 17.7 | 11 | (19) |
| Negative replacement values | 196.0 | 179.0 | 162.4 | 9 | 21 |
| Long-term debt issued ³ | 134.3 | 129.3 | 134.9 | 4 | 0 |
| Other liabilities ⁴ | 136.8 | 146.3 | 147.2 | (6) | (7) |
| Total IFRS liabilities | 935.8 | 910.1 | 885.5 | 3 | 6 |
| Share capital | 0.4 | 0.4 | 0.4 | 0 | 0 |
| Share premium | 27.9 | 30.8 | 31.2 | (9) | (11) |
| Treasury shares | (2.3) | (2.1) | (1.7) | 10 | 35 |
| Retained earnings | 30.7 | 30.0 | 29.5 | 2 | 4 |
| Other comprehensive income ⁵ | (3.8) | (4.2) | (4.0) | (10) | (5) |
| Total IFRS equity attributable to UBS Group AG shareholders | 52.9 | 54.8 | 55.3 | (3) | (4) |
| IFRS equity attributable to non-controlling interests | 0.7 | 1.9 | 2.0 | (63) | (65) |
| Total IFRS equity | 53.6 | 56.8 | 57.3 | (6) | (6) |
| Total IFRS liabilities and equity | 989.4 | 966.9 | 942.8 | 2 | 5 |

¹ Consists of short-term debt issued and due to banks. ² Consists of repurchase agreements and cash collateral on securities lent. ³ Consists of long-term debt issued and financial liabilities designated at fair value. ⁴ Includes trading portfolio liabilities, cash collateral payables on derivative instruments and prime brokerage payables. ⁵ Excludes defined benefit plans and own credit that are recorded directly in Retained earnings.

Net stable funding ratio

As of 30 June 2016, our estimated pro forma net stable funding ratio (NSFR) was 111%, broadly unchanged from 31 March 2016, as an increase in required stable funding was offset by an increase in available stable funding. The calculation of our pro forma NSFR includes estimates of the effect of the rules and interpretation and will be refined as regulatory interpretations evolve and as new models and associated systems are enhanced.

→ Refer to the “Treasury management” section of our Annual Report 2015 for more information on the net stable funding ratio

Pro forma net stable funding ratio

| CHF billion, except where indicated | 30.6.16 | 31.3.16 |
|---|------------|---------|
| Available stable funding | 427 | 424 |
| Required stable funding | 385 | 379 |
| Pro forma net stable funding ratio (%) | 111 | 112 |

Funding by product and currency

| | In CHF billion | | | | As a % of total funding sources | | | | | | | |
|--|----------------|--------------|----------------|--------------|---------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|
| | All currencies | | All currencies | | CHF | | EUR | | USD | | Other | |
| | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 |
| Securities lending | 6.3 | 6.4 | 0.9 | 1.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.7 | 0.6 | 0.0 | 0.1 |
| Repurchase agreements | 8.0 | 6.5 | 1.2 | 1.0 | 0.0 | 0.0 | 0.3 | 0.4 | 0.6 | 0.5 | 0.2 | 0.1 |
| Due to banks | 15.3 | 11.3 | 2.2 | 1.7 | 0.9 | 0.6 | 0.1 | 0.1 | 0.7 | 0.6 | 0.5 | 0.4 |
| Short-term debt issued ¹ | 30.0 | 29.8 | 4.4 | 4.5 | 0.1 | 0.1 | 0.7 | 0.3 | 3.2 | 3.6 | 0.5 | 0.5 |
| Demand deposits | 184.9 | 180.4 | 27.3 | 27.1 | 8.2 | 8.3 | 5.7 | 5.6 | 9.6 | 9.6 | 3.8 | 3.6 |
| Time deposits | 55.3 | 51.5 | 8.1 | 7.7 | 1.5 | 1.6 | 0.1 | 0.1 | 5.1 | 4.4 | 1.4 | 1.7 |
| Fiduciary deposits | 4.9 | 5.0 | 0.7 | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 0.5 | 0.1 | 0.1 |
| Retail savings / deposits | 164.1 | 164.7 | 24.2 | 24.7 | 14.0 | 14.0 | 0.8 | 0.8 | 9.5 | 9.9 | 0.0 | 0.0 |
| Long-term debt issued ² | 134.3 | 129.3 | 19.8 | 19.4 | 1.9 | 2.1 | 5.0 | 5.4 | 11.6 | 10.7 | 1.3 | 1.3 |
| Cash collateral payables on derivative instruments | 36.4 | 36.7 | 5.4 | 5.5 | 0.2 | 0.2 | 2.2 | 2.0 | 2.0 | 2.7 | 0.9 | 0.7 |
| Prime brokerage payables | 38.9 | 44.0 | 5.7 | 6.6 | 0.1 | 0.1 | 0.5 | 0.7 | 3.8 | 4.3 | 1.3 | 1.5 |
| Total | 678.2 | 665.5 | 100.0 | 100.0 | 26.9 | 27.0 | 15.7 | 15.7 | 47.3 | 47.4 | 10.1 | 9.9 |

¹ Short-term debt issued is comprised of certificates of deposit, commercial paper, acceptances and promissory notes, and other money market paper. ² Long-term debt issued also includes debt with a remaining time to maturity of less than one year.

Asset funding

CHF billion, except where indicated

As of 30.6.16

| Assets | | Liabilities and equity | |
|--------|--|--|-----|
| 107 | Cash and balances with central banks and due from banks | Due to banks | 15 |
| 87 | Financial assets designated at fair value, available for sale and held to maturity | Short-term debt issued ¹ | 30 |
| 103 | Cash collateral on securities borrowed and reverse repurchase agreements | Trading portfolio liabilities | 30 |
| 101 | Trading portfolio assets | Cash collateral on securities lent and repurchase agreements | 14 |
| 307 | Loans | Demand deposits | 185 |
| | | | 409 |
| | | Due to customers | |
| | | Time deposits | 55 |
| | | Fiduciary deposits | 5 |
| | | Retail savings / deposits | 164 |
| | | Financial liabilities designated at fair value ³ | 60 |
| | | Debt issued held at amortized cost | 75 |
| | | Other | 107 |
| 88 | Other (including net replacement values) | Long-term debt issued ² | |
| | | Total equity | 54 |

CHF 88 billion collateral surplus

133% coverage CHF 102 billion surplus

¹ Short-term debt issued is comprised of certificates of deposit, commercial paper, acceptances and promissory notes, and other money market paper. ² Long-term debt issued also includes debt with a remaining time to maturity of less than one year. ³ Including structured over-the-counter debt instruments.

Capital management

This section should be read in conjunction with the “Capital management” section of the Annual Report 2015, which provides more information about the Group’s strategy, objectives and governance for capital management. Capital and other regulatory information in this section is provided on a consolidated UBS Group basis.

The current and revised Swiss SRB requirements outlined in “Regulatory framework and requirements” below are also applicable to UBS AG and UBS Switzerland AG. Key capital and other regulatory information for UBS AG on a consolidated basis is provided in the “Consolidated financial statements” section of this report and on a standalone basis in the “Legal entity financial and

regulatory information” section of this report. Additional information will be provided in the document “UBS AG second quarter 2016 report,” which will be available from 4 August 2016 under “Quarterly reporting” at www.ubs.com/investors.

Selected capital and other regulatory information for UBS Switzerland AG and UBS Limited on a standalone basis is disclosed in the “Legal entity financial and regulatory information” section of this report. Additional information for UBS Switzerland AG will be available in the document “UBS Switzerland AG (standalone) regulatory information,” which will be available from 4 August 2016 under “Disclosure for subsidiaries and branches,” at www.ubs.com/investors.

Regulatory framework and requirements

The Basel III framework came into effect in Switzerland on 1 January 2013. Disclosures in this section focus on capital information for UBS Group based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Differences between Swiss SRB and BIS capital information on a UBS Group level are outlined in “Differences between the current Swiss SRB and BIS frameworks” in this section.

In May 2016, the Swiss Federal Council adopted amendments to the too big to fail (TBTF) provisions, based on the cornerstones announced by the Swiss Federal Council in October 2015. The revised Capital Adequacy Ordinance forms the basis of a revised Swiss SRB framework, which became effective on 1 July 2016.

In addition to defining the new capital requirements, the Swiss Federal Council has proposed that the implementation of a Swiss emergency plan be completed by the end of 2019. The Swiss emergency plan defines the measures required to ensure a continuation of systemically relevant functions of financial institutions in Switzerland.

Moreover, the Basel Committee on Banking Supervision (BCBS) and other financial regulators are considering changes to the Basel III capital framework. If the proposed changes to the capital framework are adopted in their current form in Switzerland, we expect our overall risk-weighted assets (RWA) would significantly increase without considering the effect of mitigating measures.

Current requirements

Eligible capital and capital ratio requirements

The Basel III framework includes prudential filters for the calculation of capital. These prudential filters consist mainly of capital deductions for deferred tax assets (DTAs) recognized for tax loss carry-forwards, DTAs on temporary differences that exceed a certain threshold and effects related to defined benefit plans. As these filters are being phased in between 2014 and 2018, their effects are gradually factored into our calculations of capital, RWA and capital ratios on a phase-in basis and are entirely reflected in our capital, RWA and capital ratios on a fully applied basis.

In 2016, we deduct from our phase-in common equity tier 1 (CET1) capital 60% (in 2015: 40%) of: (i) DTAs recognized for tax loss carry-forwards, (ii) DTAs on temporary differences that exceed the threshold of 10% of CET1 capital before deductions for DTAs on temporary differences and (iii) net defined benefit pension plan assets. In addition, we deduct 60% (in 2015: 40%) of our goodwill from phase-in CET1 capital and 40% (in 2015: 60%) of our goodwill from hybrid and additional tier 1 (AT1) loss-absorbing capital.

Capital instruments that were treated as hybrid tier 1 capital and as tier 2 capital under the Basel 2.5 framework are being phased out between 2013 and 2019. On a phase-in basis, our capital and capital ratios include the applicable portion of these capital instruments not yet phased out. Our capital and capital ratios on a fully applied basis do not include these capital instruments.

As of 30 June 2016, our total capital requirement for UBS Group AG (consolidated) was 14.3% of RWA, unchanged from 31 March 2016.

Leverage ratio requirements

The Swiss SRB leverage ratio is calculated by dividing the sum of period-end CET1, AT1 and other loss-absorbing capital by the period-end leverage ratio denominator (LRD).

The LRD consists of IFRS on-balance sheet assets and off-balance sheet items. Derivative exposures are adjusted for a number of items, including replacement value and eligible cash variation margin netting, the current exposure method add-on and net notional amounts for written credit derivatives. The LRD further includes an additional charge for counterparty credit risk related to securities financing transactions. In addition, balance sheet assets deducted from our tier 1 capital are excluded from the LRD, resulting in a difference between the phase-in and fully applied LRD related to DTAs and net defined benefit pension plan assets.

The Swiss SRB leverage ratio requirement is equal to 24% of the capital ratio requirement, excluding the countercyclical buffer requirement. As of 30 June 2016, the effective total leverage ratio requirement was 3.4%, unchanged from 31 March 2016.

Revised Swiss SRB requirements effective from 1 July 2016

The revised Swiss SRB framework amends the former Swiss SRB capital requirements and also establishes additional gone concern requirements, which, together with the going concern requirements, represent the total loss-absorbing capacity (TLAC) requirement of the Group. TLAC encompasses regulatory capital such as CET1, AT1 and tier 2 capital, as well as liabilities that can be written down or converted into equity in case of resolution or recovery measures.

In this report, we refer to the RWA-based gone concern requirements as gone concern loss-absorbing capacity requirements and the RWA-based gone concern ratio is referred to as the gone concern loss-absorbing capacity ratio.

Eligible capital and instruments contributing to our loss-absorbing capacity

In addition to CET1 capital, our capital instruments and instruments contributing to our loss-absorbing capacity include:

- Loss-absorbing AT1 capital (high- and low-trigger)
- Loss-absorbing tier 2 capital (high- and low-trigger)
- Phase-out hybrid tier 1 capital
- Phase-out tier 2 capital
- TLAC-eligible senior unsecured debt

Under the revised Swiss SRB rules, going concern capital includes CET1 and high-trigger AT1 capital.

Under the transitional rules for the revised Swiss SRB framework, existing low-trigger AT1 capital instruments will remain available to meet the going concern capital requirements until their first call date, even if the first call date is after 31 December 2019. From their first call date, existing low-trigger AT1 capital instruments may be used to meet the gone concern requirements.

Outstanding low- and high-trigger tier 2 instruments will also remain available to meet the going concern capital requirements until the earlier of their maturity or first call date or 31 December 2019. From 1 January 2020, these instruments may be used to meet the gone concern requirements until one year before maturity, with a haircut of 50% applied in the last year of eligibility.

Phase-out hybrid tier 1 and phase-out tier 2 capital instruments are no longer subject to phase-out under the revised Swiss SRB framework. They may be eligible to meet the gone concern requirements until one year prior to maturity, with a haircut of 50% applied in the last year of eligibility. Treatment of these instruments is subject to final agreement with FINMA. Effective 1 July 2016, and as reflected in the pro forma information provided in this section, we will no longer use hybrid capital as an offset for goodwill deductions. Therefore, beginning in the third quarter of 2016, 60% of our goodwill will be deducted from phase-in CET1 capital and 40% of our goodwill from AT1 capital.

TLAC-eligible senior unsecured debt will be eligible to meet the gone concern requirements.

The eligibility of our capital instruments and TLAC-eligible senior unsecured debt to meet the requirements under the current Swiss SRB rules effective 30 June 2016 and under the revised Swiss SRB framework, both with and without transitional arrangements, is illustrated in the table on the next page.

→ Refer to the document "UBS Group AG (consolidated) capital instruments and TLAC-eligible senior unsecured debt" under "Bondholder information" at www.ubs.com/investors for more information

Current and revised Swiss SRB going and gone concern information

| | Current Swiss SRB (phase-in) | | Current Swiss SRB (fully applied) | | Revised Swiss SRB incl. transitional arrangements (phase-in) Pro forma | Revised Swiss SRB as of 1.1.20 (fully applied) Pro forma |
|--|---------------------------------|--------------------|--------------------------------------|---------|--|---|
| <i>CHF million, except where indicated</i> | 30.6.16 | 31.3.16 | 30.6.16 | 31.3.16 | 30.6.16 | 30.6.16 |
| Going concern capital¹ | | | | | | |
| Common equity tier 1 capital | 37,064 | 36,580 | 30,264 | 29,853 | 37,064 | 30,264 |
| High-trigger loss-absorbing additional tier 1 capital | 5,374 | 5,225 | 5,374 | 5,225 | 5,220² | 5,374 |
| Low-trigger loss-absorbing additional tier 1 capital | 496³ | 1,736 ³ | 2,411 | 2,360 | 0² | 2,411 |
| Total loss-absorbing additional tier 1 capital | 5,870⁴ | 6,961 ⁴ | 7,785 | 7,585 | 5,220 | 7,785 |
| Total tier 1 capital | 42,934 | 43,541 | 38,049 | 37,438 | 42,285 | 38,049 |
| High-trigger loss-absorbing tier 2 capital | 890 | 895 | 890 | 895 | 890 | |
| Low-trigger loss-absorbing tier 2 capital | 10,441 | 10,217 | 10,441 | 10,217 | 10,441 | |
| Phase-out tier 2 capital | 741 | 947 | | | | |
| Total tier 2 capital | 12,072 | 12,059 | 11,331 | 11,112 | 11,331 | |
| Total going concern capital | 55,006 | 55,601 | 49,381 | 48,551 | 53,616 | 38,049 |
| Gone concern loss-absorbing capacity¹ | | | | | | |
| Phase-out hybrid tier 1 capital | | | | | 649 | 649 |
| Total tier 1 capital | | | | | 649 | 649 |
| High-trigger loss-absorbing tier 2 capital | | | | | | 678 |
| Low-trigger loss-absorbing tier 2 capital | | | | | | 10,441 |
| Phase-out tier 2 capital | | | | | 797 | 797 |
| Total tier 2 capital | | | | | 797 | 11,916 |
| TLAC-eligible senior unsecured debt | | | | | 11,920 | 11,920 |
| Total gone concern loss-absorbing capacity | | | | | 13,365 | 24,485 |
| Total loss-absorbing capacity | | | | | | |
| Total loss-absorbing capacity | | | | | 66,982 | 62,534 |
| Risk-weighted assets / leverage ratio denominator | | | | | | |
| Risk-weighted assets | 216,671 | 216,493 | 213,840 | 213,558 | 216,671 | 213,840 |
| Leverage ratio denominator | 902,431 | 910,000 | 898,195 | 905,801 | 902,431 | 898,195 |
| Capital and loss-absorbing capacity ratios (%) | | | | | | |
| Tier 1 capital ratio | 19.8 | 20.1 | 17.8 | 17.5 | | |
| Total capital ratio | 25.4 | 25.7 | 23.1 | 22.7 | | |
| Going concern capital ratio | | | | | 24.7 | 17.8 |
| of which: CET1 capital ratio | 17.1 | 16.9 | 14.2 | 14.0 | 17.1 | 14.2 |
| Gone concern loss-absorbing capacity ratio | | | | | 6.2 | 11.5 |
| Total loss-absorbing capacity ratio | | | | | 30.9 | 29.2 |
| Leverage ratios (%) | | | | | | |
| Leverage ratio | 6.0 | 6.0 | 5.5 | 5.4 | | |
| Going concern leverage ratio | | | | | 5.9 | 4.2 |
| of which: CET1 leverage ratio | 4.1 | 4.0 | 3.4 | 3.3 | 4.1 | 3.4 |
| Gone concern leverage ratio | | | | | 1.5 | 2.7 |
| Total loss-absorbing capacity leverage ratio | | | | | 7.4 | 7.0 |

¹ The terms "Going concern capital" and "Gone concern loss-absorbing capacity" are used in this table in reference to the information presented under the revised Swiss SRB framework only and do not apply to the information presented under the current Swiss SRB framework. ² High-trigger loss-absorbing additional tier 1 capital of CHF 5,374 million and low-trigger loss-absorbing additional tier 1 capital of CHF 2,411 million were partly offset by required deductions for goodwill of CHF 2,565 million. ³ Consists of low-trigger loss-absorbing additional tier 1 capital (30 June 2016: CHF 2,411 million, 31 March 2016: CHF 2,360 million) partly offset by required deductions for goodwill (30 June 2016: CHF 1,916 million, 31 March 2016: CHF 624 million). ⁴ Includes phase-out hybrid tier 1 capital (30 June 2016: CHF 649 million, 31 March 2016: CHF 1,904 million), offset by required deductions for goodwill.

Revised capital and leverage ratio requirements

Going concern requirements under the revised Swiss SRB framework consist of a minimum requirement for all Swiss SRBs of a leverage ratio of 4.5% and a capital ratio of 12.86%. In addition to the minimum requirement, an add-on reflecting the degree of systemic importance is applied based on market share and the LRD. The add-on for UBS is expected to be 0.5% of our LRD and 1.44% of RWA, resulting in total going concern capital requirements applicable starting from 1 January 2020 of 5.0% of LRD and 14.3% of RWA (excluding countercyclical buffer requirements and any potential rebate).

The revised requirements include the aforementioned transitional arrangements for certain instruments. Once the requirements are fully implemented, the going concern capital requirements will include a minimum CET1 requirement of 10.0% of RWA and a high-trigger AT1 requirement of up to a maximum of 4.3% of RWA. The going concern leverage ratio requirements will be comprised of a minimum CET1 requirement of 3.5% of LRD and a high-trigger AT1 requirement of up to a maximum of 1.5% of LRD.

As an internationally active Swiss SRB, our going concern requirements are expected to be 14.3% of RWA and 5.0% of LRD and may be met with senior unsecured debt that is TLAC eligible. As for the going concern requirement, the going concern requirement also includes add-ons for market share and the LRD. Where low-trigger AT1 or tier 2 capital instruments are used to meet the going concern requirements, such requirements may be reduced by up to 2.86% for the RWA-based requirement and up to 1% for the LRD-based requirement.

The going concern capital and leverage ratio requirements and the going concern loss-absorbing capacity and leverage ratio requirements are further outlined in the table on the next page.

The revised Swiss SRB requirements make the Swiss capital regime one of the most demanding in the world. We intend to

use the transition period up to 1 January 2020 to fully implement the new requirements. We intend to meet the new CET1 leverage ratio requirement of 3.5% by retaining sufficient earnings while maintaining our commitment to total capital returns to shareholders of at least 50% of net profit attributable to shareholders, provided that we maintain a fully applied CET1 capital ratio of at least 13%, and consistent with our objective of maintaining a post-stress fully applied CET1 capital ratio of at least 10%. Furthermore, we plan to continue our issuance of AT1 instruments and TLAC-eligible senior unsecured debt to meet the new requirements without increasing overall funding for the Group. During the second quarter of 2016, we issued the equivalent of CHF 4.9 billion of senior unsecured debt that will contribute to our TLAC under the revised Swiss SRB requirements.

Under the revised Swiss SRB framework, banks are eligible for a rebate of up to 2% on the going concern requirement if they take actions that facilitate recovery and resolvability beyond the minimum requirements to ensure the integrity of systemically important functions in the case of an impending insolvency. FINMA has determined that the measures we have completed support a rebate on the going concern requirement. As we complete additional measures to improve the resolvability of the Group we expect to qualify for a larger rebate and therefore aim to operate with a going concern ratio of less than 4% of LRD when the revised Swiss SRB framework becomes fully effective as of 1 January 2020. The amount of the rebate will be assessed annually by FINMA based on its assessment of completed measures to improve resolvability. The combined reduction applied for resolvability measures and the aforementioned going concern requirement reduction for use of low-trigger AT1 and tier 2 instruments may not exceed 5.7% for the RWA-based requirement and 2% for the LRD-based requirement.

Revised Swiss SRB going and gone concern requirements¹

| | Capital and loss-absorbing capacity ratio (%) | | | | | Leverage ratio (%) | | | | |
|--|---|--------------|--------------|--------------|--------------|---------------------------|-------------|-------------|-------------|--------------|
| | Requirements ² | | | | | Requirements ² | | | | |
| | 1.7.16 | 1.1.17 | 1.1.18 | 1.1.19 | 1.1.20 | 1.7.16 | 1.1.17 | 1.1.18 | 1.1.19 | 1.1.20 |
| Going concern | | | | | | | | | | |
| Minimum capital | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| Buffer capital including applicable add-ons | 2.94 | 4.00 | 4.86 | 5.58 | 6.30 | 0.00 | 0.50 | 1.00 | 1.50 | 2.00 |
| Total going concern | 10.94 | 12.00 | 12.86 | 13.58 | 14.30 | 3.00 | 3.50 | 4.00 | 4.50 | 5.00 |
| <i>of which: common equity tier 1 capital³</i> | <i>8.32</i> | <i>9.00</i> | <i>9.46</i> | <i>9.68</i> | <i>10.00</i> | <i>2.30</i> | <i>2.60</i> | <i>2.90</i> | <i>3.20</i> | <i>3.50</i> |
| <i>of which: max. high-trigger additional tier 1 capital</i> | <i>2.63</i> | <i>3.00</i> | <i>3.40</i> | <i>3.90</i> | <i>4.30</i> | <i>0.70</i> | <i>0.90</i> | <i>1.10</i> | <i>1.30</i> | <i>1.50</i> |
| Gone concern | | | | | | | | | | |
| Base requirement including applicable add-ons | 3.50 | 6.20 | 8.90 | 11.60 | 14.30 | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 |
| Total gone concern | 3.50 | 6.20 | 8.90 | 11.60 | 14.30 | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 |
| Total loss-absorbing capacity | 14.44 | 18.20 | 21.76 | 25.18 | 28.60 | 4.00 | 5.50 | 7.00 | 8.50 | 10.00 |

¹ This table does not include the effect of any potential rebate. ² Prior to the implementation of the Swiss SRB framework, FINMA also defined a total capital ratio target of 14.4% and a total leverage ratio target of 3.5% for UBS Group, which will be effective until they are exceeded by the Swiss SRB phase-in requirements. The revised Swiss SRB requirements effective from 1 July 2016 exceed the defined FINMA targets. ³ Going concern capital ratio requirements as of 1 July 2016 include the countercyclical buffer effect of 0.19%. The requirements for subsequent periods exclude the effect of the countercyclical buffer, as potential future requirements are yet unknown.

Swiss SRB capital

In the second quarter of 2016, our fully applied CET1 capital ratio increased 0.2 percentage points to 14.2%, resulting from a CHF 0.4 billion increase in CET1 capital, while RWA were broadly unchanged. On a phase-in basis, our CET1 capital ratio increased 0.2 percentage points to 17.1%.

Our tier 1 capital ratio increased 0.3 percentage points to 17.8% on a fully applied basis due to the aforementioned increase in CET1 capital and a CHF 0.2 billion increase in AT1 capital.

Post-stress CET1 capital ratio

We are committed to total capital returns to shareholders of at least 50% of net profit attributable to shareholders, provided that we maintain a fully applied CET1 capital ratio of at least 13% and consistent with our objective of maintaining a post-stress fully applied CET1 capital ratio of at least 10%. Our post-stress CET1 capital ratio exceeded the 10% objective as of 30 June 2016.

Current Swiss SRB capital information

| CHF million, except where indicated | Phase-in | | | Fully applied | | |
|--|----------------|---------|----------|----------------|---------|----------|
| | | 31.3.16 | 31.12.15 | | 31.3.16 | 31.12.15 |
| Risk-weighted assets | 216,671 | 216,493 | 212,302 | 213,840 | 213,558 | 207,530 |
| Common equity tier 1 capital | 37,064 | 36,580 | 40,378 | 30,264 | 29,853 | 30,044 |
| Tier 1 capital | 42,934 | 43,541 | 44,559 | 38,049 | 37,438 | 36,198 |
| Total capital | 55,006 | 55,601 | 56,792 | 49,381 | 48,551 | 47,435 |
| Common equity tier 1 capital ratio (%) | 17.1 | 16.9 | 19.0 | 14.2 | 14.0 | 14.5 |
| Tier 1 capital ratio (%) | 19.8 | 20.1 | 21.0 | 17.8 | 17.5 | 17.4 |
| Total capital ratio (%) | 25.4 | 25.7 | 26.8 | 23.1 | 22.7 | 22.9 |

Current Swiss SRB capital ratio requirements and information (phase-in)

| CHF million, except where indicated | Capital ratio (%) | | | | Capital | | | |
|---|--------------------------|---------------------|---------|----------|----------------|-----------------------|---------|----------|
| | Requirement ¹ | Actual ² | | | Requirement | Eligible ² | | |
| | 30.6.16 | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.16 | 30.6.16 | 31.3.16 | 31.12.15 |
| Base capital (common equity tier 1 capital) | 4.5 | 4.5 | 4.5 | 4.5 | 9,750 | 9,750 | 9,742 | 9,554 |
| Buffer capital (common equity tier 1 capital and high-trigger loss-absorbing capital) | 6.4³ | 15.5 | 15.2 | 16.8 | 13,948 | 33,578 | 32,958 | 35,564 |
| of which: effect of countercyclical buffer | 0.2 | 0.2 | 0.2 | 0.2 | 406 | 406 | 415 | 356 |
| Progressive buffer capital (low-trigger loss-absorbing capital) | 3.4 | 5.0 | 5.5 | 5.0 | 7,361 | 10,937 | 11,953 | 10,679 |
| Phase-out capital (tier 2 capital) | | 0.3 | 0.4 | 0.5 | | 741 | 947 | 996 |
| Total | 14.3 | 25.4 | 25.7 | 26.8 | 31,060 | 55,006 | 55,601 | 56,792 |

¹ Prior to the implementation of the Swiss SRB framework, FINMA also defined a total capital ratio target for UBS Group of 14.4%, which will be effective until it is exceeded by the Swiss SRB phase-in requirement. ² Swiss SRB CET1 capital exceeding the base capital requirement is allocated to the buffer capital. ³ CET1 capital can be substituted by high-trigger loss-absorbing capital up to 2.6%.

Capital movement and reconciliation from IFRS equity

Tier 1 capital

During the second quarter of 2016, our CET1 capital increased by CHF 0.4 billion to CHF 30.3 billion on a fully applied basis and by CHF 0.5 billion to CHF 37.1 billion on a phase-in basis, mainly resulting from the second quarter operating profit before tax and foreign currency translation effects, partly offset by accruals for capital returns to shareholders and effects from defined benefit plans and current tax.

Our AT1 capital increased by CHF 0.2 billion to CHF 7.8 billion on a fully applied basis as of 30 June 2016, and included CHF 5.4 billion of high-trigger loss-absorbing capital, of which CHF 1.0 billion related to Deferred Contingent Capital Plan (DCCP) awards granted for the performance years 2014 and 2015, and CHF 2.4 billion of low-trigger loss-absorbing capital.

On a phase-in basis, AT1 capital decreased by CHF 1.1 billion largely due to the call of two hybrid tier 1 capital instruments in the second quarter of 2016.

→ Refer to the “Balance sheet, liquidity and funding management” section of this report for more information

Tier 2 capital

During the second quarter of 2016, our tier 2 capital increased by CHF 0.2 billion to CHF 11.3 billion on a fully applied basis and remained stable at CHF 12.1 billion on a phase-in basis. As of 30 June 2016, our fully applied tier 2 capital included CHF 10.4 billion of low-trigger loss-absorbing capital in the form of one euro-denominated and four US dollar-denominated subordinated notes and CHF 0.9 billion of high-trigger loss-absorbing capital in the form of DCCP awards granted for the performance years 2012 and 2013. The remainder of tier 2 capital of CHF 0.7 billion on a phase-in basis consisted of outstanding phase-out tier 2 capital instruments.

→ Refer to “Bondholder information” at www.ubs.com/investors for more information on capital instruments, including key features and terms and conditions

Swiss SRB capital movement

| CHF million | Phase-in | Fully applied |
|---|----------------|---------------|
| Common equity tier 1 capital as of 31.3.16 | 36,580 | 29,853 |
| Operating profit/(loss) before tax | 1,489 | 1,489 |
| Net (profit)/loss attributable to non-controlling interests | (79) | (79) |
| Current tax effects | (227) | (227) |
| Defined benefit plans | (245) | (281) |
| Foreign currency translation effects | 149 | 110 |
| Other (includes accruals for capital returns to shareholders) | (602) | (600) |
| <i>Total movement</i> | <i>484</i> | <i>411</i> |
| Common equity tier 1 capital as of 30.6.16 | 37,064 | 30,264 |
| Additional tier 1 capital as of 31.3.16 | 6,961 | 7,585 |
| Call of hybrid capital | (1,261) | |
| Foreign currency translation effects and other | 170 | 200 |
| <i>Total movement</i> | <i>(1,091)</i> | <i>200</i> |
| Additional tier 1 capital as of 30.6.16 | 5,870 | 7,785 |
| Tier 2 capital as of 31.3.16 | 12,059 | 11,112 |
| Call of phase-out capital | (156) | |
| Foreign currency translation effects and other | 168 | 219 |
| <i>Total movement</i> | <i>13</i> | <i>219</i> |
| Tier 2 capital as of 30.6.16 | 12,072 | 11,331 |
| Total capital as of 30.6.16 | 55,006 | 49,381 |

Reconciliation IFRS equity to Swiss SRB capital

| CHF million | Phase-in | | | Fully applied | | |
|---|---------------|---------|----------|---------------|---------|----------|
| | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.16 | 31.3.16 | 31.12.15 |
| Total IFRS equity | 53,562 | 56,786 | 57,308 | 53,562 | 56,786 | 57,308 |
| Equity attributable to non-controlling interests | (686) | (1,941) | (1,995) | (686) | (1,941) | (1,995) |
| Defined benefit plans ¹ | (59) | 0 | (20) | (99) | 0 | (50) |
| Deferred tax assets recognized for tax loss carry-forwards ¹ | (4,619) | (4,535) | (2,988) | (7,699) | (7,560) | (7,468) |
| Deferred tax assets on temporary differences, excess over threshold | (822) | (927) | (702) | (1,938) | (2,101) | (2,598) |
| Goodwill, net of tax, less hybrid capital and low-trigger loss-absorbing capital ^{1,2} | (3,847) | (3,793) | (2,618) | (6,412) | (6,322) | (6,545) |
| Intangible assets, net of tax | (272) | (290) | (323) | (272) | (290) | (323) |
| Unrealized (gains)/losses from cash flow hedges, net of tax | (2,332) | (2,151) | (1,638) | (2,332) | (2,151) | (1,638) |
| Compensation and own shares-related components | (1,348) | (1,255) | (2,152) | (1,348) | (1,255) | (2,152) |
| Unrealized own credit related to financial liabilities designated at fair value, net of tax, and replacement values | (390) | (548) | (442) | (390) | (548) | (442) |
| Unrealized gains related to financial assets available for sale, net of tax | (339) | (413) | (402) | (339) | (413) | (402) |
| Prudential valuation adjustments | (63) | (86) | (83) | (63) | (86) | (83) |
| Consolidation scope | (126) | (138) | (130) | (126) | (138) | (130) |
| Other ³ | (1,592) | (4,127) | (3,437) | (1,592) | (4,127) | (3,437) |
| Total common equity tier 1 capital | 37,064 | 36,580 | 40,378 | 30,264 | 29,853 | 30,044 |
| High-trigger loss-absorbing capital | 5,374 | 5,225 | 3,828 | 5,374 | 5,225 | 3,828 |
| Low-trigger loss-absorbing capital | 2,411 | 2,360 | 2,326 | 2,411 | 2,360 | 2,326 |
| Hybrid capital subject to phase-out | 649 | 1,904 | 1,954 | | | |
| Goodwill, net of tax, offset against hybrid capital and low-trigger loss-absorbing capital | (2,565) | (2,529) | (3,927) | | | |
| Total additional tier 1 capital | 5,870 | 6,961 | 4,181 | 7,785 | 7,585 | 6,154 |
| Total tier 1 capital | 42,934 | 43,541 | 44,559 | 38,049 | 37,438 | 36,198 |
| Total tier 2 capital | 12,072 | 12,059 | 12,233 | 11,331 | 11,112 | 11,237 |
| Total capital | 55,006 | 55,601 | 56,792 | 49,381 | 48,551 | 47,435 |

¹ As of 30 June 2016 and 31 March 2016, the phase-in deduction applied was 60%; as of 31 December 2015, the phase-in deduction applied was 40%. ² Includes goodwill related to significant investments in financial institutions (30 June 2016: CHF 344 million, 31 March 2016: CHF 347 million, 31 December 2015: CHF 360 million). ³ Includes accruals for dividends to shareholders and other items.

Additional capital information

Sensitivity to currency movements

Corporate Center – Group Asset and Liability Management (Group ALM) is mandated to minimize the adverse effects from changes in currency rates on our fully applied CET1 capital and CET1 capital ratio. The Group Asset and Liability Management Committee, a committee of the UBS Group Executive Board, can adjust the currency mix in capital, within limits set by the Board of Directors, to balance the effect of foreign exchange movements on the fully applied CET1 capital and capital ratio. Limits are in place for the sensitivity of both CET1 capital and the capital ratio to an appreciation or depreciation of 10% in the value of the Swiss franc against other currencies.

We estimate that a 10% depreciation of the Swiss franc against other currencies would have increased our fully applied RWA by CHF 9 billion and our fully applied CET1 capital by CHF 1.1 billion as of 30 June 2016 (31 March 2016: CHF 9 billion and CHF 0.9 billion, respectively) and reduced our fully applied CET1 capital ratio by 12 basis points (31 March 2016: 19 basis points). Conversely, we estimate that a 10% appreciation of the Swiss franc against other currencies would have reduced our fully applied RWA by CHF 8 billion and our fully applied CET1 capital by CHF 1.0 billion (31 March 2016: CHF 8 billion and CHF 0.8 billion, respectively) and increased our fully applied CET1 capital ratio by 12 basis points (31 March 2016: 18 basis points).

Our leverage ratio is also sensitive to foreign exchange movements due to the currency mix of our capital and LRD. When adjusting the currency mix in capital, potential effects on the leverage ratios are taken into account and the sensitivity of the leverage ratio to an appreciation or depreciation of 10% in the value of the Swiss franc against other currencies is actively monitored.

We estimate that a 10% depreciation of the Swiss franc against other currencies would have increased our fully applied LRD by CHF 70 billion (31 March 2016: CHF 71 billion) and

reduced our fully applied Swiss SRB leverage ratio by 9 basis points (31 March 2016: 11 basis points). Conversely, we estimate that a 10% appreciation of the Swiss franc against other currencies would have reduced our fully applied LRD by CHF 63 billion (31 March 2016: CHF 64 billion) and increased our fully applied Swiss SRB leverage ratio by 10 basis points (31 March 2016: 11 basis points).

These sensitivities do not consider foreign currency translation effects related to defined benefit plans other than those related to the currency translation of the net equity of foreign operations.

Estimated effect on capital from litigation, regulatory and similar matters subject to provisions and contingent liabilities

We have estimated the loss in capital that we could incur as a result of the risks associated with the matters described in “Note 16 Provisions and contingent liabilities” to our consolidated financial statements. This is an estimated amount and is not related and should not be considered in addition to these provisions and contingent liabilities. We have utilized for this purpose the advanced measurement approach (AMA) methodology that we use when determining the capital requirements associated with operational risks, based on a 99.9% confidence level over a 12-month horizon. The methodology takes into consideration UBS and industry experience for the AMA operational risk categories to which those matters correspond, as well as the external environment affecting risks of these types, in isolation from other areas. On this standalone basis, we estimate the loss in capital that we could incur over a 12-month period as a result of our risks associated with these operational risk categories at CHF 4.6 billion as of 30 June 2016. This estimate does not take into account any provisions recognized for any of these matters and does not constitute a subjective assessment of UBS’s actual exposure in any of these matters.

→ Refer to “Note 16 Provisions and contingent liabilities” in the “Consolidated financial statements” section of this report for more information

Risk-weighted assets

Fully applied RWA were broadly unchanged at CHF 213.8 billion as of 30 June 2016, below our short- to medium-term expectation of around CHF 250 billion. As of 30 June 2016, our phase-in RWA were CHF 2.8 billion higher than our fully applied RWA.

Refer to the document “Basel III Pillar 3 First Half 2016 Report,” which will be available from 17 August 2016 under “Pillar 3, SEC filings & other disclosures” at www.ubs.com/investors for more information on our risk-weighted assets.

Risk-weighted assets movement by key driver – fully applied

| CHF billion | RWA as of 31.3.16 | Currency effects | Methodology changes and model updates | Regulatory add-ons | Asset size and other | RWA as of 30.6.16 |
|-------------------------------|----------------------|---------------------|---|-----------------------|-------------------------|----------------------|
| Credit risk | 109.8 | 0.7 | (1.1) | 1.0 | 0.2 | 110.7 |
| Non-counterparty-related risk | 15.9 | 0.1 | | | 0.2 | 16.2 |
| Market risk | 11.4 | | | (1.5) | 0.7 | 10.6 |
| Operational risk | 76.5 | | | | | 76.5 |
| Total | 213.6 | 0.8 | (1.1) | (0.5) | 1.1 | 213.8 |

Credit risk

The decrease in credit risk RWA from methodology changes and model updates of CHF 1.1 billion was mainly driven by the implementation of revised credit conversion factors for off-balance sheet exposures in the Investment Bank. Revised credit conversion factors for exposures in Personal & Corporate Banking and Wealth Management will be implemented in the third quarter of 2016 and are expected to increase credit risk RWA by approximately CHF 3 billion.

The increase of CHF 1.0 billion in credit risk RWA from regulatory add-ons includes CHF 0.8 billion resulting from an increase in the internal ratings-based (IRB) multiplier on Investment Bank exposures to corporates and an additional CHF 0.2 billion resulting from an increase in the IRB multiplier for income-producing real estate in Personal & Corporate Banking and Wealth Management. The multipliers that FINMA requires banks using the IRB approach to apply will continue to increase over time until phase-in implementation is complete by the end of the first quarter of 2019. We expect these increases to add approximately CHF 2 billion to our RWA in the second half of 2016, and an additional CHF 5 billion to CHF 6 billion in each of 2017 and 2018.

The increase of CHF 0.2 billion in credit risk RWA from asset size and other was driven by a CHF 0.5 billion increase in Corporate Center – Non-core and Legacy Portfolio from the advanced credit valuation adjustment (CVA) on derivative exposures, mainly due to market movements following the outcome of the UK referendum on EU membership, partly offset by a decrease in the standardized CVA on derivative exposures as a result of hedging activities.

Market risk

The decrease in market risk RWA of CHF 1.5 billion due to regulatory add-ons was driven largely by the introduction of lower risks-not-in-VaR (RniV) factors into the VaR model following approval by FINMA, primarily impacting the Investment Bank, Corporate Center – Non-core and Legacy Portfolio and Corporate Center – Group ALM. The phase-in of the reduction in RniV factors began in the second quarter and continues during the third quarter of 2016.

Asset size and other increases of CHF 0.7 billion in market risk RWA relate mainly to the Investment Bank, primarily from changes in the risk profile within Equities, partly offset by a decrease in the incremental risk charge in Group ALM.

→ Refer to “Market risk” in the “Risk management and control” section of this report for more information on market risk

Operational risk

Operational risk RWA remained stable at CHF 76.5 billion.

Risk-weighted assets by business division and Corporate Center unit

| CHF billion | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | Total RWA | Total capital requirement ¹ |
|--|-------------------|----------------------------|------------------------------|------------------|-----------------|--------------------|----------------|------------------------------------|-----------|--|
| | 30.6.16 | | | | | | | | | |
| Credit risk | 13.0 | 8.8 | 35.2 | 1.5 | 37.3 | 1.4 | 6.0 | 7.4 | 110.7 | 15.9 |
| Advanced IRB approach ² | 8.8 | 3.3 | 33.0 | 0.9 | 33.7 | 0.2 | 4.7 | 5.7 | 90.4 | 13.0 |
| Standardized approach ³ | 4.2 | 5.4 | 2.2 | 0.6 | 3.7 | 1.2 | 1.3 | 1.7 | 20.3 | 2.9 |
| Non-counterparty-related risk⁴ | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 18.7 | 0.0 | 0.0 | 19.0 | 2.7 |
| Market risk | 0.0 | 1.2 | 0.0 | 0.0 | 9.3 | (3.2) ⁵ | 0.8 | 2.4 | 10.6 | 1.5 |
| Operational risk | 12.9 | 12.7 | 1.6 | 0.9 | 17.1 | 9.7 | 0.1 | 21.5 | 76.5 | 11.0 |
| Total RWA, phase-in | 26.0 | 22.6 | 36.9 | 2.5 | 63.8 | 26.7 | 6.9 | 31.3 | 216.7 | 31.1 |
| Phase-out items ⁶ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.8 | 0.0 | 0.0 | 2.8 | |
| Total RWA, fully applied | 26.0 | 22.6 | 36.9 | 2.4 | 63.8 | 23.9 | 6.9 | 31.3 | 213.8 | |

| | | | | | | | | | | |
|--|---------|------|------|-----|------|--------------------|-----|------|-------|------|
| | 31.3.16 | | | | | | | | | |
| Credit risk | 13.1 | 8.4 | 35.2 | 1.5 | 37.6 | 1.4 | 5.7 | 6.9 | 109.8 | 15.7 |
| Advanced IRB approach ² | 8.9 | 3.2 | 33.0 | 0.9 | 33.7 | 0.2 | 4.2 | 4.6 | 88.6 | 12.7 |
| Standardized approach ³ | 4.2 | 5.2 | 2.2 | 0.6 | 3.9 | 1.3 | 1.5 | 2.3 | 21.1 | 3.0 |
| Non-counterparty-related risk⁴ | 0.1 | 0.0 | 0.1 | 0.0 | 0.0 | 18.6 | 0.0 | 0.0 | 18.8 | 2.7 |
| Market risk | 0.0 | 1.0 | 0.0 | 0.0 | 8.7 | (2.8) ⁵ | 1.3 | 3.2 | 11.4 | 1.6 |
| Operational risk | 12.9 | 12.7 | 1.6 | 0.9 | 17.1 | 9.7 | 0.1 | 21.5 | 76.5 | 11.0 |
| Total RWA, phase-in | 26.1 | 22.1 | 36.9 | 2.4 | 63.4 | 26.9 | 7.1 | 31.6 | 216.5 | 31.0 |
| Phase-out items ⁶ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 2.9 | 0.0 | 0.0 | 2.9 | |
| Total RWA, fully applied | 26.1 | 22.1 | 36.9 | 2.4 | 63.4 | 24.0 | 7.1 | 31.6 | 213.6 | |

| | | | | | | | | | | |
|--|--------------------|-----|-----|-----|-------|-------|-------|-------|-------|--|
| | 30.6.16 vs 31.3.16 | | | | | | | | | |
| Credit risk | (0.1) | 0.4 | 0.0 | 0.0 | (0.3) | 0.0 | 0.3 | 0.5 | 0.9 | |
| Advanced IRB approach ² | (0.1) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | 1.1 | 1.8 | |
| Standardized approach ³ | 0.0 | 0.2 | 0.0 | 0.0 | (0.2) | (0.1) | (0.2) | (0.6) | (0.8) | |
| Non-counterparty-related risk⁴ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.2 | |
| Market risk | 0.0 | 0.2 | 0.0 | 0.0 | 0.6 | (0.4) | (0.5) | (0.8) | (0.8) | |
| Operational risk | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Total RWA, phase-in | (0.1) | 0.5 | 0.0 | 0.1 | 0.4 | (0.2) | (0.2) | (0.3) | 0.2 | |
| Phase-out items ⁶ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | (0.1) | |
| Total RWA, fully applied | (0.1) | 0.5 | 0.0 | 0.0 | 0.4 | (0.1) | (0.2) | (0.3) | 0.2 | |

¹ Calculated on the basis of our Swiss SRB total capital requirement of 14.3% of RWA. ² Includes equity exposures in the banking book according to the simple risk weight method. ³ Includes settlement risk and business transfers. ⁴ Non-counterparty-related risk includes deferred tax assets recognized for temporary differences (30 June 2016: CHF 10.8 billion, 31 March 2016: CHF 10.9 billion), property, equipment and software (30 June 2016: CHF 7.9 billion, 31 March 2016: CHF 7.7 billion) and other items (30 June 2016: CHF 0.3 billion, 31 March 2016: CHF 0.2 billion). ⁵ Corporate Center – Services market risk RWA were negative, as they included the effect of portfolio diversification across businesses. ⁶ Phase-out items are entirely related to non-counterparty-related risk RWA.

Leverage ratio

As of 30 June 2016, our Swiss SRB leverage ratio was 5.5% on a fully applied basis compared with 5.4% as of 31 March 2016. On a phase-in basis, the Swiss SRB leverage ratio remained stable at 6.0%.

Current Swiss SRB leverage ratio

| <i>CHF million, except where indicated</i> | 30.6.16 | 31.3.16 | 31.12.15 |
|--|----------------|----------------|----------------|
| Total IFRS assets | 989,397 | 966,873 | 942,819 |
| Difference between IFRS and regulatory scope of consolidation ¹ | (15,154) | (16,173) | (16,763) |
| Less derivative exposures and securities financing transactions ² | (347,729) | (328,632) | (300,834) |
| On-balance sheet exposures (excluding derivative exposures and securities financing transactions) | 626,513 | 622,069 | 625,222 |
| Derivative exposures | 121,213 | 125,980 | 128,866 |
| Securities financing transactions | 129,742 | 133,829 | 120,086 |
| Off-balance sheet items | 37,836 | 40,943 | 41,132 |
| Items deducted from Swiss SRB tier 1 capital, phase-in | (12,873) | (12,822) | (11,291) |
| Total exposures (leverage ratio denominator), phase-in | 902,431 | 910,000 | 904,014 |
| Additional items deducted from Swiss SRB tier 1 capital, fully applied | (4,236) | (4,199) | (6,407) |
| Total exposures (leverage ratio denominator), fully applied | 898,195 | 905,801 | 897,607 |

Phase-in

| | | | |
|--|---------------|---------------|---------------|
| Common equity tier 1 capital | 37,064 | 36,580 | 40,378 |
| Loss-absorbing capital | 17,201 | 18,073 | 15,418 |
| Common equity tier 1 capital including loss-absorbing capital | 54,265 | 54,654 | 55,796 |
| Swiss SRB leverage ratio (%) | 6.0 | 6.0 | 6.2 |

Fully applied

| | | | |
|--|---------------|---------------|---------------|
| Common equity tier 1 capital | 30,264 | 29,853 | 30,044 |
| Loss-absorbing capital | 19,116 | 18,698 | 17,391 |
| Common equity tier 1 capital including loss-absorbing capital | 49,381 | 48,551 | 47,435 |
| Swiss SRB leverage ratio (%) | 5.5 | 5.4 | 5.3 |

¹ Represents the difference between the IFRS and the regulatory scope of consolidation, which is the applicable scope for the LRD calculation. ² Consists of positive replacement values, cash collateral receivables on derivative instruments, cash collateral on securities borrowed, reverse repurchase agreements, margin loans and prime brokerage receivables related to securities financing transactions in accordance with the regulatory scope of consolidation, which are presented separately under derivative exposures and securities financing transactions in this table.

Current Swiss SRB leverage ratio requirements and information (phase-in)

| <i>CHF million, except where indicated</i> | Swiss SRB leverage ratio (%) | | | | Swiss SRB leverage ratio capital | | | |
|---|------------------------------|---------------------|------------|------------|----------------------------------|-----------------------|---------------|---------------|
| | Requirement ¹ | Actual ² | 31.3.16 | 31.12.15 | Requirement | Eligible ² | 31.3.16 | 31.12.15 |
| Base capital (common equity tier 1 capital) | 1.1 | 1.1 | 1.1 | 1.1 | 9,746 | 9,746 | 9,828 | 9,763 |
| Buffer capital (common equity tier 1 capital and high-trigger loss-absorbing capital) | 1.5 ³ | 3.7 | 3.6 | 3.9 | 13,536 | 33,582 | 32,872 | 35,354 |
| Progressive buffer capital (low-trigger loss-absorbing capital) | 0.8 | 1.2 | 1.3 | 1.2 | 7,358 | 10,937 | 11,953 | 10,679 |
| Total | 3.4 | 6.0 | 6.0 | 6.2 | 30,641 | 54,265 | 54,654 | 55,796 |

¹ Requirements for base capital (24% of 4.5%), buffer capital (24% of 6.3%) and progressive buffer capital (24% of 3.4%). The total leverage ratio requirement of 3.4% is the current phase-in requirement according to the Swiss Capital Adequacy Ordinance. In addition, FINMA defined a total leverage ratio target of 3.5%, which will be effective until it is exceeded by the Swiss SRB phase-in requirement. ² Swiss SRB CET1 capital exceeding the base capital requirement is allocated to the buffer capital. ³ CET1 capital can be substituted by high-trigger LAC up to 0.6%.

Leverage ratio denominator movement by key driver – fully applied

| <i>CHF billion</i> | LRD as of 31.3.16 | Currency effects | Incremental netting and collateral mitigation | Asset size and other | LRD as of 30.6.16 |
|---|------------------------------|---------------------|--|-------------------------|------------------------------|
| On-balance sheet exposures (excluding derivative exposures and SFTs) ¹ | 622.1 | 2.8 | | 1.7 | 626.5 |
| Derivative exposures | 126.0 | 0.7 | (3.6) | (1.9) | 121.2 |
| Securities financing transactions | 133.8 | 1.8 | | (5.9) | 129.7 |
| Off-balance sheet items | 40.9 | 0.4 | | (3.5) | 37.8 |
| Deduction items | (17.0) | (0.2) | | 0.1 | (17.1) |
| Total | 905.8 | 5.5 | (3.6) | (9.5) | 898.2 |

¹ Excludes positive replacement values, cash collateral receivables on derivative instruments, cash collateral on securities borrowed, reverse repurchase agreements, margin loans and prime brokerage receivables related to securities financing transactions, which are presented separately under derivative exposures and securities financing transactions in this table.

The fully applied LRD decreased by CHF 7.6 billion to CHF 898.2 billion and was below our short- to medium-term expectation of around CHF 950 billion. The decrease was driven by asset size and other reductions of CHF 9.5 billion and incremental netting and collateral mitigation effects of CHF 3.6 billion, partly offset by CHF 5.5 billion of currency effects. The LRD movements described below exclude currency effects.

On-balance sheet exposures (excluding derivative exposures and SFTs) increased by CHF 1.7 billion, mainly driven by a CHF 5.9 billion increase in cash due to the unwinding of securities financing transactions in Group ALM, which resulted in a corresponding reduction presented under Securities financing transactions. Moreover, exposures in the Investment Bank increased by CHF 3.1 billion, primarily in trading portfolio assets. These increases were largely offset by a reduction of approximately CHF 7 billion in on-balance sheet exposures in Group ALM, driven by incremental funding requirements in the Investment Bank.

Derivative exposures decreased by CHF 5.5 billion, primarily related to a reduction of CHF 5.9 billion in the Investment Bank and Corporate Center – Non-core and Legacy Portfolio, resulting from the application of the daily settlement option to our interest rate swap transactions with the London Clearing House, which shortened the maturities relevant for calculating the current exposure

method (CEM) add-on. In addition, a CHF 3.6 billion reduction resulted from incremental netting and collateral mitigation benefits in Corporate Center – Non-core and Legacy Portfolio following improved netting of long- and short-written credit derivative positions. These decreases were partly offset by a CHF 4.0 billion increase, largely related to market- and client-driven movements in foreign exchange contracts in the Investment Bank.

Off-balance sheet items decreased by CHF 3.5 billion, primarily due to terminations of committed credit facilities in the Investment Bank, and a decrease in forward starting reverse repurchase agreements in Group ALM.

The effect on the LRD from the derecognition of exchange-traded derivative client cash balances was immaterial, as certain cash collateral positions were already excluded from the LRD calculation.

→ Refer to the **“Balance sheet, liquidity and funding management”** section of this report for more information on balance sheet movements

→ Refer to **“Note 1 Basis of accounting”** in the **“Consolidated financial statements”** section of this report for more information on interest rate swaps transacted with the London Clearing House and the derecognition of exchange-traded derivative client cash balances

Leverage ratio denominator by business division and Corporate Center unit

| CHF billion | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | Total |
|--|---------------------------|----------------------------|------------------------------|------------------|-----------------|---------------|----------------|------------------------------------|--------------|
| | 30.6.16 | | | | | | | | |
| Total IFRS assets | 119.2 | 61.6 | 140.3 | 11.7 | 282.2 | 22.3 | 251.5 | 100.5 | 989.4 |
| Difference in scope of consolidation ¹ | (5.4) | (0.2) | 0.0 | (9.1) | (0.5) | (0.1) | 0.2 | 0.0 | (15.2) |
| Less derivative exposures and SFTs ² | (2.9) | (1.3) | (2.5) | 0.0 | (183.7) | 0.0 | (62.5) | (94.8) | (347.7) |
| On-balance sheet exposures (excluding derivative exposures and securities financing transactions) | 110.9 | 60.1 | 137.8 | 2.5 | 98.0 | 22.2 | 189.2 | 5.7 | 626.5 |
| Derivative exposures | 5.1 | 2.3 | 2.9 | 0.0 | 85.2 | 0.0 | 2.1 | 23.5 | 121.2 |
| Securities financing transactions | 0.0 | 0.4 | 0.0 | 0.0 | 63.8 | 0.0 | 62.7 | 2.9 | 129.7 |
| Off-balance sheet items | 3.4 | 0.9 | 12.1 | 0.0 | 20.1 | 0.0 | 0.8 | 0.6 | 37.8 |
| Items deducted from Swiss SRB tier 1 capital | | | | | | (12.9) | | | (12.9) |
| Total exposures (leverage ratio denominator), phase-in | 119.4 | 63.7 | 152.8 | 2.6 | 267.2 | 9.4 | 254.8 | 32.7 | 902.4 |
| Additional items deducted from Swiss SRB tier 1 capital | | | | | | (4.2) | | | (4.2) |
| Total exposures (leverage ratio denominator), fully applied | 119.4 | 63.7 | 152.8 | 2.6 | 267.2 | 5.1 | 254.8 | 32.7 | 898.2 |
| | 31.3.16 | | | | | | | | |
| Total IFRS assets | 118.2 | 59.0 | 140.2 | 12.1 | 256.6 | 22.2 | 258.8 | 99.8 | 966.9 |
| Difference in scope of consolidation ¹ | (6.0) | (0.2) | 0.0 | (9.5) | (0.6) | (0.1) | 0.2 | 0.0 | (16.2) |
| Less derivative exposures and SFTs ² | (2.7) | (1.8) | (1.9) | 0.0 | (161.0) | 0.0 | (67.2) | (94.0) | (328.6) |
| On-balance sheet exposures (excluding derivative exposures and securities financing transactions) | 109.5 | 57.0 | 138.4 | 2.5 | 94.9 | 22.1 | 191.9 | 5.9 | 622.1 |
| Derivative exposures | 4.5 | 1.7 | 2.4 | 0.0 | 83.5 | 0.0 | 2.4 | 31.4 | 126.0 |
| Securities financing transactions | 0.0 | 1.1 | 0.0 | 0.0 | 61.7 | 0.0 | 68.0 | 3.0 | 133.8 |
| Off-balance sheet items | 3.4 | 1.1 | 11.5 | 0.0 | 22.0 | 0.0 | 2.1 | 0.8 | 40.9 |
| Items deducted from Swiss SRB tier 1 capital | | | | | | (12.8) | | | (12.8) |
| Total exposures (leverage ratio denominator), phase-in | 117.4 | 60.9 | 152.2 | 2.5 | 262.2 | 9.3 | 264.5 | 41.1 | 910.0 |
| Additional items deducted from Swiss SRB tier 1 capital | | | | | | (4.2) | | | (4.2) |
| Total exposures (leverage ratio denominator), fully applied | 117.4 | 60.9 | 152.2 | 2.5 | 262.2 | 5.1 | 264.5 | 41.1 | 905.8 |
| | 30.6.16 vs 31.3.16 | | | | | | | | |
| Total IFRS assets | 1.0 | 2.6 | 0.1 | (0.4) | 25.6 | 0.1 | (7.3) | 0.7 | 22.5 |
| Difference in scope of consolidation ¹ | 0.6 | 0.0 | 0.0 | 0.4 | 0.1 | 0.0 | 0.0 | 0.0 | 1.0 |
| Less derivative exposures and SFTs ² | (0.2) | 0.5 | (0.6) | 0.0 | (22.7) | 0.0 | 4.7 | (0.8) | (19.1) |
| On-balance sheet exposures (excluding derivative exposures and securities financing transactions) | 1.4 | 3.1 | (0.6) | 0.0 | 3.1 | 0.1 | (2.7) | (0.2) | 4.4 |
| Derivative exposures | 0.6 | 0.6 | 0.5 | 0.0 | 1.7 | 0.0 | (0.3) | (7.9) | (4.8) |
| Securities financing transactions | 0.0 | (0.7) | 0.0 | 0.0 | 2.1 | 0.0 | (5.3) | (0.1) | (4.1) |
| Off-balance sheet items | 0.0 | (0.2) | 0.6 | 0.0 | (1.9) | 0.0 | (1.3) | (0.2) | (3.1) |
| Items deducted from Swiss SRB tier 1 capital | | | | | | (0.1) | | | (0.1) |
| Total exposures (leverage ratio denominator), phase-in | 2.0 | 2.8 | 0.6 | 0.1 | 5.0 | 0.1 | (9.7) | (8.4) | (7.6) |
| Additional items deducted from Swiss SRB tier 1 capital | | | | | | 0.0 | | | 0.0 |
| Total exposures (leverage ratio denominator), fully applied | 2.0 | 2.8 | 0.6 | 0.1 | 5.0 | 0.0 | (9.7) | (8.4) | (7.6) |

¹ Represents the difference between the IFRS and the regulatory scope of consolidation, which is the applicable scope for the LRD calculation. ² Consists of positive replacement values, cash collateral receivables on derivative instruments, cash collateral on securities borrowed, reverse repurchase agreements, margin loans and prime brokerage receivables related to securities financing transactions in accordance with the regulatory scope of consolidation, which are presented separately under derivative exposures and securities financing transactions in this table.

Differences between the current Swiss SRB and BIS frameworks

Capital and risk-weighted assets

Our Swiss SRB and BIS capital is the same on both a fully applied and a phase-in basis, except for two specific tier 2 capital items. First, as of 30 June 2016, the amount of our tier 2 high-trigger loss-absorbing capital, in the form of Deferred Contingent Capital Plan awards granted for the performance years 2012 and 2013,

was CHF 619 million higher under Swiss SRB rules than under BIS rules. Second, a portion of unrealized gains on financial assets available for sale, totaling CHF 187 million as of 30 June 2016, was recognized as tier 2 capital under BIS rules, but not under Swiss SRB regulations. Our risk-weighted assets (RWA) are the same under Swiss SRB and BIS rules.

Differences between current Swiss SRB and BIS capital information

| As of 30.6.16 CHF million, except where indicated | Phase-in | | | Fully applied | | |
|--|-----------|---------|-------------|---------------|---------|-------------|
| | Swiss SRB | BIS | Differences | Swiss SRB | BIS | Differences |
| Common equity tier 1 capital | | | | | | |
| Total common equity tier 1 capital | 37,064 | 37,064 | 0 | 30,264 | 30,264 | 0 |
| Additional tier 1 capital | | | | | | |
| High-trigger loss-absorbing capital | 5,374 | 5,374 | 0 | 5,374 | 5,374 | 0 |
| Low-trigger loss-absorbing capital | 496 | 496 | 0 | 2,411 | 2,411 | 0 |
| Total additional tier 1 capital | 5,870 | 5,870 | 0 | 7,785 | 7,785 | 0 |
| Total tier 1 capital | 42,934 | 42,934 | 0 | 38,049 | 38,049 | 0 |
| Tier 2 capital | | | | | | |
| High-trigger loss-absorbing capital | 890 | 271 | 619 | 890 | 271 | 619 |
| Low-trigger loss-absorbing capital | 10,441 | 10,441 | 0 | 10,441 | 10,441 | 0 |
| Phase-out capital and other tier 2 capital | 741 | 927 | (187) | | 187 | (187) |
| Total tier 2 capital | 12,072 | 11,640 | 432 | 11,331 | 10,899 | 432 |
| Total capital | 55,006 | 54,574 | 432 | 49,381 | 48,948 | 432 |
| Risk-weighted assets | 216,671 | 216,671 | 0 | 213,840 | 213,840 | 0 |
| Common equity tier 1 capital ratio (%) | 17.1 | 17.1 | 0.0 | 14.2 | 14.2 | 0.0 |
| Tier 1 capital ratio (%) | 19.8 | 19.8 | 0.0 | 17.8 | 17.8 | 0.0 |
| Total capital ratio (%) | 25.4 | 25.2 | 0.2 | 23.1 | 22.9 | 0.2 |

Leverage ratio

The BIS leverage ratio is calculated by dividing the sum of period-end CET1 and AT1 by the period-end leverage ratio denominator (LRD). The LRD is the same under Swiss SRB and BIS rules. Under

BIS rules, only CET1 and AT1 capital are included in the numerator, whereas under Swiss SRB rules other loss-absorbing capital is also included. As of 30 June 2016, the Swiss SRB numerator was CHF 11.3 billion higher than the BIS numerator (as of 31 March 2016: CHF 11.1 billion higher) on a phase-in and fully applied basis.

BIS Basel III leverage ratio¹

| CHF million, except where indicated | | | |
|--|--|---------|----------|
| Phase-in | | 30.6.16 | 31.12.15 |
| Total tier 1 capital | | 42,934 | 44,559 |
| Total exposures (leverage ratio denominator) | | 902,431 | 904,014 |
| BIS Basel III leverage ratio (%) | | 4.8 | 4.9 |
| Fully applied | | 30.6.16 | 31.12.15 |
| Total tier 1 capital | | 38,049 | 36,198 |
| Total exposures (leverage ratio denominator) | | 898,195 | 897,607 |
| BIS Basel III leverage ratio (%) | | 4.2 | 4.0 |

¹ Refer to the document "UBS Group AG (consolidated) BIS Basel III leverage ratio information" under "Pillar 3, SEC filings & other disclosures" at www.ubs.com/investors, for more information in line with FINMA disclosure requirements.

Equity attribution and return on attributed equity

Average total equity attributed to the business divisions and Corporate Center increased by CHF 0.8 billion to CHF 48.7 billion during the second quarter of 2016, mainly related to an increase in Group items.

→ Refer to the “Capital management” section of our Annual Report 2015 for more information on the equity attribution framework

Average equity attributable to UBS Group AG shareholders decreased to CHF 53.9 billion in the second quarter of 2016 from CHF 55.1 billion in the prior quarter, mainly reflecting the dividend distribution to shareholders for 2015. The difference between average equity attributable to UBS Group AG shareholders and average equity attributed to the business divisions and Corporate Center decreased to CHF 5.2 billion from CHF 7.2 billion.

Average attributed equity

| CHF billion | For the quarter ended | | | Year-to-date | |
|---|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Wealth Management | 3.5 | 3.5 | 3.4 | 3.5 | 3.5 |
| Wealth Management Americas | 2.5 | 2.5 | 2.4 | 2.5 | 2.4 |
| Personal & Corporate Banking | 4.0 | 4.1 | 3.9 | 4.1 | 4.0 |
| Asset Management | 1.4 | 1.4 | 1.6 | 1.4 | 1.7 |
| Investment Bank | 7.7 | 7.7 | 7.3 | 7.7 | 7.3 |
| Corporate Center | 29.6 | 28.7 | 25.9 | 29.2 | 26.0 |
| of which: Services | 23.2 | 22.2 | 19.7 | 22.7 | 19.6 |
| of which: Group items | 21.9 | 21.0 | 18.2 | 21.5 | 18.2 |
| of which: Group ALM | 4.1 | 4.2 | 3.3 | 4.2 | 3.4 |
| of which: Non-core and Legacy Portfolio | 2.3 | 2.3 | 2.9 | 2.3 | 3.1 |
| Average equity attributed to the business divisions and Corporate Center | 48.7 | 47.9 | 44.5 | 48.3 | 44.8 |
| Difference | 5.2 | 7.2 | 6.8 | 6.2 | 6.6 |
| Average equity attributable to UBS Group AG shareholders | 53.9 | 55.1 | 51.3 | 54.5 | 51.4 |

Return on attributed equity and return on equity¹

| In % | For the quarter ended | | | Year-to-date | |
|------------------------------|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Wealth Management | 59.2 | 63.7 | 88.9 | 61.5 | 97.5 |
| Wealth Management Americas | 37.9 | 33.8 | 31.8 | 35.8 | 37.1 |
| Personal & Corporate Banking | 53.4 | 38.9 | 40.7 | 46.1 | 41.7 |
| Asset Management | 32.6 | 25.7 | 32.5 | 29.1 | 36.2 |
| Investment Bank | 14.8 | 13.1 | 30.2 | 13.9 | 36.1 |
| UBS Group | 7.7 | 5.1 | 9.4 | 6.4 | 12.4 |

¹ Return on attributed equity shown for the business divisions and return on equity attributable to UBS Group AG shareholders shown for UBS Group. Return on attributed equity for Corporate Center is not shown, as it is not meaningful.

Return on attributed equity – adjusted^{1,2}

| In % | For the quarter ended | | | Year-to-date | |
|------------------------------|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Wealth Management | 69.3 | 72.7 | 90.5 | 71.0 | 92.9 |
| Wealth Management Americas | 44.0 | 39.0 | 35.8 | 41.5 | 41.1 |
| Personal & Corporate Banking | 46.3 | 41.2 | 42.5 | 43.8 | 43.4 |
| Asset Management | 42.3 | 31.4 | 33.5 | 36.9 | 38.9 |
| Investment Bank | 23.2 | 19.2 | 33.8 | 21.2 | 39.8 |

¹ Return on attributed equity for Corporate Center is not shown, as it is not meaningful. ² Adjusted results are non-GAAP financial measures as defined by SEC regulations. Refer to the “Group performance” section of this report for more information on adjusted results.

UBS shares

UBS Group AG shares are registered shares with a par value of CHF 0.10 per share. They are traded and settled as global registered shares. Global registered shares provide direct and equal ownership for all shareholders, irrespective of the country and stock exchange on which they are traded. UBS Group AG shares are listed on the SIX Swiss Exchange (SIX) and the New York Stock Exchange (NYSE).

Shares issued increased slightly in the second quarter of 2016 due to the issuance of shares out of conditional share capital upon exercise of employee share options.

Treasury shares increased by 14 million shares, reflecting treasury share purchases to hedge our share delivery obligations related to employee share and option participation plans.

UBS Group share information

| | As of or for the quarter ended | | | % change from |
|---|--------------------------------|---------------|---------------|---------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 31.3.16 |
| Shares issued | 3,850,263,351 | 3,850,069,401 | 3,759,320,804 | 0 |
| Treasury shares | 143,744,288 | 129,605,209 | 95,917,796 | 11 |
| Shares outstanding | 3,706,519,063 | 3,720,464,192 | 3,663,403,008 | 0 |
| Basic earnings per share (CHF) ¹ | 0.28 | 0.19 | 0.33 | 47 |
| Diluted earnings per share (CHF) ¹ | 0.27 | 0.18 | 0.32 | 50 |
| Equity attributable to UBS Group AG shareholders (CHF million) | 52,876 | 54,845 | 50,211 | (4) |
| Less: goodwill and intangible assets (CHF million) ² | 6,402 | 6,326 | 6,101 | 1 |
| Tangible equity attributable to UBS Group AG shareholders (CHF million) | 46,474 | 48,519 | 44,110 | (4) |
| Total book value per share (CHF) | 14.27 | 14.74 | 13.71 | (3) |
| Tangible book value per share (CHF) | 12.54 | 13.04 | 12.04 | (4) |
| Share price (CHF) | 12.57 | 15.49 | 19.83 | (19) |
| Market capitalization (CHF million) | 48,398 | 59,638 | 74,547 | (19) |

¹ Refer to "Note 9 Earnings per share (EPS) and shares outstanding" in the "Consolidated financial statements" section of this report for more information on UBS Group AG (consolidated) EPS. ² Goodwill and intangible assets used in the calculation of tangible equity attributable to UBS Group AG shareholders as of 30 June 2015 have been adjusted to reflect the non-controlling interests in UBS AG as of that date.

Ticker symbols UBS Group AG

| Trading exchange | SIX / NYSE | Bloomberg | Reuters |
|-------------------------|------------|-----------|---------|
| SIX Swiss Exchange | UBSG | UBSG VX | UBSG.S |
| New York Stock Exchange | UBS | UBS UN | UBS.N |

Security identification codes

| | |
|---------|-------------------------|
| ISIN | CH0244767585 |
| Valoren | 24 476 758 |
| CUSIP | CINS H42097 10 7 |

Consolidated financial statements

Unaudited

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UBS Group AG interim consolidated financial statements (unaudited)

Income statement

| CHF million, except per share data | Note | For the quarter ended | | | % change from | | Year-to-date | |
|--|------|-----------------------|---------|---------|---------------|------|--------------|---------|
| | | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Interest income | 3 | 3,552 | 3,407 | 3,409 | 4 | 4 | 6,959 | 6,581 |
| Interest expense | 3 | (2,388) | (1,695) | (1,918) | 41 | 25 | (4,083) | (3,454) |
| Net interest income | 3 | 1,164 | 1,712 | 1,490 | (32) | (22) | 2,876 | 3,127 |
| Credit loss (expense)/recovery | | (7) | (3) | (13) | 133 | (46) | (9) | (29) |
| Net interest income after credit loss expense | | 1,158 | 1,709 | 1,478 | (32) | (22) | 2,867 | 3,098 |
| Net fee and commission income | 4 | 4,087 | 4,093 | 4,409 | 0 | (7) | 8,180 | 8,810 |
| Net trading income | 3 | 1,891 | 1,013 | 1,647 | 87 | 15 | 2,904 | 3,781 |
| Other income | 5 | 269 | 17 | 285 | | (6) | 286 | 970 |
| Total operating income | | 7,404 | 6,833 | 7,818 | 8 | (5) | 14,237 | 16,659 |
| Personnel expenses | 6 | 3,985 | 3,924 | 4,124 | 2 | (3) | 7,910 | 8,297 |
| General and administrative expenses | 7 | 1,666 | 1,664 | 1,695 | 0 | (2) | 3,330 | 3,408 |
| Depreciation and impairment of property, equipment and software | | 240 | 243 | 209 | (1) | 15 | 483 | 429 |
| Amortization and impairment of intangible assets | | 24 | 23 | 30 | 4 | (20) | 47 | 58 |
| Total operating expenses | | 5,915 | 5,855 | 6,059 | 1 | (2) | 11,770 | 12,193 |
| Operating profit/(loss) before tax | | 1,489 | 978 | 1,759 | 52 | (15) | 2,467 | 4,467 |
| Tax expense/(benefit) | 8 | 376 | 270 | 443 | 39 | (15) | 646 | 1,113 |
| Net profit/(loss) | | 1,113 | 708 | 1,316 | 57 | (15) | 1,820 | 3,354 |
| Net profit/(loss) attributable to non-controlling interests | | 79 | 0 | 106 | | (25) | 79 | 168 |
| Net profit/(loss) attributable to UBS Group AG shareholders | | 1,034 | 707 | 1,209 | 46 | (14) | 1,741 | 3,186 |
| Earnings per share (CHF) | | | | | | | | |
| Basic | 9 | 0.28 | 0.19 | 0.33 | 47 | (15) | 0.47 | 0.87 |
| Diluted | 9 | 0.27 | 0.18 | 0.32 | 50 | (16) | 0.45 | 0.85 |

Statement of comprehensive income

| CHF million | For the quarter ended | | | Year-to-date | |
|---|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Comprehensive income attributable to UBS Group AG shareholders | | | | | |
| Net profit/(loss) | 1,034 | 707 | 1,209 | 1,741 | 3,186 |
| Other comprehensive income that may be reclassified to the income statement | | | | | |
| Foreign currency translation | | | | | |
| Foreign currency translation movements, before tax | 310 | (953) | (729) | (643) | (1,532) |
| Foreign exchange amounts reclassified to the income statement from equity | 26 | 123 | (2) | 149 | (2) |
| Income tax relating to foreign currency translation movements | (2) | 5 | 4 | 3 | 7 |
| Subtotal foreign currency translation, net of tax | 334 | (825) | (727) | (492) | (1,527) |
| Financial assets available for sale | | | | | |
| Net unrealized gains/(losses) on financial assets available for sale, before tax | 116 | 253 | (101) | 369 | 115 |
| Impairment charges reclassified to the income statement from equity | 3 | 0 | 0 | 3 | 0 |
| Realized gains reclassified to the income statement from equity | (166) | (89) | (85) | (255) | (202) |
| Realized losses reclassified to the income statement from equity | 5 | 13 | 7 | 19 | 22 |
| Income tax relating to net unrealized gains/(losses) on financial assets available for sale | 3 | (46) | 37 | (44) | (1) |
| Subtotal financial assets available for sale, net of tax | (39) | 131 | (143) | 93 | (66) |
| Cash flow hedges | | | | | |
| Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax | 502 | 944 | (410) | 1,445 | (155) |
| Net (gains)/losses reclassified to the income statement from equity | (274) | (303) | (259) | (577) | (496) |
| Income tax relating to cash flow hedges | (47) | (127) | 137 | (174) | 133 |
| Subtotal cash flow hedges, net of tax | 181 | 513 | (532) | 694 | (518) |
| Total other comprehensive income that may be reclassified to the income statement, net of tax | 476 | (181) | (1,403) | 295 | (2,111) |
| Other comprehensive income that will not be reclassified to the income statement | | | | | |
| Defined benefit plans | | | | | |
| Gains/(losses) on defined benefit plans, before tax | (198) | (191) | (568) | (389) | 152 |
| Income tax relating to defined benefit plans | (4) | 12 | 166 | 8 | (15) |
| Subtotal defined benefit plans, net of tax | (202) | (179) | (402) | (381) | 137 |
| Own credit on financial liabilities designated at fair value | | | | | |
| Gains/(losses) from own credit on financial liabilities designated at fair value, before tax | (173) | 68 | 0 | (105) | 0 |
| Income tax relating to own credit on financial liabilities designated at fair value | 16 | (16) | 0 | 0 | 0 |
| Subtotal own credit on financial liabilities designated at fair value, net of tax | (157) | 52 | 0 | (105) | 0 |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | (359) | (127) | (402) | (486) | 137 |
| Total other comprehensive income | 117 | (308) | (1,805) | (191) | (1,974) |
| Total comprehensive income attributable to UBS Group AG shareholders | 1,151 | 399 | (595) | 1,550 | 1,213 |

Statement of comprehensive income (continued)

| CHF million | For the quarter ended | | | Year-to-date | |
|---|-----------------------|--------------|----------------|--------------|----------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Comprehensive income attributable to non-controlling interests | | | | | |
| Net profit/(loss) | 79 | 0 | 106 | 79 | 168 |
| Other comprehensive income that may be reclassified to the income statement | | | | | |
| Other comprehensive income that may be reclassified to the income statement, before tax | 0 | 0 | (21) | 0 | (16) |
| Income tax relating to other comprehensive income that may be reclassified to the income statement | 0 | 0 | 4 | 0 | 3 |
| Total other comprehensive income that may be reclassified to the income statement, net of tax | 0 | 0 | (16) | 0 | (13) |
| Other comprehensive income that will not be reclassified to the income statement | | | | | |
| Foreign currency translation movements, before tax | 329 | (50) | (70) | 278 | (226) |
| Income tax relating to foreign currency translation movements | 0 | 0 | 0 | 0 | 0 |
| Subtotal foreign currency translation, net of tax | 329 | (50) | (70) | 278 | (226) |
| Gains/(losses) on defined benefit plans, before tax | 0 | 0 | (13) | 0 | 1 |
| Income tax relating to defined benefit plans | 0 | 0 | 4 | 0 | 0 |
| Subtotal defined benefit plans, net of tax | 0 | 0 | (9) | 0 | 1 |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | 329 | (50) | (79) | 278 | (225) |
| Total other comprehensive income | 329 | (50) | (96) | 278 | (238) |
| Total comprehensive income attributable to non-controlling interests | 407 | (50) | 11 | 357 | (71) |
| Total comprehensive income | | | | | |
| Net profit/(loss) | 1,113 | 708 | 1,316 | 1,820 | 3,354 |
| Other comprehensive income | 445 | (358) | (1,900) | 87 | (2,212) |
| <i>of which: other comprehensive income that may be reclassified to the income statement</i> | <i>476</i> | <i>(181)</i> | <i>(1,419)</i> | <i>295</i> | <i>(2,124)</i> |
| <i>of which: other comprehensive income that will not be reclassified to the income statement</i> | <i>(30)</i> | <i>(177)</i> | <i>(481)</i> | <i>(207)</i> | <i>(88)</i> |
| Total comprehensive income | 1,558 | 349 | (584) | 1,907 | 1,142 |

Balance sheet

| CHF million | Note | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|--|------------|----------------|----------------|----------------|---------------|----------|
| | | | | | 31.3.16 | 31.12.15 |
| Assets | | | | | | |
| Cash and balances with central banks | | 94,246 | 105,710 | 91,306 | (11) | 3 |
| Due from banks | | 12,964 | 13,551 | 11,948 | (4) | 9 |
| Loans | | 306,881 | 304,873 | 311,954 | 1 | (2) |
| Cash collateral on securities borrowed | 12 | 29,367 | 32,432 | 25,584 | (9) | 15 |
| Reverse repurchase agreements | 12 | 73,289 | 73,562 | 67,893 | 0 | 8 |
| Trading portfolio assets | 10 | 101,217 | 105,276 | 124,035 | (4) | (18) |
| <i>of which: assets pledged as collateral which may be sold or repledged by counterparties</i> | | 30,778 | 32,549 | 51,943 | (5) | (41) |
| Positive replacement values | 10, 11, 12 | 198,441 | 180,518 | 167,435 | 10 | 19 |
| Cash collateral receivables on derivative instruments | 12 | 29,955 | 25,460 | 23,763 | 18 | 26 |
| Financial assets designated at fair value | 10, 12 | 64,241 | 40,976 | 6,146 | 57 | 945 |
| Financial assets available for sale | 10 | 18,211 | 31,266 | 62,543 | (42) | (71) |
| Financial assets held to maturity | | 4,798 | 2,889 | | 66 | |
| Investments in associates | | 950 | 953 | 954 | 0 | 0 |
| Property, equipment and software | | 7,967 | 7,763 | 7,695 | 3 | 4 |
| Goodwill and intangible assets | | 6,402 | 6,326 | 6,568 | 1 | (3) |
| Deferred tax assets | | 12,154 | 12,192 | 12,835 | 0 | (5) |
| Other assets | 13 | 28,314 | 23,123 | 22,160 | 22 | 28 |
| Total assets | | 989,397 | 966,873 | 942,819 | 2 | 5 |

Balance sheet (continued)

| CHF million | Note | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|--|------------|----------------|---------|----------|---------------|----------|
| | | | | | 31.3.16 | 31.12.15 |
| Liabilities | | | | | | |
| Due to banks | | 15,259 | 11,350 | 11,836 | 34 | 29 |
| Due to customers | | 409,084 | 401,504 | 390,185 | 2 | 5 |
| Cash collateral on securities lent | 12 | 6,301 | 6,353 | 8,029 | (1) | (22) |
| Repurchase agreements | 12 | 8,043 | 6,516 | 9,653 | 23 | (17) |
| Trading portfolio liabilities | 10 | 29,614 | 33,157 | 29,137 | (11) | 2 |
| Negative replacement values | 10, 11, 12 | 196,006 | 179,018 | 162,430 | 9 | 21 |
| Cash collateral payables on derivative instruments | 12 | 36,352 | 36,690 | 38,282 | (1) | (5) |
| Financial liabilities designated at fair value | 10, 12, 14 | 59,664 | 57,761 | 62,995 | 3 | (5) |
| Debt issued | 15 | 104,659 | 101,316 | 93,147 | 3 | 12 |
| Provisions | 16 | 3,656 | 3,961 | 4,164 | (8) | (12) |
| Other liabilities | 13 | 67,198 | 72,461 | 75,652 | (7) | (11) |
| Total liabilities | | 935,835 | 910,088 | 885,511 | 3 | 6 |
| Equity | | | | | | |
| Share capital | | 385 | 385 | 385 | 0 | 0 |
| Share premium | | 27,860 | 30,784 | 31,164 | (9) | (11) |
| Treasury shares | | (2,333) | (2,138) | (1,693) | 9 | 38 |
| Retained earnings | | 30,716 | 30,041 | 29,504 | 2 | 4 |
| Other comprehensive income recognized directly in equity, net of tax | | (3,752) | (4,228) | (4,047) | (11) | (7) |
| Equity attributable to UBS Group AG shareholders | | 52,876 | 54,845 | 55,313 | (4) | (4) |
| Equity attributable to non-controlling interests | | 686 | 1,941 | 1,995 | (65) | (66) |
| Total equity | | 53,562 | 56,786 | 57,308 | (6) | (7) |
| Total liabilities and equity | | 989,397 | 966,873 | 942,819 | 2 | 5 |

Statement of changes in equity

| <i>CHF million</i> | Share capital | Share premium | Treasury shares | Retained earnings |
|--|---------------|----------------------|-----------------|-------------------|
| Balance as of 1 January 2015 | 372 | 32,590 | (1,393) | 22,134 |
| Issuance of share capital | 0 | | | |
| Acquisition of treasury shares | | | (1,403) | |
| Disposal of treasury shares | | | 1,166 | |
| Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity | | (45) | | |
| Premium on shares issued and warrants exercised | | 23 | | |
| Employee share and share option plans | | (54) | | |
| Tax (expense) / benefit recognized in share premium | | 2 | | |
| Dividends | | (1,822) ² | | |
| Equity classified as obligation to purchase own shares | | 0 | | |
| Total comprehensive income for the period | | | | 3,323 |
| <i>of which: net profit / (loss)</i> | | | | 3,186 |
| <i>of which: other comprehensive income that may be reclassified to the income statement, net of tax</i> | | | | |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – defined benefit plans</i> | | | | 137 |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – foreign currency translation</i> | | | | |
| Changes to legal structure / reorganization: Increase in UBS Group AG's ownership interest in UBS AG | 3 | 312 | 7 | 248 |
| Balance as of 30 June 2015 | 375 | 31,005 | (1,624) | 25,704 |
| Balance as of 1 January 2016 | 385 | 31,164 | (1,693) | 29,504 |
| Issuance of share capital | 0 | | | |
| Acquisition of treasury shares | | | (1,350) | |
| Disposal of treasury shares | | | 710 | |
| Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity | | (18) | | |
| Premium on shares issued and warrants exercised | | 2 | | |
| Employee share and share option plans | | (178) | | |
| Tax (expense) / benefit recognized in share premium | | 10 | | |
| Dividends | | (3,164) ² | | |
| Preferred notes | | | | |
| New consolidations / (deconsolidations) and other increases / (decreases) | | 43 | | (43) |
| Total comprehensive income for the period | | | | 1,255 |
| <i>of which: net profit / (loss)</i> | | | | 1,741 |
| <i>of which: other comprehensive income that may be reclassified to the income statement, net of tax</i> | | | | |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – defined benefit plans</i> | | | | (381) |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – own credit</i> | | | | (105) |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – foreign currency translation</i> | | | | |
| Balance as of 30 June 2016 | 385 | 27,860 | (2,333) | 30,716 |

¹ Excludes defined benefit plans and own credit that are recorded directly in Retained earnings. ² Reflects the payment of an ordinary cash dividend of CHF 0.60 (2015: CHF 0.50) and the payment of a special cash dividend of CHF 0.25 per dividend-bearing share out of the capital contribution reserve.

| Other comprehensive income recognized directly in equity, net of tax ¹ | <i>of which:</i> <i>foreign currency translation</i> | <i>of which:</i> <i>financial assets available for sale</i> | <i>of which:</i> <i>cash flow hedges</i> | Total equity attributable to UBS Group AG shareholders | Non-controlling interests | Total equity |
|---|---|--|---|--|---------------------------|---------------|
| (3,093) | (5,406) | 228 | 2,084 | 50,608 | 3,760 | 54,368 |
| | | | | 0 | | 0 |
| | | | | (1,403) | | (1,403) |
| | | | | 1,166 | | 1,166 |
| | | | | (45) | | (45) |
| | | | | 23 | | 23 |
| | | | | (54) | | (54) |
| | | | | 2 | | 2 |
| | | | | (1,822) | (123) | (1,945) |
| | | | | 0 | | 0 |
| (2,111) | (1,527) | (66) | (518) | 1,213 | (71) | 1,142 |
| | | | | 3,186 | 168 | 3,354 |
| (2,111) | (1,527) | (66) | (518) | (2,111) | (13) | (2,124) |
| | | | | 137 | 1 | 138 |
| | | | | 0 | (226) | (226) |
| (45) | (70) | 3 | 22 | 525 | (525) | 0 |
| (5,249) | (7,002) | 165 | 1,589 | 50,211 | 3,042 | 53,253 |
| (4,047) | (5,857) | 172 | 1,638 | 55,313 | 1,995 | 57,308 |
| | | | | 0 | | 0 |
| | | | | (1,350) | | (1,350) |
| | | | | 710 | | 710 |
| | | | | (18) | | (18) |
| | | | | 2 | | 2 |
| | | | | (178) | | (178) |
| | | | | 10 | | 10 |
| | | | | (3,164) | (83) | (3,246) |
| | | | | 0 | (1,584) | (1,584) |
| | | | | 0 | 0 | 0 |
| 295 | (492) | 93 | 694 | 1,550 | 357 | 1,907 |
| | | | | 1,741 | 79 | 1,820 |
| 295 | (492) | 93 | 694 | 295 | | 295 |
| | | | | (381) | | (381) |
| | | | | (105) | | (105) |
| | | | | 0 | 278 | 278 |
| (3,752) | (6,348) | 264 | 2,332 | 52,876 | 686 | 53,562 |

Statement of cash flows

| | Year-to-date | |
|--|-----------------|----------|
| <i>CHF million</i> | 30.6.16 | 30.6.15 |
| Cash flow from / (used in) operating activities | | |
| Net profit / (loss) | 1,820 | 3,354 |
| Non-cash items included in net profit and other adjustments: | | |
| Depreciation and impairment of property, equipment and software | 483 | 429 |
| Amortization and impairment of intangible assets | 47 | 58 |
| Credit loss expense / (recovery) | 9 | 29 |
| Share of net profits of associates | (40) | (52) |
| Deferred tax expense / (benefit) | 242 | 691 |
| Net loss / (gain) from investing activities | (798) | (673) |
| Net loss / (gain) from financing activities | 6,781 | (2,980) |
| Other net adjustments | (544) | 7,925 |
| Net change in operating assets and liabilities: | | |
| Due from / to banks | 3,320 | 2,843 |
| Cash collateral on securities borrowed and reverse repurchase agreements | (13,109) | (1,019) |
| Cash collateral on securities lent and repurchase agreements | (1,832) | 3,537 |
| Trading portfolio and replacement values | 14,850 | 6,394 |
| Financial assets designated at fair value | (59,480) | (657) |
| Cash collateral on derivative instruments | (6,824) | 2,608 |
| Loans | 1,360 | (6,144) |
| Due to customers | 21,506 | (21,494) |
| Other assets, provisions and other liabilities | (6,085) | (4,013) |
| Income taxes paid, net of refunds | (209) | (210) |
| Net cash flow from / (used in) operating activities | (38,503) | (9,374) |
| Cash flow from / (used in) investing activities | | |
| Purchase of subsidiaries, associates and intangible assets | (23) | (38) |
| Disposal of subsidiaries, associates and intangible assets ¹ | 72 | 190 |
| Purchase of property, equipment and software | (952) | (795) |
| Disposal of property, equipment and software | 193 | 520 |
| Purchase of financial assets available for sale | (7,363) | (65,516) |
| Disposal and redemption of financial assets available for sale | 51,112 | 49,967 |
| Net (purchase) / redemption of financial assets held to maturity | (4,878) | |
| Net cash flow from / (used in) investing activities | 38,159 | (15,673) |

Table continues on the next page.

Statement of cash flows (continued)

Table continued from previous page.

| CHF million | Year-to-date | |
|--|----------------|----------|
| | 2016 | 2015 |
| | 30.6.16 | 30.6.15 |
| Cash flow from/(used in) financing activities | | |
| Net short-term debt issued/(repaid) | 9,797 | 5,353 |
| Net movements in treasury shares and own equity derivative activity | (1,274) | (801) |
| Distributions paid on UBS shares | (3,164) | (1,822) |
| Issuance of long-term debt, including financial liabilities designated at fair value | 18,857 | 33,204 |
| Repayment of long-term debt, including financial liabilities designated at fair value | (17,365) | (25,044) |
| Net changes in non-controlling interests and preferred notes | (1,371) | (125) |
| Net cash flow from/(used in) financing activities | 5,480 | 10,765 |
| Effects of exchange rate differences on cash and cash equivalents | (1,293) | (5,595) |
| Net increase/(decrease) in cash and cash equivalents | 3,844 | (19,876) |
| Cash and cash equivalents at the beginning of the period | 103,044 | 116,715 |
| Cash and cash equivalents at the end of the period | 106,888 | 96,838 |
| Cash and cash equivalents comprise: | | |
| Cash and balances with central banks | 94,181 | 84,646 |
| Due from banks | 11,707 | 11,720 |
| Money market paper ² | 1,001 | 473 |
| Total³ | 106,888 | 96,838 |
| Additional information | | |
| Net cash flow from/(used in) operating activities include: | | |
| Cash received as interest | 5,992 | 5,313 |
| Cash paid as interest | 3,417 | 2,929 |
| Cash received as dividends on equity investments, investment funds and associates ⁴ | 999 | 1,182 |

¹ Includes dividends received from associates. ² Money market paper is included in the balance sheet under Trading portfolio assets, Financial assets available for sale and Financial assets designated at fair value. ³ Comprises balances with an original maturity of three months or less. CHF 3,631 million and CHF 3,404 million of cash and cash equivalents (mainly reflected in Due from banks) were restricted as of 30 June 2016 and 30 June 2015, respectively. Refer to Note 25 in the Annual Report 2015 for more information. ⁴ Includes dividends received from associates reported within cash flow from/(used in) investing activities.

Notes to the UBS Group AG interim consolidated financial statements (unaudited)

Note 1 Basis of accounting

The consolidated financial statements (the Financial Statements) of UBS Group AG and its subsidiaries (together "UBS" or "the Group") 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 Group AG is incorporated. These interim Financial Statements are prepared in accordance with IAS 34, *Interim Financial Reporting*.

In preparing these interim Financial Statements, the same accounting policies and methods of computation have been applied as in the UBS Group AG consolidated annual Financial Statements for the period ended 31 December 2015, except for the changes described below and in "Note 1 Basis of accounting" in the "Consolidated financial statements" section of the first quarter 2016 report. These interim Financial Statements are unaudited and should be read in conjunction with UBS Group AG's audited consolidated Financial Statements included in the Annual Report 2015. In the opinion of management, all necessary adjustments were made for a fair presentation of the Group's financial position, results of operations and cash flows.

Preparation of these interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosures of contingent assets and liabilities. These estimates and assumptions are based on the best available information. Actual results in the future could differ from such estimates and such differences may be material to the Financial Statements. Revisions to estimates, based on regular reviews, are recognized in the period in which they occur. For more information on areas of estimation uncertainty considered to require critical judgment, refer to item 2 of "Note 1a Significant accounting policies" in the audited "Consolidated financial statements" section of the Annual Report 2015.

London Clearing House interest rate swaps converted to a settlement model

Effective 30 June 2016, UBS elected to convert its interest rate swaps (IRS) transacted with the London Clearing House from the previous collateral model to a settlement model. The IRS are now legally settled on a daily basis resulting in the derecognition of the associated assets and liabilities. Previously, UBS applied IAS 32 netting principles to offset the IRS with the associated variation margin. Gross cash collateral receivables and payables on derivative instruments and corresponding netting presented in Note 12 decreased by CHF 93 billion as of 30 June 2016, with no change to net cash collateral receivables and payables on derivative instruments recognized on the balance sheet.

→ Refer to Note 12 for more information

Derecognition of exchange-traded derivative client cash balances from the Group's balance sheet

In accordance with the Group's accounting policy, client cash balances associated with derivatives clearing and execution services are not recognized on the balance sheet if, through contractual agreement, regulation or practice, the Group does not obtain benefits from or control the client cash balances. These conditions are considered to have been met when (i) the Group is not permitted to reinvest client cash balances; (ii) interest paid by central counterparties (CCPs), brokers or deposit banks on cash deposits forms part of the client cash balances with deductions being made solely as compensation for clearing and execution services provided; (iii) the Group does not guarantee and is not liable to clients for the performance of the CCP, broker or deposit bank; and (iv) the client cash balances are legally isolated from the Group's estate.

During the second quarter of 2016, the Group formally and legally waived certain rights available to it under the rules of the US Commodity Futures Trading Commission that had previously enabled it to invest certain client cash balances in other assets, making them a source of benefit to the Group. As a result, the Group derecognized related client cash balances. Consequently, *Cash collateral receivables on derivative instruments* decreased by CHF 2.8 billion, *Due from banks* decreased by CHF 0.9 billion and *Cash collateral payables on derivative instruments* decreased by CHF 3.6 billion as of 30 June 2016.

Amendments to IFRS 2 Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, which are mandatorily effective for UBS on 1 January 2018, with early adoption permitted. The amendments require that the approach used to account for vesting conditions when measuring cash-settled share-based payments is consistent with

that used for equity-settled share-based payments. The amendments also clarify the classification of share-based payments settled net of withholding tax as well as the accounting consequences resulting from a modification of share-based payments from cash-settled to equity-settled. UBS expects that the adoption of these amendments will not have a material impact on its financial statements.

Note 2 Segment reporting

UBS's businesses are organized globally into five business divisions: Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank, supported by Corporate Center. The five business divisions qualify as reportable segments for the purpose of segment reporting and, together with Corporate Center and its

units, reflect the management structure of the Group. Refer to "Note 1a item 34 Segment reporting" and "Note 2 Segment reporting" in the audited "Consolidated financial statements" section of the Annual Report 2015 for more information on the Group's reporting segments.

Note 2 Segment reporting (continued)

| | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | Corporate Center | | | UBS |
|--|-------------------|----------------------------|------------------------------|------------------|-----------------|------------------|--------------|-------------------------------|--------------|
| | | | | | | Services | Group ALM | Non-core and Legacy Portfolio | |
| <i>CHF million</i> | | | | | | | | | |
| For the six months ended 30 June 2016 | | | | | | | | | |
| Net interest income | 954 | 652 | 957 | (17) | 140 | (161) | 396 | (44) | 2,876 |
| Non-interest income | 2,541 | 3,074 | 908 | 963 | 3,860 | 147 | (190) | 64 | 11,370 |
| Allocations from Corporate Center – Group ALM to business divisions and other CC units | 207 | 44 | 180 | 5 | (116) | 36 | (311) | (46) | 0 |
| Income | 3,702 | 3,771 | 2,046 | 951 | 3,883 | 23 | (104) | (26) | 14,246 |
| Credit loss (expense)/recovery | (1) | (2) | 2 | 0 | (5) | 0 | 0 | (3) | (9) |
| Total operating income | 3,700 | 3,769 | 2,048 | 951 | 3,879 | 23 | (104) | (29) | 14,237 |
| Personnel expenses | 1,205 | 2,398 | 425 | 367 | 1,555 | 1,916 | 15 | 28 | 7,910 |
| General and administrative expenses | 268 | 277 | 121 | 115 | 362 | 2,058 | 8 | 122 | 3,330 |
| Services (to) / from business divisions and Corporate Center | 1,148 | 618 | 561 | 262 | 1,405 | (4,106) | (23) | 134 | 0 |
| <i>of which: services from CC – Services</i> | <i>1,107</i> | <i>611</i> | <i>609</i> | <i>275</i> | <i>1,352</i> | <i>(4,119)</i> | <i>55</i> | <i>111</i> | <i>0</i> |
| Depreciation and impairment of property, equipment and software | 1 | 1 | 8 | 1 | 13 | 460 | 0 | 0 | 483 |
| Amortization and impairment of intangible assets | 2 | 26 | 0 | 2 | 6 | 11 | 0 | 0 | 47 |
| Total operating expenses ¹ | 2,624 | 3,320 | 1,115 | 747 | 3,342 | 338 | 0 | 283 | 11,770 |
| Operating profit/(loss) before tax | 1,076 | 448 | 933 | 204 | 537 | (315) | (104) | (312) | 2,467 |
| Tax expense/(benefit) | | | | | | | | | 646 |
| Net profit/(loss) | | | | | | | | | 1,820 |

As of 30 June 2016

| | | | | | | | | | |
|---------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|----------------|----------------|
| Total assets | 119,201 | 61,605 | 140,322 | 11,662 | 282,240 | 22,344 | 251,495 | 100,527 | 989,397 |
|---------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|----------------|----------------|

For the six months ended 30 June 2015²

| | | | | | | | | | |
|--|--------------|------------|------------|------------|--------------|----------------|------------|--------------|--------------|
| Net interest income | 874 | 492 | 937 | (18) | 609 | (165) | 431 | (35) | 3,127 |
| Non-interest income | 3,217 | 3,080 | 808 | 996 | 4,495 | 413 | 500 | 54 | 13,561 |
| Allocations from Corporate Center – Group ALM to business divisions and other CC units | 236 | 52 | 210 | 9 | (86) | 86 | (480) | (27) | 0 |
| Income | 4,327 | 3,624 | 1,956 | 987 | 5,018 | 333 | 451 | (8) | 16,688 |
| Credit loss (expense)/recovery | 0 | 0 | (25) | 0 | (6) | 0 | 0 | 2 | (29) |
| Total operating income | 4,327 | 3,624 | 1,931 | 987 | 5,012 | 333 | 451 | (6) | 16,659 |
| Personnel expenses | 1,316 | 2,245 | 447 | 342 | 1,948 | 1,915 | 15 | 69 | 8,297 |
| General and administrative expenses | 245 | 319 | 117 | 110 | 351 | 2,166 | 8 | 92 | 3,408 |
| Services (to) / from business divisions and Corporate Center | 1,055 | 589 | 534 | 233 | 1,366 | (3,946) | (20) | 190 | 0 |
| <i>of which: services from CC – Services</i> | <i>1,027</i> | <i>583</i> | <i>584</i> | <i>241</i> | <i>1,336</i> | <i>(3,963)</i> | <i>34</i> | <i>159</i> | <i>0</i> |
| Depreciation and impairment of property and equipment | 3 | 1 | 8 | 1 | 13 | 403 | 0 | 0 | 429 |
| Amortization and impairment of intangible assets | 2 | 25 | 0 | 3 | 18 | 11 | 0 | 0 | 58 |
| Total operating expenses ¹ | 2,621 | 3,179 | 1,106 | 688 | 3,695 | 549 | 2 | 351 | 12,193 |
| Operating profit/(loss) before tax | 1,707 | 445 | 824 | 299 | 1,317 | (217) | 449 | (357) | 4,467 |
| Tax expense/(benefit) | | | | | | | | | 1,113 |
| Net profit/(loss) | | | | | | | | | 3,354 |

As of 31 December 2015

| | | | | | | | | | |
|---------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
| Total assets | 119,850 | 60,993 | 141,164 | 12,874 | 253,486 | 22,566 | 237,517 | 94,369 | 942,819 |
|---------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|

¹ Refer to Note 18 for information on restructuring expenses. ² Figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period.

Note 3 Net interest and trading income

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|--------------|--------------|---------------|-------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Net interest and trading income | | | | | | | |
| Net interest income | 1,164 | 1,712 | 1,490 | (32) | (22) | 2,876 | 3,127 |
| Net trading income | 1,891 | 1,013 | 1,647 | 87 | 15 | 2,904 | 3,781 |
| Total net interest and trading income | 3,055 | 2,725 | 3,137 | 12 | (3) | 5,780 | 6,909 |
| Wealth Management | 736 | 750 | 711 | (2) | 4 | 1,486 | 1,517 |
| Wealth Management Americas | 446 | 439 | 375 | 2 | 19 | 885 | 732 |
| Personal & Corporate Banking | 643 | 643 | 628 | 0 | 2 | 1,286 | 1,315 |
| Asset Management | (1) | (8) | (2) | (88) | (50) | (9) | (8) |
| Investment Bank | 1,171 | 1,021 | 1,341 | 15 | (13) | 2,192 | 3,058 |
| of which: Corporate Client Solutions | 251 | 120 | 212 | 109 | 18 | 371 | 486 |
| of which: Investor Client Services | 920 | 901 | 1,128 | 2 | (18) | 1,820 | 2,572 |
| Corporate Center | 61 | (120) | 84 | | (27) | (59) | 294 |
| of which: Services | (13) | (9) | (11) | 44 | 18 | (22) | 14 |
| of which: Group ALM | 58 | (68) | 130 | | (55) | (10) | 397 |
| of which: own credit on financial liabilities designated at fair value | | | 259 | | | | 486 |
| of which: Non-core and Legacy Portfolio | 16 | (43) | (34) | | | (27) | (118) |
| Total net interest and trading income | 3,055 | 2,725 | 3,137 | 12 | (3) | 5,780 | 6,909 |
| Net interest income | | | | | | | |
| Interest income | | | | | | | |
| Interest income from loans and deposits ¹ | 2,349 | 2,330 | 2,141 | 1 | 10 | 4,679 | 4,239 |
| Interest income from securities financing transactions ² | 284 | 252 | 215 | 13 | 32 | 536 | 407 |
| Interest income from trading portfolio ³ | 781 | 688 | 904 | 14 | (14) | 1,469 | 1,660 |
| Interest income from financial assets and liabilities designated at fair value | 76 | 73 | 48 | 4 | 58 | 148 | 91 |
| Interest income from financial assets available for sale and held to maturity ³ | 63 | 65 | 101 | (3) | (38) | 128 | 185 |
| Total | 3,552 | 3,407 | 3,409 | 4 | 4 | 6,959 | 6,581 |
| Interest expense | | | | | | | |
| Interest expense on loans and deposits ⁴ | 209 | 182 | 121 | 15 | 73 | 390 | 259 |
| Interest expense on securities financing transactions ⁵ | 332 | 286 | 254 | 16 | 31 | 618 | 446 |
| Interest expense on trading portfolio ⁶ | 951 | 376 | 753 | 153 | 26 | 1,327 | 1,163 |
| Interest expense on financial assets and liabilities designated at fair value | 197 | 201 | 178 | (2) | 11 | 398 | 369 |
| Interest expense on debt issued | 698 | 651 | 612 | 7 | 14 | 1,349 | 1,217 |
| Total | 2,388 | 1,695 | 1,918 | 41 | 25 | 4,083 | 3,454 |
| Net interest income | 1,164 | 1,712 | 1,490 | (32) | (22) | 2,876 | 3,127 |
| Net trading income | | | | | | | |
| Investment Bank Corporate Client Solutions | 91 | (38) | 53 | | 72 | 52 | 167 |
| Investment Bank Investor Client Services | 1,309 | 802 | 1,128 | 63 | 16 | 2,112 | 2,364 |
| Other business divisions and Corporate Center | 491 | 249 | 466 | 97 | 5 | 740 | 1,251 |
| Net trading income | 1,891 | 1,013 | 1,647 | 87 | 15 | 2,904 | 3,781 |
| of which: net gains/(losses) from financial liabilities designated at fair value ⁷ | (648) | 1,059 | 1,247 | | | 411 | 259 |

¹ Consists of interest income from balances with central banks, amounts due from banks and loans, and negative interest on amounts due to banks and customers. ² Includes interest income on securities borrowed and reverse repurchase agreements and negative interest, including fees, on securities lent and repurchase agreements. ³ Includes dividend income. ⁴ Consists of interest expense on amounts due to banks and customers, and negative interest on balances with central banks, amounts due from banks and loans. ⁵ Includes interest expense on securities lent and repurchase agreements and negative interest, including fees, on securities borrowed and reverse repurchase agreements. ⁶ Includes expense related to dividend payment obligations on trading liabilities. ⁷ Excludes fair value changes of hedges related to financial liabilities designated at fair value and foreign currency translation effects arising from translating foreign currency transactions into the respective functional currency, both of which are reported within net trading income.

Note 4 Net fee and commission income

| <i>CHF million</i> | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|---------|---------|---------------|------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Underwriting fees | 282 | 221 | 385 | 28 | (27) | 503 | 730 |
| <i>of which: equity underwriting fees</i> | 137 | 113 | 267 | 21 | (49) | 250 | 496 |
| <i>of which: debt underwriting fees</i> | 145 | 107 | 118 | 36 | 23 | 252 | 234 |
| M&A and corporate finance fees | 176 | 139 | 190 | 27 | (7) | 315 | 368 |
| Brokerage fees | 879 | 966 | 995 | (9) | (12) | 1,846 | 2,073 |
| Investment fund fees | 779 | 814 | 916 | (4) | (15) | 1,593 | 1,839 |
| Portfolio management and advisory fees | 1,968 | 1,966 | 1,951 | 0 | 1 | 3,934 | 3,892 |
| Other | 438 | 426 | 445 | 3 | (2) | 864 | 866 |
| Total fee and commission income | 4,522 | 4,533 | 4,883 | 0 | (7) | 9,055 | 9,767 |
| Brokerage fees paid | 192 | 197 | 210 | (3) | (9) | 390 | 442 |
| Other | 243 | 242 | 264 | 0 | (8) | 486 | 514 |
| Total fee and commission expense | 436 | 440 | 474 | (1) | (8) | 875 | 957 |
| Net fee and commission income | 4,087 | 4,093 | 4,409 | 0 | (7) | 8,180 | 8,810 |
| <i>of which: net brokerage fees</i> | 687 | 769 | 785 | (11) | (12) | 1,456 | 1,630 |

Note 5 Other income

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|--------------|------------|---------------|------------|--------------|------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Associates and subsidiaries | | | | | | | |
| Net gains/(losses) from disposals of subsidiaries ¹ | (49) | (123) | 2 | (60) | | (172) | 143 |
| Net gains/(losses) from disposals of investments in associates | 0 | 0 | 0 | | | 0 | 0 |
| Share of net profits of associates | 22 | 18 | 29 | 22 | (24) | 40 | 52 |
| Total | (27) | (104) | 31 | (74) | | (132) | 196 |
| Financial assets available for sale | | | | | | | |
| Net gains/(losses) from disposals | 161 | 76 | 80 | 112 | 101 | 237 | 185 |
| Impairment charges | (3) | 0 | 0 | | | (3) | 0 |
| Total | 158 | 76 | 80 | 108 | 98 | 233 | 185 |
| Net income from properties (excluding net gains/(losses) from disposals) ² | 7 | 7 | 7 | 0 | 0 | 14 | 13 |
| Net gains/(losses) from investment properties | 1 | 0 | (2) | | | 1 | (2) |
| Net gains/(losses) from disposals of properties held for sale | 120 | 0 | 1 | | | 120 | 378 |
| Net gains/(losses) from disposals of loans and receivables | 0 | (1) | 0 | (100) | | (1) | 26 |
| Other | 9 | 40 | 168 | (78) | (95) | 49 | 173 |
| Total other income | 269 | 17 | 285 | | (6) | 286 | 970 |

¹ Includes foreign exchange gains/(losses) reclassified from other comprehensive income related to disposed foreign subsidiaries and branches. ² Includes net rent received from third parties and net operating expenses.

Note 6 Personnel expenses

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|--------------|--------------|---------------|------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Salaries and variable compensation | 2,530 | 2,360 | 2,617 | 7 | (3) | 4,890 | 5,242 |
| Contractors | 117 | 101 | 88 | 16 | 33 | 218 | 169 |
| Social security | 158 | 184 | 207 | (14) | (24) | 342 | 437 |
| Pension and other post-employment benefit plans | 151 | 199 | 188 | (24) | (20) | 350 | 412 |
| Wealth Management Americas: Financial advisor compensation ¹ | 911 | 909 | 878 | 0 | 4 | 1,820 | 1,748 |
| Other personnel expenses | 117 | 172 | 147 | (32) | (20) | 289 | 289 |
| Total personnel expenses² | 3,985 | 3,924 | 4,124 | 2 | (3) | 7,910 | 8,297 |

¹ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment which are subject to vesting requirements. ² Includes restructuring expenses. Refer to Note 18 for more information.

Note 7 General and administrative expenses

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|--|-----------------------|--------------|--------------|---------------|------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Occupancy | 222 | 234 | 224 | (5) | (1) | 455 | 451 |
| Rent and maintenance of IT and other equipment | 125 | 140 | 98 | (11) | 28 | 266 | 247 |
| Communication and market data services | 158 | 166 | 146 | (5) | 8 | 324 | 302 |
| Administration | 121 | 138 | 135 | (12) | (10) | 258 | 250 |
| Marketing and public relations | 130 | 99 | 113 | 31 | 15 | 228 | 192 |
| Travel and entertainment | 115 | 118 | 120 | (3) | (4) | 233 | 226 |
| Professional fees | 324 | 278 | 324 | 17 | 0 | 601 | 610 |
| Outsourcing of IT and other services | 383 | 435 | 424 | (12) | (10) | 818 | 817 |
| Provisions for litigation, regulatory and similar matters ¹ | 72 | 39 | 71 | 85 | 1 | 111 | 130 |
| Other | 18 | 16 | 40 | 13 | (55) | 35 | 184 |
| Total general and administrative expenses² | 1,666 | 1,664 | 1,695 | 0 | (2) | 3,330 | 3,408 |

¹ Reflects the net increase in provisions for litigation, regulatory and similar matters recognized in the income statement. Refer to Note 16 for more information. Also includes recoveries from third parties (second quarter of 2016: CHF 0 million; first quarter of 2016: CHF 3 million; second quarter of 2015: CHF 0 million). ² Includes restructuring expenses. Refer to Note 18 for more information.

Note 8 Income taxes

The Group recognized a net income tax expense of CHF 376 million in the second quarter of 2016 compared with a net tax expense of CHF 443 million in the second quarter of 2015.

The current tax expense was CHF 227 million in the second quarter of 2016 compared with CHF 247 million in the same quarter a year earlier and related to taxable profits of UBS Switzerland AG and other subsidiaries. Deferred tax expenses were CHF 149 million in the second quarter of 2016 compared with CHF 196 million in the second quarter of 2015 and mainly related to the amortization of deferred tax assets previously recognized in relation to Swiss tax losses carried forward and deductible temporary differences to reflect their offset against profits for the quarter.

In 2014 and 2015, UBS Limited recognized deferred tax assets of CHF 223 million in connection with the transfer of certain busi-

nesses from UBS AG London branch, reflecting the transfer of net operating loss carryforwards.

During the second quarter of 2016, Her Majesty's Revenue and Customs (HMRC) indicated that it may seek to challenge this transfer of net operating loss carryforwards, notwithstanding its prior confirmation to the contrary. To the extent that UBS Limited does not prevail in a dispute on the validity of the transfer of net operating loss carryforwards, it would incur a reduction in recognized deferred tax assets of approximately CHF 113 million as well as potential current tax expenses for prior periods. This would be in addition to a reduction in recognized deferred tax assets of approximately CHF 110 million assuming currently proposed changes in UK tax law are enacted in the second half of 2016.

Note 9 Earnings per share (EPS) and shares outstanding

| | As of or for the quarter ended | | | % change from | | As of or year-to-date | |
|---|--------------------------------|---------------|---------------|---------------|------|-----------------------|---------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Basic earnings (CHF million) | | | | | | | |
| Net profit/(loss) attributable to UBS Group AG shareholders | 1,034 | 707 | 1,209 | 46 | (14) | 1,741 | 3,186 |
| Diluted earnings (CHF million) | | | | | | | |
| Net profit/(loss) attributable to UBS Group AG shareholders | 1,034 | 707 | 1,209 | 46 | (14) | 1,741 | 3,186 |
| Less: (profit)/loss on UBS Group AG equity derivative contracts | (1) | (1) | 0 | 0 | | (1) | 0 |
| Net profit/(loss) attributable to UBS Group AG shareholders for diluted EPS | 1,033 | 706 | 1,209 | 46 | (15) | 1,740 | 3,186 |
| Weighted average shares outstanding | | | | | | | |
| Weighted average shares outstanding for basic EPS | 3,718,850,408 | 3,741,452,190 | 3,658,358,904 | (1) | 2 | 3,730,151,299 | 3,650,285,477 |
| Effect of dilutive potential shares resulting from notional shares, in-the-money options and warrants outstanding | 97,765,689 | 98,451,157 | 89,721,119 | (1) | 9 | 98,292,798 | 85,478,220 |
| Weighted average shares outstanding for diluted EPS | 3,816,616,097 | 3,839,903,347 | 3,748,080,023 | (1) | 2 | 3,828,444,097 | 3,735,763,697 |
| Earnings per share (CHF) | | | | | | | |
| Basic | 0.28 | 0.19 | 0.33 | 47 | (15) | 0.47 | 0.87 |
| Diluted | 0.27 | 0.18 | 0.32 | 50 | (16) | 0.45 | 0.85 |
| Shares outstanding | | | | | | | |
| Shares issued | 3,850,263,351 | 3,850,069,401 | 3,759,320,804 | 0 | 2 | | |
| Treasury shares | 143,744,288 | 129,605,209 | 95,917,796 | 11 | 50 | | |
| Shares outstanding | 3,706,519,063 | 3,720,464,192 | 3,663,403,008 | 0 | 1 | | |

The table below outlines the potential shares which could dilute basic earnings per share in the future, but were not dilutive for the periods presented.

| Number of shares | | | | % change from | | | |
|--|-------------------|-------------------|-------------------|---------------|-------------|-------------------|-------------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Potentially dilutive instruments | | | | | | | |
| Employee share-based compensation awards | 55,681,518 | 54,091,948 | 73,468,525 | 3 | (24) | 55,681,518 | 73,468,525 |
| Other equity derivative contracts | 16,261,836 | 10,619,640 | 6,096,510 | 53 | 167 | 14,984,357 | 5,392,074 |
| Total | 71,943,354 | 64,711,588 | 79,565,035 | 11 | (10) | 70,665,875 | 78,860,599 |

Note 10 Fair value measurement

This Note provides fair value measurement information for both financial and non-financial instruments and should be read in conjunction with "Note 24 Fair value measurement" in the audited "Consolidated financial statements" section of the Annual Report 2015 which provides more information on valua-

tion principles, valuation governance, valuation techniques, valuation adjustments, fair value hierarchy classification, valuation inputs, sensitivity of fair value measurements and methods applied to calculate fair values for financial instruments not measured at fair value.

a) Valuation adjustments**Day-1 reserves**

The table below summarizes the changes in deferred day-1 profit or loss reserves during the respective period.

Deferred day-1 profit or loss related to financial instruments other than financial assets available for sale is released into *Net trading income* when pricing of equivalent products or the underlying parameters become observable or when the transaction is closed out.

Deferred day-1 profit or loss related to financial assets available for sale is released into *Other comprehensive income* when pricing of equivalent products or the underlying parameters become observable and is released into *Other income* when the assets are sold.

Deferred day-1 profit or loss

| CHF million | For the quarter ended | | | Year-to-date | |
|--|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Balance at the beginning of the period | 474 | 421 | 458 | 421 | 480 |
| Profit / (loss) deferred on new transactions | 38 | 123 | 69 | 160 | 145 |
| (Profit) / loss recognized in the income statement | (53) | (58) | (86) | (110) | (167) |
| (Profit) / loss recognized in other comprehensive income | (23) | 0 | 0 | (23) | 0 |
| Foreign currency translation | 8 | (13) | (16) | (5) | (33) |
| Balance at the end of the period | 444 | 474 | 425 | 444 | 425 |

Note 10 Fair value measurement (continued)

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

The fair value hierarchy classification of financial and non-financial assets and liabilities measured at fair value is summarized in the table below.

Determination of fair values from quoted market prices or valuation techniques¹

| CHF billion | 30.6.16 | | | | 31.3.16 | | | | 31.12.15 | | | |
|---|--------------|--------------|------------|--------------|--------------|--------------|------------|--------------|--------------|--------------|------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets measured at fair value on a recurring basis | | | | | | | | | | | | |
| Financial assets held for trading ² | 78.6 | 16.1 | 2.2 | 96.9 | 81.2 | 17.3 | 3.1 | 101.5 | 96.4 | 21.9 | 2.1 | 120.4 |
| of which: | | | | | | | | | | | | |
| Government bills/bonds | 14.7 | 1.4 | 0.0 | 16.1 | 13.6 | 2.2 | 0.0 | 15.8 | 12.9 | 3.3 | 0.0 | 16.2 |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 0.1 | 6.4 | 0.8 | 7.3 | 0.3 | 7.7 | 1.0 | 9.0 | 0.2 | 8.1 | 0.7 | 9.0 |
| Loans | 0.0 | 3.1 | 0.9 | 4.0 | 0.0 | 1.3 | 1.2 | 2.6 | 0.0 | 1.8 | 0.8 | 2.6 |
| Investment fund units | 5.3 | 3.5 | 0.1 | 8.9 | 4.9 | 4.2 | 0.2 | 9.3 | 6.1 | 5.7 | 0.2 | 11.9 |
| Asset-backed securities | 0.0 | 0.7 | 0.0 | 0.7 | 0.0 | 0.6 | 0.2 | 0.8 | 0.0 | 1.0 | 0.2 | 1.2 |
| Equity instruments | 50.3 | 0.5 | 0.2 | 51.0 | 48.3 | 0.5 | 0.3 | 49.1 | 62.4 | 1.5 | 0.1 | 64.0 |
| Financial assets for unit-linked investment contracts | 8.2 | 0.5 | 0.1 | 8.7 | 14.2 | 0.7 | 0.1 | 14.9 | 14.8 | 0.7 | 0.1 | 15.5 |
| Positive replacement values | 1.3 | 194.9 | 2.3 | 198.4 | 0.7 | 177.8 | 2.0 | 180.5 | 0.5 | 164.0 | 2.9 | 167.4 |
| of which: | | | | | | | | | | | | |
| Interest rate contracts | 0.0 | 90.2 | 0.0 | 90.2 | 0.0 | 84.0 | 0.0 | 84.1 | 0.0 | 74.4 | 0.1 | 74.5 |
| Credit derivative contracts | 0.0 | 3.8 | 0.9 | 4.7 | 0.0 | 5.0 | 0.8 | 5.8 | 0.0 | 5.4 | 1.3 | 6.7 |
| Foreign exchange contracts | 0.5 | 79.7 | 0.4 | 80.7 | 0.4 | 69.5 | 0.4 | 70.3 | 0.3 | 64.9 | 0.5 | 65.7 |
| Equity/index contracts | 0.0 | 17.9 | 0.9 | 18.8 | 0.0 | 16.6 | 0.7 | 17.3 | 0.0 | 15.9 | 1.0 | 16.9 |
| Commodity contracts | 0.0 | 3.2 | 0.0 | 3.2 | 0.0 | 2.6 | 0.0 | 2.6 | 0.0 | 3.4 | 0.0 | 3.4 |
| Financial assets designated at fair value | 41.1 | 20.3 | 2.8 | 64.2 | 27.0 | 10.7 | 3.3 | 41.0 | 0.2 | 2.7 | 3.3 | 6.1 |
| of which: | | | | | | | | | | | | |
| Government bills/bonds | 40.9 | 5.6 | 0.0 | 46.6 | 26.8 | 2.5 | 0.0 | 29.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 0.0 | 12.2 | 0.0 | 12.2 | 0.1 | 5.7 | 0.0 | 5.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans (including structured loans) | 0.0 | 2.1 | 1.5 | 3.6 | 0.0 | 2.2 | 1.7 | 3.9 | 0.0 | 2.3 | 1.7 | 4.0 |
| Structured reverse repurchase and securities borrowing agreements | 0.0 | 0.0 | 1.2 | 1.2 | 0.0 | 0.0 | 1.4 | 1.4 | 0.0 | 0.0 | 1.5 | 1.6 |
| Other | 0.2 | 0.3 | 0.1 | 0.6 | 0.1 | 0.3 | 0.1 | 0.6 | 0.2 | 0.3 | 0.1 | 0.6 |
| Financial assets available for sale | 4.2 | 13.4 | 0.6 | 18.2 | 11.9 | 18.7 | 0.7 | 31.3 | 34.2 | 27.7 | 0.7 | 62.5 |
| of which: | | | | | | | | | | | | |
| Government bills/bonds | 3.2 | 0.4 | 0.0 | 3.6 | 9.4 | 0.9 | 0.0 | 10.3 | 31.1 | 2.0 | 0.0 | 33.1 |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 0.9 | 9.7 | 0.0 | 10.6 | 2.5 | 14.5 | 0.0 | 17.0 | 3.0 | 22.2 | 0.0 | 25.2 |
| Investment fund units | 0.0 | 0.0 | 0.1 | 0.2 | 0.0 | 0.0 | 0.1 | 0.2 | 0.0 | 0.1 | 0.1 | 0.2 |
| Asset-backed securities | 0.0 | 3.3 | 0.0 | 3.3 | 0.0 | 3.2 | 0.0 | 3.2 | 0.0 | 3.4 | 0.0 | 3.4 |
| Equity instruments | 0.1 | 0.1 | 0.4 | 0.6 | 0.1 | 0.0 | 0.5 | 0.6 | 0.1 | 0.0 | 0.5 | 0.6 |
| Non-financial assets | | | | | | | | | | | | |
| Precious metals and other physical commodities | 4.4 | 0.0 | 0.0 | 4.4 | 3.8 | 0.0 | 0.0 | 3.8 | 3.7 | 0.0 | 0.0 | 3.7 |
| Assets measured at fair value on a non-recurring basis | | | | | | | | | | | | |
| Other assets ³ | 5.3 | 0.1 | 0.1 | 5.5 | 0.3 | 0.1 | 0.1 | 0.4 | 0.3 | 0.1 | 0.1 | 0.4 |
| Total assets measured at fair value | 134.9 | 244.8 | 7.9 | 387.7 | 124.8 | 224.6 | 9.0 | 358.5 | 135.2 | 216.4 | 9.0 | 360.6 |

Note 10 Fair value measurement (continued)**Determination of fair values from quoted market prices or valuation techniques¹ (continued)**

| CHF billion | 30.6.16 | | | | 31.3.16 | | | | 31.12.15 | | | |
|---|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Liabilities measured at fair value on a recurring basis | | | | | | | | | | | | |
| Trading portfolio liabilities | 25.7 | 3.7 | 0.1 | 29.6 | 29.0 | 4.0 | 0.1 | 33.2 | 25.5 | 3.5 | 0.2 | 29.1 |
| of which: | | | | | | | | | | | | |
| Government bills/bonds | 6.8 | 0.7 | 0.0 | 7.6 | 7.4 | 0.8 | 0.0 | 8.1 | 6.0 | 0.8 | 0.0 | 6.8 |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 0.0 | 2.7 | 0.1 | 2.8 | 0.0 | 2.9 | 0.1 | 3.0 | 0.0 | 2.4 | 0.1 | 2.5 |
| Investment fund units | 0.4 | 0.1 | 0.0 | 0.4 | 0.5 | 0.1 | 0.0 | 0.6 | 0.7 | 0.1 | 0.0 | 0.7 |
| Equity instruments | 18.5 | 0.2 | 0.1 | 18.8 | 21.1 | 0.3 | 0.1 | 21.4 | 18.8 | 0.2 | 0.0 | 19.1 |
| Negative replacement values | 1.3 | 190.7 | 4.0 | 196.0 | 0.8 | 175.1 | 3.1 | 179.0 | 0.6 | 158.5 | 3.3 | 162.4 |
| of which: | | | | | | | | | | | | |
| Interest rate contracts | 0.0 | 81.6 | 0.6 | 82.2 | 0.0 | 77.2 | 0.3 | 77.5 | 0.0 | 67.2 | 0.3 | 67.6 |
| Credit derivative contracts | 0.0 | 3.9 | 1.6 | 5.5 | 0.0 | 5.1 | 1.3 | 6.3 | 0.0 | 5.4 | 1.3 | 6.7 |
| Foreign exchange contracts | 0.5 | 80.4 | 0.2 | 81.0 | 0.4 | 71.1 | 0.2 | 71.7 | 0.3 | 63.0 | 0.2 | 63.5 |
| Equity/index contracts | 0.0 | 21.7 | 1.6 | 23.3 | 0.0 | 19.3 | 1.3 | 20.6 | 0.0 | 19.7 | 1.4 | 21.2 |
| Commodity contracts | 0.0 | 3.1 | 0.0 | 3.1 | 0.0 | 2.5 | 0.0 | 2.5 | 0.0 | 3.2 | 0.0 | 3.2 |
| Financial liabilities designated at fair value | 0.0 | 48.0 | 11.6 | 59.7 | 0.0 | 47.0 | 10.7 | 57.8 | 0.0 | 52.3 | 10.7 | 63.0 |
| of which: | | | | | | | | | | | | |
| Non-structured fixed-rate bonds | 0.0 | 0.9 | 3.3 | 4.2 | 0.0 | 1.0 | 3.0 | 4.0 | 0.0 | 1.5 | 2.6 | 4.1 |
| Structured debt instruments issued | 0.0 | 42.5 | 6.8 | 49.3 | 0.0 | 42.1 | 5.8 | 47.9 | 0.0 | 45.7 | 6.7 | 52.4 |
| Structured over-the-counter debt instruments | 0.0 | 4.3 | 0.9 | 5.3 | 0.0 | 3.4 | 1.4 | 4.7 | 0.0 | 4.7 | 0.8 | 5.5 |
| Structured repurchase agreements | 0.0 | 0.2 | 0.6 | 0.8 | 0.0 | 0.5 | 0.6 | 1.0 | 0.0 | 0.3 | 0.6 | 0.8 |
| Loan commitments and guarantees | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |
| Other liabilities – amounts due under unit-linked investment contracts | 0.0 | 9.0 | 0.0 | 9.0 | 0.0 | 15.1 | 0.0 | 15.1 | 0.0 | 15.7 | 0.0 | 15.7 |
| Liabilities measured at fair value on a non-recurring basis | | | | | | | | | | | | |
| Other liabilities ³ | 0.0 | 5.3 | 0.0 | 5.3 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 |
| Total liabilities measured at fair value | 27.0 | 256.8 | 15.7 | 299.6 | 29.8 | 241.5 | 13.9 | 285.3 | 26.1 | 230.3 | 14.1 | 270.5 |

¹ Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. As of 30 June 2016, net bifurcated embedded derivative assets held at fair value totaling CHF 0.1 billion (of which CHF 0.2 billion were net Level 2 assets and CHF 0.1 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 March 2016, net bifurcated embedded derivative assets held at fair value totaling CHF 0.1 billion (of which CHF 0.1 billion were net Level 2 assets and CHF 0.0 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 December 2015, net bifurcated embedded derivative liabilities held at fair value totaling CHF 0.1 billion (of which CHF 0.1 billion were net Level 2 assets and CHF 0.2 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. ² Financial assets held for trading do not include precious metals and other physical commodities. ³ Other assets and other liabilities primarily consist of assets held for sale as well as assets and liabilities of a disposal group held for sale, which are measured at the lower of their net carrying amount or fair value less costs to sell. Refer to Note 18 for more information on the disposal group held for sale.

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

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

Note 10 Fair value measurement (continued)

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

The amounts disclosed reflect transfers between Level 1 and Level 2 for instruments which were held for the entire reporting period.

Assets totaling approximately CHF 0.3 billion, which were mainly comprised of financial assets held for trading, primarily government bills/bonds as well as equity instruments, and liabilities totaling approximately CHF 0.3 billion were transferred from Level 2 to Level 1 during the first six months of 2016, gen-

erally due to increased levels of trading activity observed within the market.

Assets totaling approximately CHF 0.5 billion, which were mainly comprised of financial assets available for sale, primarily corporate and municipal bonds, and liabilities totaling approximately CHF 0.1 billion were transferred from Level 1 to Level 2 during the first six months of 2016, generally due to diminished levels of trading activity observed within the market.

d) Movements of Level 3 instruments

Significant changes in Level 3 instruments

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

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

Assets transferred into and out of Level 3 totaled CHF 1.5 billion and CHF 0.9 billion, respectively. Transfers into Level 3 were

primarily comprised of structured loans and equity instruments, due to decreased observability of the respective credit spread and equity market pricing inputs. Transfers out of Level 3 were primarily comprised of traded loans and credit derivative contracts, reflecting increased observability of the respective credit spread inputs.

Liabilities transferred into and out of Level 3 totaled CHF 1.7 billion and CHF 1.5 billion, respectively. Transfers into Level 3 were primarily comprised of equity-linked structured debt instruments issued and interest rate contracts, due to decreased observability of the respective equity volatility and rates volatility inputs used to determine the fair value of the options embedded in these structures. Transfers out of Level 3 were primarily comprised of equity-linked structured debt instruments issued resulting from changes in the availability of observable equity volatility inputs used to determine the fair value of the options embedded in these structures.

Note 10 Fair value measurement (continued)**Movements of Level 3 instruments**

| CHF billion | Balance as of 31 December 2014 | Net interest income, net trading income and other income | Total gains / losses included in comprehensive income | | | | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Foreign currency transla- tion | Balance as of 30 June 2015 |
|---|---|---|---|------------|--------------|------------|--------------|------------|--------------|--------------|------------------------------|--------------------------------|---|-------------------------------------|
| | | | <i>of which: related to Level 3 instruments held at the end of the reporting period</i> | | | | | | | | | | | |
| Financial assets held for trading | 3.5 | (0.6) | (0.2) | 0.3 | (3.2) | 3.0 | 0.0 | 0.4 | (0.5) | (0.2) | 2.8 | | | |
| <i>of which:</i> | | | | | | | | | | | | | | |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 1.4 | 0.0 | 0.0 | 0.2 | (0.3) | 0.0 | 0.0 | 0.1 | (0.1) | (0.1) | 1.1 | | | |
| Loans | 1.1 | (0.6) | (0.1) | 0.0 | (2.4) | 3.0 | 0.0 | 0.1 | (0.3) | (0.1) | 0.9 | | | |
| Asset-backed securities | 0.6 | 0.0 | 0.0 | 0.1 | (0.4) | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.2 | | | |
| Other | 0.5 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.6 | | | |
| Financial assets designated at fair value | 3.5 | (0.6) | (0.2) | 0.0 | 0.0 | 0.9 | 0.0 | 0.3 | (0.4) | (0.2) | 3.4 | | | |
| <i>of which:</i> | | | | | | | | | | | | | | |
| Loans (including structured loans) | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | 0.3 | (0.4) | 0.0 | 1.6 | | | |
| Structured reverse repurchase and securities borrowing agreements | 2.4 | (0.6) | (0.2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.2) | 1.6 | | | |
| Other | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | | | |
| Financial assets available for sale | 0.6 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | | | |
| Positive replacement values | 4.4 | (0.3) | (0.3) | 0.0 | 0.0 | 1.5 | (1.7) | 0.4 | (0.3) | (0.1) | 3.8 | | | |
| <i>of which:</i> | | | | | | | | | | | | | | |
| Credit derivative contracts | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | (0.8) | 0.1 | (0.1) | (0.1) | 1.6 | | | |
| Foreign exchange contracts | 0.6 | (0.1) | (0.1) | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.0 | 0.6 | | | |
| Equity/index contracts | 1.9 | (0.2) | (0.3) | 0.0 | 0.0 | 0.5 | (0.7) | 0.1 | (0.2) | (0.1) | 1.3 | | | |
| Other | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.4 | | | |
| Negative replacement values | 5.0 | (0.4) | (0.6) | 0.0 | 0.0 | 0.4 | (1.0) | 0.4 | (0.3) | (0.4) | 3.7 | | | |
| <i>of which:</i> | | | | | | | | | | | | | | |
| Credit derivative contracts | 1.7 | (0.2) | (0.2) | 0.0 | 0.0 | 0.0 | (0.2) | 0.2 | (0.1) | (0.1) | 1.3 | | | |
| Foreign exchange contracts | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 | | | |
| Equity/index contracts | 2.4 | (0.2) | (0.3) | 0.0 | 0.0 | 0.4 | (0.7) | 0.2 | (0.2) | (0.1) | 1.8 | | | |
| Other | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | (0.1) | 0.3 | | | |
| Financial liabilities designated at fair value | 11.9 | 0.4 | 0.3 | 0.0 | 0.0 | 3.8 | (3.7) | 1.0 | (1.6) | (0.9) | 10.9 | | | |
| <i>of which:</i> | | | | | | | | | | | | | | |
| Non-structured fixed-rate bonds | 2.2 | (0.2) | (0.1) | 0.0 | 0.0 | 0.7 | (0.1) | 0.0 | (0.3) | (0.2) | 2.2 | | | |
| Structured debt instruments issued | 7.3 | 0.5 | 0.1 | 0.0 | 0.0 | 2.8 | (2.6) | 0.9 | (1.3) | (0.5) | 7.0 | | | |
| Structured over-the-counter debt instruments | 1.5 | 0.1 | 0.1 | 0.0 | 0.0 | 0.2 | (0.7) | 0.0 | 0.0 | (0.2) | 1.1 | | | |
| Structured repurchase agreements | 0.9 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | (0.3) | 0.0 | 0.0 | 0.0 | 0.6 | | | |

1 Total Level 3 assets as of 30 June 2016 were CHF 7.9 billion (31 March 2016: CHF 9.0 billion; 31 December 2015: CHF 9.0 billion). Total Level 3 liabilities as of 30 June 2016 were CHF 15.7 billion (31 March 2016: CHF 13.9 billion; 31 December 2015: CHF 14.1 billion).

| Balance as of 31 December 2015 | Total gains/losses included in comprehensive income | | | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Foreign currency translation | Balance as of 30 June 2016 ¹ |
|--------------------------------------|---|---|-----|-----------|-------|-----------|-------------|------------------------------|--------------------------------|------------------------------------|---|
| | Net interest income, net trading income and other income | <i>of which: related to Level 3 instruments held at the end of the reporting period</i> | | | | | | | | | |
| 2.1 | (0.1) | 0.0 | 0.6 | (3.0) | 2.5 | 0.0 | 0.5 | (0.4) | (0.1) | 2.2 | |
| 0.7 | 0.1 | 0.1 | 0.5 | (0.3) | 0.0 | 0.0 | 0.0 | (0.1) | (0.1) | 0.8 | |
| 0.8 | 0.0 | 0.1 | 0.0 | (2.3) | 2.5 | 0.0 | 0.1 | (0.2) | 0.0 | 0.9 | |
| 0.2 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | |
| 0.4 | (0.2) | (0.2) | 0.1 | (0.3) | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.4 | |
| 3.3 | (0.2) | (0.2) | 0.0 | 0.0 | 0.2 | (0.8) | 0.4 | (0.1) | (0.1) | 2.8 | |
| 1.7 | (0.2) | (0.2) | 0.0 | 0.0 | 0.2 | (0.5) | 0.4 | (0.1) | (0.1) | 1.5 | |
| 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.3) | 0.0 | 0.0 | 0.0 | 1.2 | |
| 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | |
| 0.7 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.6 | |
| 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | (1.1) | 0.5 | (0.4) | (0.1) | 2.3 | |
| 1.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | (0.3) | 0.1 | (0.2) | 0.0 | 0.9 | |
| 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.0 | 0.4 | |
| 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | (0.3) | 0.2 | (0.1) | 0.0 | 0.9 | |
| 0.1 | (0.2) | (0.1) | 0.0 | 0.0 | 0.2 | (0.4) | 0.2 | 0.0 | 0.0 | 0.0 | |
| 3.3 | 0.8 | 0.8 | 0.0 | 0.0 | 0.5 | (1.1) | 0.6 | (0.2) | 0.0 | 4.0 | |
| 1.3 | 0.7 | 0.6 | 0.0 | 0.0 | 0.1 | (0.4) | 0.0 | 0.0 | 0.0 | 1.6 | |
| 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | 0.2 | |
| 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | (0.2) | 0.1 | (0.1) | 0.0 | 1.6 | |
| 0.3 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | (0.3) | 0.5 | 0.0 | 0.0 | 0.6 | |
| 10.7 | 0.5 | 0.5 | 0.0 | 0.0 | 2.3 | (1.4) | 1.1 | (1.3) | (0.2) | 11.6 | |
| 2.6 | 0.3 | 0.3 | 0.0 | 0.0 | 0.4 | (0.1) | 0.1 | (0.1) | (0.1) | 3.3 | |
| 6.7 | 0.2 | 0.2 | 0.0 | 0.0 | 1.2 | (0.9) | 0.9 | (1.2) | (0.2) | 6.8 | |
| 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | (0.5) | 0.0 | 0.0 | 0.0 | 0.9 | |
| 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.0 | 0.6 | |

Note 10 Fair value measurement (continued)**e) Valuation of assets and liabilities classified as Level 3**

The table below presents assets and liabilities recognized at fair value and classified as Level 3, together with the valuation techniques used to measure fair value, the significant inputs used in the valuation technique that are considered unobservable and a range of values and respective weighted averages, where applicable, for those unobservable inputs.

The range of values represents the highest and lowest level input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities. The ranges and weighted averages will vary from period to period and from parameter to parameter based on

characteristics of the instruments held at each balance sheet date. Further, the ranges and weighted averages of unobservable inputs may differ across other financial institutions due to the diversity of the products in each firm's inventory.

The significant unobservable inputs disclosed in the table below are consistent with those included in "Note 24 Fair value measurement" in the audited "Consolidated financial statements" section of the Annual Report 2015. A description of the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown, is also provided in Note 24 of the Annual Report 2015.

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

| CHF billion | Fair value | | | | Valuation technique(s) | Significant unobservable input(s) ¹ | Range of inputs | | | | | | |
|---|------------|----------|-------------|----------|--|--|-----------------|------|-------------------------------|----------|------|-------------------------------|-------------------|
| | Assets | | Liabilities | | | | 30.6.16 | | | 31.12.15 | | | |
| | 30.6.16 | 31.12.15 | 30.6.16 | 31.12.15 | | | low | high | weighted average ² | low | high | weighted average ² | unit ¹ |
| Financial assets held for trading / Trading portfolio liabilities, Financial assets / liabilities designated at fair value and Financial assets available for sale | | | | | | | | | | | | | |
| <i>Corporate bonds and municipal bonds, including bonds issued by financial institutions</i> | | | | | | | | | | | | | |
| | 0.9 | 0.7 | 0.1 | 0.1 | Relative value to market comparable | Bond price equivalent | 0 | 131 | 88 | 0 | 134 | 94 | points |
| <i>Traded loans, loans designated at fair value, loan commitments and guarantees</i> | | | | | | | | | | | | | |
| | 2.6 | 2.6 | 0.0 | 0.0 | Relative value to market comparable | Loan price equivalent | 80 | 103 | 94 | 65 | 100 | 93 | points |
| | | | | | Discounted expected cash flows | Credit spread | 54 | 624 | | 30 | 252 | | basis points |
| | | | | | Market comparable and securitization model | Discount margin / spread | 1 | 17 | 3 | 1 | 14 | 2 | % |
| <i>Investment fund units³</i> | | | | | | | | | | | | | |
| | 0.2 | 0.3 | 0.0 | 0.0 | Relative value to market comparable | Net asset value | | | | | | | |
| <i>Asset-backed securities</i> | | | | | | | | | | | | | |
| | 0.0 | 0.2 | 0.0 | 0.0 | Discounted cash flow projection | Constant prepayment rate | 1 | 8 | 3 | 0 | 18 | 5 | % |
| | | | | | | Discount margin / spread | 3 | 4 | 3 | 0 | 12 | 3 | % |
| | | | | | Relative value to market comparable | Bond price equivalent | 1 | 88 | 11 | 1 | 92 | 72 | points |
| <i>Equity instruments³</i> | | | | | | | | | | | | | |
| | 0.7 | 0.6 | 0.1 | 0.0 | Relative value to market comparable | Price | | | | | | | |
| <i>Structured (reverse) repurchase agreements</i> | | | | | | | | | | | | | |
| | 1.2 | 1.5 | 0.6 | 0.6 | Discounted expected cash flows | Funding spread | 15 | 179 | | 18 | 183 | | basis points |
| <i>Financial assets for unit-linked investment contracts³</i> | | | | | | | | | | | | | |
| | 0.1 | 0.1 | | | Relative value to market comparable | Price | | | | | | | |
| <i>Structured debt instruments and non-structured fixed-rate bonds⁴</i> | | | | | | | | | | | | | |
| | | | 11.0 | 10.1 | | | | | | | | | |

Note 10 Fair value measurement (continued)

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

| CHF billion | Fair value | | | | Valuation technique(s) | Significant unobservable input(s) ¹ | Range of inputs | | | | | unit ¹ |
|---|------------|----------|-------------|----------|--|--|-----------------|------------|-------------------------------|----------|-------|-------------------|
| | Assets | | Liabilities | | | | 30.6.16 | | | 31.12.15 | | |
| | 30.6.16 | 31.12.15 | 30.6.16 | 31.12.15 | | | low | high | weighted average ² | low | high | |
| Replacement values | | | | | | | | | | | | |
| <i>Interest rate contracts</i> | 0.0 | 0.1 | 0.6 | 0.3 | Option model | Volatility of interest rates | 33 | 124 | | 16 | 130 | % |
| | | | | | | Rate-to-rate correlation | 84 | 94 | | 84 | 94 | % |
| | | | | | | Intra-curve correlation | 36 | 94 | | 36 | 94 | % |
| | | | | | Discounted expected cash flows | Constant prepayment rate ⁵ | | | | 0 | 3 | % |
| | | | | | Discounted expected cash flow based on modeled defaults and recoveries | Credit spreads | 2 | 505 | | 1 | 1,163 | basis points |
| <i>Credit derivative contracts</i> | 0.9 | 1.3 | 1.6 | 1.3 | | Upfront price points | 26 | 26 | | 8 | 25 | % |
| | | | | | | Recovery rates | 0 | 95 | | 0 | 95 | % |
| | | | | | | Credit index correlation | 10 | 85 | | 10 | 85 | % |
| | | | | | | Discount margin / spread | 0 | 167 | | 1 | 72 | % |
| | | | | | | Credit pair correlation | 57 | 87 | | 57 | 94 | % |
| | | | | | Discounted cash flow projection on underlying bond | Constant prepayment rate | 1 | 15 | | 0 | 15 | % |
| | | | | | | Constant default rate | 1 | 9 | | 0 | 9 | % |
| | | | | | | Loss severity | 28 | 100 | | 0 | 100 | % |
| | | | | | | Discount margin / spread | 1 | 15 | | 1 | 15 | % |
| <i>Foreign exchange contracts</i> | 0.4 | 0.5 | 0.2 | 0.2 | Option model | Bond price equivalent | 2 | 103 | | 0 | 104 | points |
| | | | | | | Rate-to-FX correlation | (57) | 60 | | (57) | 60 | % |
| | | | | | | FX-to-FX correlation | (70) | 80 | | (70) | 80 | % |
| <i>Equity/index contracts</i> | 0.9 | 1.0 | 1.6 | 1.4 | Option model | Equity dividend yields | 0 | 21 | | 0 | 57 | % |
| | | | | | | Volatility of equity stocks, equity and other indices | 0 | 250 | | 0 | 143 | % |
| | | | | | | Equity-to-FX correlation | (35) | 82 | | (44) | 82 | % |
| | | | | | | Equity-to-equity correlation | 9 | 98 | | 3 | 99 | % |
| Non-financial assets^{3,6} | 0.1 | 0.1 | | | Relative value to market comparable | Price | | | | | | |
| | | | | | Discounted cash flow projection | Projection of cost and income related to the particular property | | | | | | |
| | | | | | | Discount rate | | | | | | |
| | | | | | | Assessment of the particular property's condition | | | | | | |

¹ The ranges of significant unobservable inputs are represented in points, percentages and basis points. Points are a percentage of par. For example, 100 points would be 100% of par. ² Weighted averages are provided for non-derivative financial instruments and were calculated by weighting inputs based on the fair values of the respective instruments. Weighted averages are not provided for inputs related to derivative contracts as this would not be meaningful. ³ The range of inputs is not disclosed due to the dispersion of possible values given the diverse nature of the investments. ⁴ Valuation techniques, significant unobservable inputs and the respective input ranges for structured debt instruments and non-structured fixed-rate bonds are the same as the equivalent derivative or structured financing instruments presented elsewhere in this table. ⁵ The range of inputs is not disclosed as of 30 June 2016 because this unobservable input parameter was not significant to the respective valuation technique as of that date. ⁶ Non-financial assets include other assets which primarily consist of assets held for sale.

Note 10 Fair value measurement (continued)**f) Sensitivity of fair value measurements to changes in unobservable input assumptions**

The table below summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof.

The table shown presents the favorable and unfavorable effects for each class of financial assets and liabilities for which the potential change in fair value is considered significant. The sensitivity data presented represent an estimation of valuation uncertainty based on reasonably possible alternative values for

Level 3 inputs at the balance sheet date and does not represent the estimated effect of stress scenarios. Typically, these financial assets and liabilities are sensitive to a combination of inputs from Levels 1–3. Although well-defined interdependencies may exist between Levels 1–2 and Level 3 parameters (e.g., between interest rates, which are generally Level 1 or Level 2, and prepayments, which are generally Level 3), these have not been incorporated in the table. Further, direct inter-relationships between the Level 3 parameters are not a significant element of the valuation uncertainty.

Sensitivity of fair value measurements to changes in unobservable input assumptions

| CHF million | 30.6.16 | | 31.3.16 | | 31.12.15 | |
|---|--------------------------------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| | Favorable changes ¹ | Unfavorable changes ¹ | Favorable changes ¹ | Unfavorable changes ¹ | Favorable changes ¹ | Unfavorable changes ¹ |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 41 | (36) | 40 | (40) | 24 | (25) |
| Traded loans, loans designated at fair value, loan commitments and guarantees | 86 | (14) | 102 | (43) | 88 | (28) |
| Equity instruments | 81 | (58) | 152 | (59) | 166 | (74) |
| Interest rate derivative contracts, net | 49 | (36) | 76 | (44) | 107 | (67) |
| Credit derivative contracts, net | 160 | (234) | 155 | (198) | 174 | (196) |
| Foreign exchange derivative contracts, net | 18 | (8) | 21 | (11) | 33 | (28) |
| Equity/index derivative contracts, net | 65 | (65) | 61 | (60) | 61 | (57) |
| Structured debt instruments issued and non-structured fixed-rate bonds | 142 | (145) | 144 | (155) | 136 | (146) |
| Other | 15 | (15) | 22 | (25) | 20 | (20) |
| Total | 658 | (611) | 774 | (634) | 809 | (640) |

¹ Of the total favorable changes, CHF 84 million as of 30 June 2016 (31 March 2016: CHF 152 million; 31 December 2015: CHF 164 million) related to financial assets available for sale. Of the total unfavorable changes, CHF 62 million as of 30 June 2016 (31 March 2016: CHF 61 million; 31 December 2015: CHF 71 million) related to financial assets available for sale.

Note 10 Fair value measurement (continued)

g) Financial instruments not measured at fair value

The table below reflects the estimated fair values of financial instruments not measured at fair value.

Financial instruments not measured at fair value

| CHF billion | 30.6.16 | | 31.3.16 | | 31.12.15 | |
|---|----------------|------------|----------------|------------|----------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| Assets | | | | | | |
| Cash and balances with central banks | 94.2 | 94.2 | 105.7 | 105.7 | 91.3 | 91.3 |
| Due from banks | 13.0 | 13.0 | 13.6 | 13.6 | 11.9 | 11.9 |
| Loans | 306.9 | 311.9 | 304.9 | 308.0 | 312.0 | 314.1 |
| Cash collateral on securities borrowed | 29.4 | 29.4 | 32.4 | 32.4 | 25.6 | 25.6 |
| Reverse repurchase agreements | 73.3 | 73.3 | 73.6 | 73.6 | 67.9 | 67.9 |
| Cash collateral receivables on derivative instruments | 30.0 | 30.0 | 25.5 | 25.5 | 23.8 | 23.8 |
| Financial assets held to maturity | 4.8 | 4.9 | 2.9 | 2.9 | | |
| Other assets | 21.1 | 21.1 | 21.0 | 21.0 | 20.0 | 20.0 |
| Liabilities | | | | | | |
| Due to banks | 15.3 | 15.3 | 11.3 | 11.3 | 11.8 | 11.8 |
| Due to customers | 409.1 | 409.1 | 401.5 | 401.6 | 390.2 | 390.2 |
| Cash collateral on securities lent | 6.3 | 6.3 | 6.4 | 6.4 | 8.0 | 8.0 |
| Repurchase agreements | 8.0 | 8.0 | 6.5 | 6.5 | 9.7 | 9.7 |
| Cash collateral payables on derivative instruments | 36.4 | 36.4 | 36.7 | 36.7 | 38.3 | 38.3 |
| Debt issued | 104.7 | 106.3 | 101.4 | 103.0 | 93.0 | 95.5 |
| Other liabilities | 45.4 | 45.4 | 50.6 | 50.6 | 51.4 | 51.4 |
| Guarantees/Loan commitments ((assets)/liabilities) | | | | | | |
| Guarantees | 0.0 | (0.1) | 0.0 | (0.1) | 0.0 | (0.1) |
| Loan commitments | 0.0 | (0.3) | 0.0 | 0.1 | 0.0 | 0.0 |

The fair values included in the table above were calculated for disclosure purposes only. The fair value valuation techniques and assumptions relate only to the fair value of UBS's financial instruments not measured at fair value. Other institutions may use dif-

ferent methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another.

Note 11 Derivative instruments¹

| | Positive replacement values | Notional values related to positive replacement values ² | Negative replacement values | Notional values related to negative replacement values ² | Other notional values ³ |
|--|-----------------------------|---|-----------------------------|---|------------------------------------|
| <i>As of 30.6.16, CHF billion</i> | | | | | |
| Derivative instruments | | | | | |
| Interest rate contracts | 90 | 1,269 | 82 | 1,148 | 9,965 |
| Credit derivative contracts | 5 | 148 | 6 | 159 | |
| Foreign exchange contracts | 81 | 2,701 | 81 | 2,545 | 5 |
| Equity / index contracts | 19 | 260 | 23 | 317 | 40 |
| Commodity contracts | 3 | 43 | 3 | 37 | 9 |
| Unsettled purchases of non-derivative financial instruments ⁴ | 1 | 48 | 0 | 16 | |
| Unsettled sales of non-derivative financial instruments ⁴ | 0 | 20 | 1 | 41 | |
| Total derivative instruments, based on IFRS netting^{5,6} | 198 | 4,489 | 196 | 4,262 | 10,019 |

As of 31.3.16, CHF billion

| | | | | | |
|--|------------|--------------|------------|--------------|--------------|
| Derivative instruments | | | | | |
| Interest rate contracts | 84 | 1,388 | 78 | 1,226 | 9,591 |
| Credit derivative contracts | 6 | 175 | 6 | 186 | |
| Foreign exchange contracts | 70 | 2,603 | 72 | 2,489 | 8 |
| Equity / index contracts | 17 | 234 | 21 | 306 | 41 |
| Commodity contracts | 3 | 37 | 2 | 32 | 8 |
| Unsettled purchases of non-derivative financial instruments ⁴ | 0 | 30 | 0 | 21 | |
| Unsettled sales of non-derivative financial instruments ⁴ | 0 | 29 | 0 | 24 | |
| Total derivative instruments, based on IFRS netting^{5,6} | 181 | 4,496 | 179 | 4,284 | 9,647 |

As of 31.12.15, CHF billion

| | | | | | |
|--|------------|--------------|------------|--------------|--------------|
| Derivative instruments | | | | | |
| Interest rate contracts | 75 | 1,493 | 68 | 1,399 | 8,771 |
| Credit derivative contracts | 7 | 162 | 7 | 170 | |
| Foreign exchange contracts | 66 | 2,658 | 63 | 2,487 | 8 |
| Equity / index contracts | 17 | 230 | 21 | 306 | 43 |
| Commodity contracts | 3 | 30 | 3 | 25 | 8 |
| Unsettled purchases of non-derivative financial instruments ⁴ | 0 | 10 | 0 | 17 | |
| Unsettled sales of non-derivative financial instruments ⁴ | 0 | 20 | 0 | 6 | |
| Total derivative instruments, based on IFRS netting^{5,6} | 167 | 4,603 | 162 | 4,409 | 8,831 |

¹ Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. As of 30 June 2016, these derivatives amounted to a PRV of CHF 0.2 billion (related notional values of CHF 3.0 billion) and an NRV of CHF 0.1 billion (related notional values of CHF 5.5 billion). As of 31 March 2016, these derivatives amounted to a PRV of CHF 0.1 billion (related notional values of CHF 4.4 billion) and an NRV of CHF 0.0 billion (related notional values of CHF 3.8 billion). As of 31 December 2015, bifurcated embedded derivatives amounted to a PRV of CHF 0.1 billion (related notional values of CHF 0.6 billion) and an NRV of CHF 0.2 billion (related notional values of CHF 3.4 billion). ² In cases where replacement values are presented on a net basis on the balance sheet, the respective notional values of the netted replacement values are still presented on a gross basis. ³ Other notional values relate to derivatives which are cleared through either a central counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and was not material for all periods presented. ⁴ Changes in the fair value of purchased and sold non-derivative financial instruments between trade date and settlement date are recognized as replacement values. ⁵ Includes exchange-traded agency transactions and OTC cleared transactions entered into on behalf of clients with a combined PRV of CHF 9.5 billion as of 30 June 2016 (31 March 2016: CHF 8.1 billion; 31 December 2015: CHF 6.8 billion) and a combined NRV of CHF 9.2 billion as of 30 June 2016 (31 March 2016: CHF 7.9 billion; 31 December 2015: CHF 6.8 billion), for which notional values were not included in the table above due to their significantly different risk profile. ⁶ Refer to Note 12 for more information on netting arrangements.

Note 12 Offsetting financial assets and financial liabilities

UBS enters into netting agreements with counterparties to manage the credit risks associated primarily with repurchase and reverse repurchase transactions, securities borrowing and lending and over-the-counter and exchange-traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to set-off liabilities against available assets received in the ordinary course of business and/or in the event that either counterparty to the transaction is unable to fulfill its contractual obligations. The right of set-off is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

Financial assets

The table below provides a summary of financial assets subject to offsetting, enforceable master netting arrangements and similar

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

UBS engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Therefore, the net amounts presented in the tables on this and on the next page do not purport to represent actual credit exposure.

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

| | Assets subject to netting arrangements | | | | | | Assets not subject to netting arrangements ⁴ | | Total assets | |
|--|---|---|--|--|---------------------|---|---|---|--|--|
| | Netting recognized on the balance sheet | | | Netting potential not recognized on the balance sheet ³ | | | Assets recognized on the balance sheet | Total assets after consideration of netting potential | Total assets recognized on the balance sheet | |
| | Gross assets before netting | Netting with gross liabilities ² | Net assets recognized on the balance sheet | Financial liabilities | Collateral received | Assets after consideration of netting potential | | | | |
| <i>As of 30.6.16, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities borrowed | 27.3 | 0.0 | 27.3 | (3.3) | (24.0) | 0.0 | 2.0 | 2.0 | 29.4 | |
| Reverse repurchase agreements | 111.8 | (52.5) | 59.3 | (3.0) | (56.3) | 0.0 | 14.0 | 14.0 | 73.3 | |
| Positive replacement values | 190.1 | (2.7) | 187.5 | (147.3) | (28.6) | 11.5 | 11.0 | 22.5 | 198.4 | |
| Cash collateral receivables on derivative instruments ¹ | 57.4 | (30.4) | 27.0 | (17.3) | (1.2) | 8.5 | 3.0 | 11.4 | 30.0 | |
| Financial assets designated at fair value | 3.7 | 0.0 | 3.7 | 0.0 | (1.1) | 2.6 | 60.5 | 63.1 | 64.2 | |
| Total assets | 390.3 | (85.6) | 304.7 | (170.9) | (111.2) | 22.6 | 90.6 | 113.2 | 395.3 | |
| <i>As of 31.3.16, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities borrowed | 30.2 | 0.0 | 30.2 | (2.5) | (27.7) | 0.0 | 2.2 | 2.2 | 32.4 | |
| Reverse repurchase agreements | 114.9 | (54.6) | 60.3 | (1.7) | (58.6) | 0.0 | 13.3 | 13.3 | 73.6 | |
| Positive replacement values | 174.0 | (2.4) | 171.5 | (135.1) | (25.6) | 10.8 | 9.0 | 19.8 | 180.5 | |
| Cash collateral receivables on derivative instruments ¹ | 126.5 | (104.7) | 21.8 | (13.0) | (0.9) | 7.9 | 3.7 | 11.6 | 25.5 | |
| Financial assets designated at fair value | 2.5 | 0.0 | 2.5 | 0.0 | (1.6) | 0.9 | 38.5 | 39.3 | 41.0 | |
| Total assets | 448.0 | (161.7) | 286.3 | (152.2) | (114.5) | 19.6 | 66.6 | 86.2 | 352.9 | |
| <i>As of 31.12.15, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities borrowed | 23.9 | 0.0 | 23.9 | (3.1) | (20.9) | 0.0 | 1.6 | 1.6 | 25.6 | |
| Reverse repurchase agreements | 117.9 | (62.1) | 55.8 | (4.4) | (51.4) | 0.0 | 12.1 | 12.1 | 67.9 | |
| Positive replacement values | 161.9 | (2.5) | 159.3 | (123.0) | (25.5) | 10.8 | 8.1 | 18.9 | 167.4 | |
| Cash collateral receivables on derivative instruments ¹ | 85.9 | (66.3) | 19.6 | (10.9) | (1.5) | 7.2 | 4.1 | 11.3 | 23.8 | |
| Financial assets designated at fair value | 2.4 | 0.0 | 2.4 | 0.0 | (1.8) | 0.6 | 3.7 | 4.4 | 6.1 | |
| Total assets | 392.1 | (131.0) | 261.1 | (141.3) | (101.1) | 18.7 | 29.7 | 48.4 | 290.8 | |

¹ The net amount of Cash collateral receivables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32, interest rate swaps (IRS) with the London Clearing House (LCH) which are legally settled on a daily basis and ETD which are economically settled on a daily basis. Effective 30 June 2016, UBS elected to convert its IRS transacted with the LCH from the previous collateral model to a settlement model. As a result, gross assets and liabilities and corresponding netting decreased by CHF 93 billion as of 30 June 2016, with no change to net assets and liabilities recognized on the balance sheet. Refer to Note 1 for more information. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral pledged, reflected on the Negative replacement values line in the table presented on the following page. ² The logic of the table results in amounts presented in the "Netting with gross liabilities" column corresponding directly to the amounts presented in the "Netting with gross assets" column in the liabilities table presented on the following page. ³ For the purpose of this disclosure, the amounts of financial instruments and cash collateral presented have been capped by the relevant netting agreement so as not to exceed the net amount of financial assets presented on the balance sheet; i.e., over-collateralization, where it exists, is not reflected in the table. ⁴ Includes assets not subject to enforceable netting arrangements and other out-of-scope items.

Note 12 Offsetting financial assets and financial liabilities (continued)**Financial liabilities**

The table below provides a summary of financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements, as well as financial collateral pledged to mitigate credit exposures for these financial liabilities. The gross financial liabilities that are subject to offsetting, enforceable netting arrangements and similar agreements are reconciled to the net

amounts presented within the associated balance sheet line, after giving effect to financial assets with the same counterparties that have been offset on the balance sheet and other financial liabilities not subject to an enforceable netting arrangement or similar agreement. Further, related amounts for financial assets and collateral pledged that are not offset on the balance sheet are shown to arrive at financial liabilities after consideration of netting potential.

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

| | Liabilities subject to netting arrangements | | | | | | Liabilities not subject to netting arrangements ⁴ | Total liabilities | | |
|---|---|--|---|--|--------------------|--|--|---|--|---|
| | Netting recognized on the balance sheet | | | Netting potential not recognized on the balance sheet ³ | | | | Liabilities recognized on the balance sheet | Total liabilities after consideration of netting potential | Total liabilities recognized on the balance sheet |
| | Gross liabilities before netting | Netting with gross assets ² | Net liabilities recognized on the balance sheet | Financial assets | Collateral pledged | Liabilities after consideration of netting potential | | | | |
| <i>As of 30.6.16, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities lent | 6.2 | 0.0 | 6.2 | (3.3) | (2.8) | 0.0 | 0.1 | 0.1 | 6.3 | |
| Repurchase agreements | 58.8 | (52.5) | 6.2 | (3.0) | (3.3) | 0.0 | 1.8 | 1.8 | 8.0 | |
| Negative replacement values | 185.5 | (2.7) | 182.8 | (147.3) | (21.0) | 14.6 | 13.2 | 27.7 | 196.0 | |
| Cash collateral payables on derivative instruments ¹ | 63.7 | (30.4) | 33.3 | (20.9) | (0.8) | 11.6 | 3.1 | 14.6 | 36.4 | |
| Financial liabilities designated at fair value | 3.4 | 0.0 | 3.4 | 0.0 | (0.6) | 2.7 | 56.3 | 59.0 | 59.7 | |
| Total liabilities | 317.4 | (85.6) | 231.9 | (174.5) | (28.5) | 28.9 | 74.5 | 103.4 | 306.4 | |
| <i>As of 31.3.16, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities lent | 6.3 | 0.0 | 6.3 | (2.5) | (3.8) | 0.0 | 0.1 | 0.1 | 6.4 | |
| Repurchase agreements | 59.9 | (54.6) | 5.3 | (1.7) | (3.7) | 0.0 | 1.2 | 1.2 | 6.5 | |
| Negative replacement values | 169.3 | (2.4) | 166.9 | (135.1) | (17.3) | 14.5 | 12.1 | 26.6 | 179.0 | |
| Cash collateral payables on derivative instruments ¹ | 137.1 | (104.7) | 32.4 | (19.3) | (1.6) | 11.5 | 4.3 | 15.8 | 36.7 | |
| Financial liabilities designated at fair value | 3.0 | 0.0 | 3.0 | 0.0 | (0.8) | 2.2 | 54.7 | 56.9 | 57.8 | |
| Total liabilities | 375.7 | (161.7) | 213.9 | (158.5) | (27.2) | 28.2 | 72.4 | 100.6 | 286.3 | |
| <i>As of 31.12.15, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities lent | 7.9 | 0.0 | 7.9 | (3.1) | (4.8) | 0.0 | 0.1 | 0.1 | 8.0 | |
| Repurchase agreements | 69.0 | (62.1) | 6.9 | (4.4) | (2.5) | 0.0 | 2.8 | 2.8 | 9.7 | |
| Negative replacement values | 154.2 | (2.5) | 151.7 | (123.0) | (17.4) | 11.3 | 10.7 | 22.1 | 162.4 | |
| Cash collateral payables on derivative instruments ¹ | 99.9 | (66.3) | 33.6 | (19.0) | (2.5) | 12.1 | 4.7 | 16.8 | 38.3 | |
| Financial liabilities designated at fair value | 3.9 | 0.0 | 3.9 | 0.0 | (0.7) | 3.1 | 59.1 | 62.3 | 63.0 | |
| Total liabilities | 334.9 | (131.0) | 203.9 | (149.4) | (28.0) | 26.5 | 77.4 | 104.0 | 281.4 | |

¹ The net amount of Cash collateral payables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32, interest rate swaps (IRS) with the London Clearing House (LCH) which are legally settled on a daily basis and ETD which are economically settled on a daily basis. Effective 30 June 2016, UBS elected to convert its IRS transacted with the LCH from the previous collateral model to a settlement model. As a result, gross assets and liabilities and corresponding netting decreased by CHF 93 billion as of 30 June 2016, with no change to net assets and liabilities recognized on the balance sheet. Refer to Note 1 for more information. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral received, reflected on the Positive replacement values line in the table presented on the previous page. ² The logic of the table results in amounts presented in the "Netting with gross assets" column corresponding directly to the amounts presented in the "Netting with gross liabilities" column in the assets table presented on the previous page. ³ For the purpose of this disclosure, the amounts of financial instruments and cash collateral presented have been capped by the relevant netting agreement so as not to exceed the net amount of financial liabilities presented on the balance sheet; i.e., over-collateralization, where it exists, is not reflected in the table. ⁴ Includes liabilities not subject to enforceable netting arrangements and other out-of-scope items.

Note 13 Other assets and liabilities

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 |
|--|---------------|---------------|---------------|
| Other assets | | | |
| Prime brokerage receivables ¹ | 11,695 | 11,754 | 11,341 |
| Recruitment loans to financial advisors | 3,161 | 3,128 | 3,184 |
| Other loans to financial advisors | 490 | 522 | 418 |
| Bail deposit ² | 1,220 | 1,229 | 1,221 |
| Accrued interest income | 473 | 547 | 462 |
| Accrued income – other | 1,139 | 915 | 844 |
| Prepaid expenses | 1,042 | 1,068 | 1,033 |
| Net defined benefit pension and post-employment assets | 99 | 0 | 50 |
| Settlement and clearing accounts | 374 | 499 | 402 |
| VAT and other tax receivables | 349 | 410 | 398 |
| Properties and other non-current assets held for sale | 126 | 135 | 134 |
| Assets of disposal group held for sale ³ | 5,380 | 264 | 279 |
| Other | 2,766 | 2,651 | 2,393 |
| Total other assets | 28,314 | 23,123 | 22,160 |
| Other liabilities | | | |
| Prime brokerage payables ¹ | 38,888 | 44,011 | 45,306 |
| Amounts due under unit-linked investment contracts | 8,973 | 15,100 | 15,718 |
| Compensation-related liabilities | 5,790 | 4,917 | 6,839 |
| <i>of which: accrued expenses</i> | <i>1,487</i> | <i>990</i> | <i>2,885</i> |
| <i>of which: Deferred Contingent Capital Plan</i> | <i>1,367</i> | <i>1,198</i> | <i>1,181</i> |
| <i>of which: other deferred compensation plans</i> | <i>1,900</i> | <i>1,870</i> | <i>2,038</i> |
| <i>of which: net defined benefit pension and post-employment liabilities</i> | <i>1,036</i> | <i>859</i> | <i>736</i> |
| Third-party interest in consolidated investment funds | 476 | 518 | 536 |
| Settlement and clearing accounts | 1,548 | 1,408 | 894 |
| Current and deferred tax liabilities | 1,028 | 945 | 819 |
| VAT and other tax payables | 449 | 469 | 447 |
| Deferred income | 237 | 198 | 210 |
| Accrued interest expenses | 1,021 | 1,275 | 1,431 |
| Other accrued expenses | 2,689 | 2,753 | 2,500 |
| Liabilities of disposal group held for sale ³ | 5,334 | 217 | 235 |
| Other | 765 | 650 | 718 |
| Total other liabilities | 67,198 | 72,461 | 75,652 |

¹ Prime brokerage services include clearance, settlement, custody, financing and portfolio reporting services for corporate clients trading across multiple asset classes. Prime brokerage receivables are mainly comprised of margin lending receivables. Prime brokerage payables are mainly comprised of client securities financing and deposits. ² Refer to item 1 in Note 16b for more information. ³ Refer to Note 18 for more information.

Note 14 Financial liabilities designated at fair value

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 |
|--|---------------|---------------|---------------|
| Non-structured fixed-rate bonds | 4,196 | 4,008 | 4,098 |
| of which: issued by UBS AG with original maturity greater than one year ^{1,2} | 3,622 | 3,433 | 3,542 |
| Structured debt instruments issued ³ | 49,342 | 47,899 | 52,436 |
| of which: issued by UBS AG with original maturity greater than one year ^{1,4} | 35,007 | 33,478 | 36,539 |
| Structured over-the-counter debt instruments | 5,254 | 4,728 | 5,493 |
| of which: issued by UBS AG with original maturity greater than one year ^{1,5} | 4,676 | 3,760 | 4,497 |
| Repurchase agreements | 799 | 1,036 | 849 |
| Loan commitments and guarantees ⁶ | 73 | 90 | 119 |
| Total | 59,664 | 57,761 | 62,995 |
| of which: life-to-date own credit (gain)/loss | (165) | (332) | (287) |

¹ Issued by UBS AG (standalone). Based on original contractual maturity without considering any early redemption features. ² 100% of the balance as of 30 June 2016 was unsecured (31 March 2016: 100% of the balance was unsecured; 31 December 2015: 100% of the balance was unsecured). ³ Includes non-structured rates-linked debt instruments issued. ⁴ More than 98% of the balance as of 30 June 2016 was unsecured (31 March 2016: more than 98% of the balance was unsecured; 31 December 2015: more than 98% of the balance was unsecured). ⁵ More than 40% of the balance as of 30 June 2016 was unsecured (31 March 2016: more than 45% of the balance was unsecured; 31 December 2015: more than 35% of the balance was unsecured). ⁶ Loan commitments recognized as "Financial liabilities designated at fair value" until drawn and recognized as loans.

Note 15 Debt issued held at amortized cost

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 |
|---|----------------|----------------|---------------|
| Certificates of deposit | 21,731 | 17,689 | 11,967 |
| Commercial paper | 2,860 | 5,835 | 3,824 |
| Other short-term debt | 5,450 | 6,282 | 5,424 |
| Short-term debt¹ | 30,040 | 29,806 | 21,215 |
| Non-structured fixed-rate bonds | 29,293 | 29,566 | 31,240 |
| of which: issued by UBS AG with original maturity greater than one year ² | 29,136 | 29,403 | 31,078 |
| Senior unsecured debt that will contribute to total loss-absorbing capacity ³ | 11,920 | 6,904 | 5,633 |
| Covered bonds | 6,000 | 7,289 | 8,490 |
| Subordinated debt | 19,000 | 19,019 | 17,763 |
| of which: high-trigger loss-absorbing additional tier 1 perpetual capital notes | 4,397 | 4,264 | 2,837 |
| of which: low-trigger loss-absorbing additional tier 1 perpetual capital notes | 2,411 | 2,360 | 2,326 |
| of which: low-trigger loss-absorbing tier 2 capital | 10,462 | 10,239 | 10,346 |
| of which: phase-out tier 2 capital | 1,729 | 2,156 | 2,254 |
| Debt issued through the central bond institutions of the Swiss regional or cantonal banks | 8,116 | 8,196 | 8,237 |
| Other long-term debt | 290 | 536 | 570 |
| of which: issued by UBS AG with original maturity greater than one year ² | 259 | 257 | 278 |
| Long-term debt⁴ | 74,619 | 71,510 | 71,932 |
| Total debt issued held at amortized cost⁵ | 104,659 | 101,316 | 93,147 |

¹ Debt with an original maturity of less than one year. ² Issued by UBS AG (standalone). Based on original contractual maturity without considering any early redemption features. 100% of the balance as of 30 June 2016 was unsecured (31 March 2016: 100% of the balance was unsecured; 31 December 2015: 100% of the balance was unsecured). ³ Issued by UBS Group Funding (Jersey) Limited, a funding subsidiary directly held and guaranteed by UBS Group AG. ⁴ Debt with original maturity greater than or equal to one year. ⁵ Net of bifurcated embedded derivatives with a net positive fair value of CHF 82 million as of 30 June 2016 (31 March 2016: net positive fair value of CHF 55 million; 31 December 2015: net negative fair value of CHF 130 million).

Note 16 Provisions and contingent liabilities

a) Provisions

| CHF million | Operational risks ¹ | Litigation, regulatory and similar matters ² | Restructuring | Loan commitments and guarantees | Real estate | Employee benefits ⁵ | Other | Total provisions |
|---|--------------------------------|---|------------------------|---------------------------------|------------------------|--------------------------------|------------|------------------|
| Balance as of 31 December 2015 | 47 | 2,983 | 624 | 35 | 157 | 198 | 120 | 4,164 |
| Balance as of 31 March 2016 | 41 | 2,876 | 536 | 36 | 149 | 192 | 131 | 3,961 |
| Increase in provisions recognized in the income statement | 7 | 135 | 102 | 5 | 0 | 1 | 23 | 273 |
| Release of provisions recognized in the income statement | 0 | (63) | (27) | 0 | 0 | (10) | (1) | (101) |
| Provisions used in conformity with designated purpose | (4) | (299) | (81) | 0 | (9) | (83) | (26) | (501) |
| Capitalized reinstatement costs | 0 | 0 | 0 | 0 | (7) | 0 | 0 | (7) |
| Reclassifications | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| Foreign currency translation/unwind of discount | (1) | 32 | 2 | 0 | 1 | (5) | 1 | 30 |
| Balance as of 30 June 2016 | 43 | 2,682 | 533³ | 42 | 134⁴ | 96 | 127 | 3,656 |

¹ Comprises provisions for losses resulting from security risks and transaction processing risks. ² Comprises provisions for losses resulting from legal, liability and compliance risks. ³ Includes personnel related restructuring provisions of CHF 118 million as of 30 June 2016 (31 March 2016: CHF 92 million; 31 December 2015: CHF 110 million) and provisions for onerous lease contracts of CHF 415 million as of 30 June 2016 (31 March 2016: CHF 444 million; 31 December 2015: CHF 514 million). ⁴ Includes reinstatement costs for leasehold improvements of CHF 87 million as of 30 June 2016 (31 March 2016: CHF 94 million; 31 December 2015: CHF 95 million) and provisions for onerous lease contracts of CHF 47 million as of 30 June 2016 (31 March 2016: CHF 55 million; 31 December 2015: CHF 62 million). ⁵ Includes provisions for sabbatical and anniversary awards as well as provisions for severance which are not part of restructuring provisions.

Restructuring provisions primarily relate to onerous lease contracts and severance payments. The utilization of onerous lease provisions is driven by the maturities of the underlying lease contracts. Severance-related provisions are utilized within a short time period, usually within six months, but potential changes in amount may be triggered when natural staff attrition reduces the

number of people affected by a restructuring and therefore the estimated costs.

Information on provisions and contingent liabilities in respect of Litigation, regulatory and similar matters, as a class, is included in Note 16b. There are no material contingent liabilities associated with the other classes of provisions.

b) Litigation, regulatory and similar matters

The Group operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, UBS (which for purposes of this Note may refer to UBS Group 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 matters are subject to many uncertainties and the outcome and the timing of resolution are often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has

a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against the Group, but are nevertheless expected to be, based on the Group's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

Specific litigation, regulatory and other matters are described below, including all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects. The amount of damages claimed, the size of a transaction or other information is provided where available and appropriate in order to assist users in considering the magnitude of potential exposures.

Note 16 Provisions and contingent liabilities (continued)

In the case of certain matters below, we state that we have established a provision, and for the other matters we make no such statement. When we make this statement and we expect disclosure of the amount of a provision to prejudice seriously our position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, we do not disclose that amount. In some cases we are subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which we do not state whether we have established a provision, either (a) we have not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard, or (b) we have established a provision but expect disclosure of that fact to prejudice seriously our position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

With respect to certain litigation, regulatory and similar matters for which we have established provisions, we are able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which we are able to estimate expected timing is immaterial relative to our current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 16a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although we therefore cannot provide a numerical estimate of

the future losses that could arise from litigation, regulatory and similar matters, we believe that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the Non-Prosecution Agreement (NPA) described in paragraph 5 of this Note, which we entered into with the US Department of Justice (DOJ), Criminal Division, Fraud Section in connection with our submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate (LIBOR), was terminated by the DOJ based on its determination that we had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG has pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, and has agreed to pay a USD 203 million fine and accept a three-year term of probation. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require us to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations and may permit financial market utilities to limit, suspend or terminate our participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining our capital requirements. Information concerning our capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of this report.

Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit^{1,2}

| <i>CHF million</i> | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
|---|-------------------|----------------------------|------------------------------|------------------|-----------------|---------------|----------------|------------------------------------|--------------|
| Balance as of 31 December 2015 | 245 | 459 | 83 | 16 | 585 | 310 | 0 | 1,284 | 2,983 |
| Balance as of 31 March 2016 | 242 | 427 | 81 | 13 | 557 | 307 | 0 | 1,248 | 2,876 |
| Increase in provisions recognized in the income statement | 10 | 23 | 0 | 0 | 27 | 2 | 0 | 23 | 85 |
| Release of provisions recognized in the income statement | (1) | (7) | 0 | (5) | 0 | 0 | 0 | 0 | (13) |
| Provisions used in conformity with designated purpose | (3) | (35) | (2) | (1) | (1) | (7) | 0 | (249) | (299) |
| Foreign currency translation / unwind of discount | (1) | 8 | 0 | 0 | 6 | (1) | 0 | 20 | 32 |
| Balance as of 30 June 2016 | 247 | 416 | 79 | 7 | 589 | 301 | 0 | 1,042 | 2,682 |

¹ Provisions, if any, for the matters described in this Note are recorded in Wealth Management (item 3), Wealth Management Americas (item 4), CC – Services (item 7) and CC – Non-core and Legacy Portfolio (item 2). Provisions, if any, for the matters described in this Note in items 1 and 6 are allocated between Wealth Management and Personal & Corporate Banking, and provisions, if any, for the matters described in this Note in item 5 are allocated between the Investment Bank, CC – Services and CC – Non-core and Legacy Portfolio. ² Provision movements are grouped by item for purposes of this table and may therefore differ from those shown in the table in Note 16a.

Note 16 Provisions and contingent liabilities (continued)

1. Inquiries regarding cross-border wealth management businesses

Tax and regulatory authorities in a number of countries have made inquiries, served requests for information or examined employees located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. It is possible that implementation of automatic tax information exchange and other measures relating to cross-border provision of financial services could give rise to further inquiries in the future. UBS has received a disclosure order from the Swiss Federal Tax Administration (FTA) to transfer information based on a request for international administrative assistance in tax matters. The request concerns a number of UBS account numbers pertaining to current and former clients and is based on data from 2006 and 2008. UBS has taken steps to inform affected clients about the administrative assistance proceeding and their procedural rights, including the right to appeal. The request is based on data received from the German authorities, who seized certain data related to UBS clients booked in Switzerland during their investigations and have apparently shared this data with other European countries. UBS expects other countries to file similar requests.

As a result of investigations in France, in 2013, UBS (France) S.A. and UBS AG were put under formal examination (“mise en examen”) for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance (“témoin assisté”) regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In 2014, UBS AG was placed under formal examination with respect to the potential charges of laundering of proceeds of tax fraud, and the investigating judges ordered UBS AG to provide bail (“caution”) of EUR 1.1 billion. UBS AG appealed the determination of the bail amount, but both the appeal court (“Cour d’Appel”) and the French Supreme Court (“Cour de Cassation”) upheld the bail amount and rejected the appeal in full in late 2014. UBS AG has filed and has had formally registered an application to the European Court of Human Rights to challenge various aspects of the French court’s decision. In September 2015, the former CEO of UBS Wealth Management was placed under formal examination in connection with these proceedings. In addition, the investigating judges have sought to issue arrest warrants against three Swiss-based former employees of UBS AG who did not appear when summoned by the investigating judge.

In 2015, UBS (France) S.A. was placed under formal examination for complicity regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons for the years 2004 until 2008 and declared witness with legal assistance for the years 2009 to 2012. A bail of EUR 40 million was imposed, and was subsequently reduced by the Court of Appeals to EUR 10 million.

In February 2016, the investigating judge notified UBS AG and UBS (France) S.A. that he has closed his investigation. In July

2016, UBS AG and UBS (France) S.A. received the National Financial Prosecutor’s recommendation (“réquisitoire”). The parties have 30 days to comment on the recommendation or to file additional submissions. The judge may then issue his final decree (“ordonnance de renvoi en correctionnelle”) which would set out any charges for which UBS AG and UBS (France) S.A. will be tried, both legally and factually.

UBS has been notified by the Belgian investigating judge that it is under formal investigation (“inculpé”) regarding the laundering of proceeds of tax fraud and of banking, financial solicitation by unauthorized persons and serious tax fraud.

In 2015, UBS received inquiries from the US Attorney’s Office for the Eastern District of New York and from the US Securities and Exchange Commission (SEC), which are investigating potential sales to US persons of bearer bonds and other unregistered securities in possible violation of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the registration requirements of the US securities laws. UBS is cooperating with the authorities in these investigations.

UBS has, and reportedly numerous other financial institutions have, received inquiries from authorities concerning accounts relating to the Fédération Internationale de Football Association (FIFA) and other constituent soccer associations and related persons and entities. UBS is cooperating with authorities in these inquiries.

Our balance sheet at 30 June 2016 reflected provisions with respect to matters described in this item 1 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

2. Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter 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.

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.

Note 16 Provisions and contingent liabilities (continued)

We were 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.

RMBS-related lawsuits concerning disclosures: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in lawsuits related to approximately USD 2.6 billion in original face amount of RMBS underwritten or issued by UBS. Of the USD 2.6 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 1.2 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 (UBS-sponsored RMBS). The remaining USD 1.4 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter (third-party RMBS).

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights.

UBS is a defendant in two lawsuits brought by the National Credit Union Administration (NCUA), as conservator for certain failed credit unions, asserting misstatements and omissions in the offering documents for RMBS purchased by the credit unions. Both lawsuits were filed in US District Courts, one in the District of Kansas and the other in the Southern District of New York (SDNY). The original principal balance at issue in the Kansas case is approximately USD 1.15 billion and the original principal balance at issue in the SDNY case is approximately USD 400 million. In February 2016, UBS made an offer of judgment to NCUA in the SDNY case, which NCUA accepted, pursuant to which UBS agreed to pay to NCUA approximately USD 33 million plus approximately USD 36.8 million in prejudgment interest, for a total of approximately USD 69.8 million, in addition to reasonable attorneys' fees incurred by NCUA. Judgment was entered by the Court on April 25, 2016.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, we generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, we were in certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust aggregating approximately USD 4.1 billion in original principal balance. Of this amount, UBS considers claims relating to approximately USD 2 billion in original principal bal-

ance to be resolved, including claims barred by the statute of limitations. Substantially all of the remaining claims are in litigation, including the matters described in the next paragraph. UBS believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

In 2012, certain RMBS trusts filed an action (Trustee Suit) in the SDNY seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations (Transactions) with an original principal balance of approximately USD 2 billion, for which Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, had previously demanded repurchase. In January 2015, the court rejected plaintiffs' efforts to seek damages for all loans purportedly in breach of representations and warranties in any of the three Transactions and limited plaintiffs to pursuing claims based solely on alleged breaches for loans identified in the complaint or other breaches that plaintiffs can establish were independently discovered by UBS. In February 2015, the court denied plaintiffs' motion seeking reconsideration of its ruling. However, in April 2016, the Court ruled that, based on an intervening decision of an intermediate New York appellate court, it would allow plaintiffs to proceed with their claims at trial as to all loans purportedly in breach. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. A bench trial in the SDNY adjourned in May 2016 and post-trial briefs are being submitted.

We also have tolling agreements with certain institutional purchasers of RMBS concerning their potential claims related to substantial purchases of UBS-sponsored or third-party RMBS.

Mortgage-related regulatory matters: In 2014, UBS received a subpoena from the US Attorney's Office for the Eastern District of New York issued pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), which seeks documents and information related to UBS's RMBS business from 2005 through 2007. In 2015, the Eastern District of New York identified a number of transactions that are currently the focus of their inquiry, as to which we are providing additional information. UBS continues to respond to the FIRREA subpoena and to subpoenas from the New York State Attorney General (NYAG) relating to its RMBS business. In addition, UBS has also been responding to inquiries from both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through the present. We are cooperating with the authorities in these matters. Numerous other banks reportedly are responding to similar inquiries from these authorities.

Note 16 Provisions and contingent liabilities (continued)

Provision for claims related to sales of residential mortgage-backed securities and mortgages

USD million

| | |
|--|--------------|
| Balance as of 31 December 2015 | 1,218 |
| Balance as of 31 March 2016 | 1,242 |
| Increase in provision recognized in the income statement | 0 |
| Release of provision recognized in the income statement | 0 |
| Provision used in conformity with designated purpose | (255) |
| Balance as of 30 June 2016 | 988 |

As reflected in the table “Provision for claims related to sales of residential mortgage-backed securities and mortgages,” our balance sheet at 30 June 2016 reflected a provision of USD 988 million with respect to matters described in this item 2. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

3. 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 the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in 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. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without, however, being named as parties in those investigations. In 2009 and 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. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to

pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 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 were filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In 2014, the Luxembourg Court of Appeal dismissed one test case appeal in its entirety, which decision was appealed by the investor. In 2015, the Luxembourg Supreme Court found in favor of UBS and dismissed the investor’s appeal. In June 2016, the Luxembourg Court of Appeal dismissed the remaining test cases in their entirety. In the US, the BMIS Trustee filed claims in 2010 against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. Following a motion by UBS, in 2011, the SDNY dismissed all of the BMIS Trustee’s claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit affirmed the District Court’s decision and, in 2014, the US Supreme Court denied the BMIS Trustee’s petition seeking review of the Second Circuit ruling. In 2014, several claims, including a purported class action, were filed in the US by BMIS customers against UBS entities, asserting claims similar to the ones made by the BMIS Trustee, seeking unspecified damages. One claim was voluntarily withdrawn by the plaintiff. In 2015, following a motion by UBS, the SDNY dismissed the two remaining claims on the basis that the New York courts did not have jurisdiction to hear the claims against the UBS entities. The plaintiff in one of those claims has appealed the dismissal. 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. In 2015, a court of appeal ordered UBS to pay EUR 49 million, plus interest (approximately EUR 15.3 million).

Note 16 Provisions and contingent liabilities (continued)**4. Puerto Rico**

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds (the funds) that are sole-managed and co-managed by UBS Trust Company of Puerto Rico and distributed by UBS Financial Services Incorporated of Puerto Rico (UBS PR) have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of approximately USD 1.8 billion, of which claims with aggregate claimed damages of approximately USD 642 million have been resolved through settlements, arbitration or withdrawal of the claim. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and/or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions of US dollars in losses in the funds. In 2015, defendants' motion to dismiss was denied. Defendants' requests for permission to appeal that ruling were denied by the Puerto Rico Court of Appeals and the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management, and the co-manager of certain of the funds seeking damages for investor losses in the funds during the period from May 2008 through May 2014. Defendants have moved to dismiss that complaint. In 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA in December 2013 based on plaintiffs' allegation that the loans are not valid. The trial court denied defendants' motion to dismiss the action based on a forum selection clause in the loan agreements; the Puerto Rico Supreme Court has stayed the action pending its review of defendants' appeal from that ruling.

In 2014, UBS reached a settlement with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico (OCFI) in connection with OCFI's examination of UBS's operations from January 2006 through September 2013, pursuant to which UBS is paying up to an aggregate of USD 7.7 million in investor education contributions and restitution.

In 2015, the SEC and the Financial Industry Regulatory Authority (FINRA) announced settlements with UBS PR of their separate investigations stemming from the 2013 market events. Without admitting or denying the findings in either matter, UBS PR agreed in the SEC settlement to pay USD 15 million and USD 18.5 million in the FINRA matter (which includes up to USD 11 million in resti-

tution to 165 UBS PR customers and a civil penalty of USD 7.5 million). We also understand that the DOJ is conducting a criminal inquiry into the impermissible reinvestment of non-purpose loan proceeds. We are cooperating with the authorities in this inquiry.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS PR, which was named in connection with its underwriting and consulting services. Plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. Defendants' motion to dismiss is pending.

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012. Beginning in 2012, two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities, certain of the funds, and certain members of UBS PR senior management, seeking damages for investor losses in the funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. The Magistrate Judge for the consolidated case has recommended that plaintiffs' motion to certify the proposed class be denied.

In 2015, Puerto Rico's Governor stated that the Commonwealth was unable to meet its obligations. Certain agencies and public corporations of the Commonwealth have defaulted on certain interest payments beginning in August 2015 and additional payment defaults are expected to occur. In June 2016, federal legislation created an oversight board with power to oversee Puerto Rico's finances and to restructure its debt. These events, further defaults, any further legislative action to create a legal means of restructuring Commonwealth obligations or to impose additional oversight on the Commonwealth's finances, or any restructuring of the Commonwealth's obligations, may increase the number of claims against UBS concerning Puerto Rico securities, as well as potential damages sought.

Our balance sheet at 30 June 2016 reflected provisions with respect to matters described in this item 4 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that we have recognized.

Note 16 Provisions and contingent liabilities (continued)

5. Foreign exchange, LIBOR, and benchmark rates, and other trading practices

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes our precious metals and related structured products businesses. Since then, various authorities have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission (WEKO), the DOJ, the SEC, the US Commodity Futures Trading Commission (CFTC), the Board of Governors of the Federal Reserve System (Federal Reserve Board), the UK Financial Conduct Authority (FCA) (to which certain responsibilities of the UK Financial Services Authority (FSA) have passed), the UK Serious Fraud Office (SFO), the Australian Securities and Investments Commission (ASIC), the Hong Kong Monetary Authority (HKMA), the Korea Fair Trade Commission (KFTC) and the Brazil Competition Authority (CADE). In addition, WEKO is, and a number of other authorities reportedly are, investigating potential manipulation of precious metals prices. UBS has taken and will continue to take appropriate action with respect to certain personnel as a result of its ongoing review.

In 2014, UBS reached settlements with the FCA and the CFTC in connection with their foreign exchange investigations, and FINMA issued an order concluding its formal proceedings with respect to UBS relating to its foreign exchange and precious metals businesses. UBS has paid a total of approximately CHF 774 million to these authorities, including GBP 234 million in fines to the FCA, USD 290 million in fines to the CFTC, and CHF 134 million to FINMA representing confiscation of costs avoided and profits. In 2015, the Federal Reserve Board and the Connecticut Department of Banking issued an Order to Cease and Desist and Order of Assessment of a Civil Monetary Penalty Issued upon Consent (Federal Reserve Order) to UBS AG. As part of the Federal Reserve Order, UBS AG paid a USD 342 million civil monetary penalty.

In 2015, the DOJ's Criminal Division (Criminal Division) terminated the December 2012 Non-Prosecution Agreement (NPA) with UBS AG related to UBS's submissions of benchmark interest rates. As a result, UBS AG entered into a plea agreement with the Criminal Division pursuant to which UBS AG agreed to and did plead guilty to a one-count criminal information filed in the US District Court for the District of Connecticut charging UBS AG with one count of wire fraud in violation of 18 USC Sections 1343 and 2. Under the plea agreement, UBS AG agreed to a sentence that includes a USD 203 million fine and a three-year term of probation. The criminal information charges that, between approximately 2001 and 2010, UBS AG engaged in a scheme to defraud counterparties to interest rate derivatives transactions by manipulating benchmark interest rates, including Yen LIBOR. Sentencing is currently scheduled for 29 November 2016. The Crimi-

nal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA, including fraudulent and deceptive currency trading and sales practices in conducting certain foreign exchange market transactions with clients and collusion with other participants in certain foreign exchange markets.

We have ongoing obligations to cooperate with these authorities and to undertake certain remediation, including actions to improve UBS's processes and controls.

UBS has been granted conditional immunity by the Antitrust Division of the DOJ (Antitrust Division) from prosecution for EUR/USD collusion and entered into a non-prosecution agreement covering other currency pairs. As a result, UBS AG will not be subject to prosecutions, fines or other sanctions for antitrust law violations by the Antitrust Division, subject to UBS AG's continuing cooperation. However, the conditional immunity grant does not bar government agencies from asserting other claims and imposing sanctions against UBS AG, as evidenced by the settlements and ongoing investigations referred to above. UBS has also been granted conditional leniency by authorities in certain jurisdictions, including WEKO, in connection with potential competition law violations relating to precious metals, and as a result, will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in those jurisdictions, subject to UBS AG's continuing cooperation.

In 2015, UBS AG settled charges with the SEC relating to structured notes issued by UBS AG that were linked to the UBS V10 Currency Index with Volatility Cap.

Investigations relating to foreign exchange and precious metals matters by numerous authorities, including the CFTC, remain ongoing notwithstanding these resolutions.

Foreign exchange-related civil litigation: Putative class actions have been filed since November 2013 in US federal courts and in other jurisdictions against UBS and other banks on behalf of putative classes of persons who engaged in foreign currency transactions with any of the defendant banks. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. In 2015, additional putative class actions were filed in federal court in New York against UBS and other banks on behalf of a putative class of persons who entered into or held any foreign exchange futures contracts and options on foreign exchange futures contracts since 1 January 2003. The complaints assert claims under the Commodity Exchange Act (CEA) and the US antitrust laws. In 2015, a consolidated complaint was filed on behalf of both putative classes of persons covered by the US federal court class actions described above. UBS has entered into a settlement agreement that would resolve all of these US federal court class actions. The agreement, which has been preliminarily approved by the court and is subject to final court approval, requires, among other things, that UBS pay an aggregate of USD 141 million and provide cooperation to the settlement classes.

Note 16 Provisions and contingent liabilities (continued)

A putative class action has been filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries, and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 (ERISA) for whom a defendant bank provided foreign currency exchange transactional services, exercised discretionary authority or discretionary control over management of such ERISA plan, or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA.

In 2015, a putative class action was filed in federal court against UBS and numerous other banks on behalf of a putative class of persons and businesses in the US who directly purchased foreign currency from the defendants and their co-conspirators for their own end use. That action has been transferred to federal court in New York.

In 2015, UBS was added to putative class actions pending against other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the antitrust laws and the CEA, and other claims.

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the SFO, the Monetary Authority of Singapore (MAS), the HKMA, FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to LIBOR and other benchmark rates. These investigations focus on whether there were improper attempts by UBS, among others, either acting on our own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time, FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, USD 500 million in fines to the DOJ, and CHF 59 million in disgorgement to FINMA. UBS Securities Japan Co. Ltd. (UBSSJ) entered into a plea agreement with the DOJ under which it entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. UBS entered into an NPA with the DOJ, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency/immunity grants described below, required UBS to pay the USD 500 million fine to the DOJ after the sentencing of UBSSJ, and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. Under the NPA, we agreed, among other things, that for two years from

18 December 2012 UBS would not commit any US crime, and we would advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. The term of the NPA was extended by one year to 18 December 2015. In 2015, the Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA. As a result, UBS entered into a plea agreement with the DOJ under which it entered a guilty plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and agreed to pay a fine of USD 203 million and accept a three-year term of probation. Sentencing is currently scheduled for 29 November 2016.

In 2014, UBS reached a settlement with the European Commission (EC) regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC. The MAS, HKMA and the Japan Financial Services Agency have also resolved investigations of UBS (and in some cases, other banks). We have ongoing obligations to cooperate with the authorities with whom we have reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions.

Investigations by the CFTC, ASIC and other governmental authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ, WEKO and the EC, in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for CHF LIBOR and certain transactions related to CHF LIBOR. As a result of these conditional grants, we will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where we have conditional immunity or leniency in connection with the matters covered by the conditional grants, subject to our continuing cooperation. However, the conditional leniency and conditional immunity grants we have received do not bar government agencies from asserting other claims and imposing sanctions against us, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, we are eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to our satisfying the DOJ and the court presiding over the civil litigation of our cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against us.

Note 16 Provisions and contingent liabilities (continued)

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in, or expected to be transferred to, the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives. Also pending are actions asserting losses related to various products whose interest rates were linked to USD LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest-bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including USD LIBOR, Euroyen TIBOR, Yen LIBOR, EURIBOR, CHF LIBOR, GBP LIBOR or USD ISDAFIX rates, and seek unspecified compensatory and other damages under varying legal theories. In 2013, the district court in the USD action dismissed the federal antitrust and racketeering claims of certain USD LIBOR plaintiffs and a portion of their claims brought under the CEA and state common law. Certain plaintiffs appealed the decision to the Second Circuit, which, in May 2016, vacated the district court's ruling finding no antitrust injury and remanded the case back to the district court for a further determination on whether plaintiffs have antitrust standing. In 2014, the court in one of the Euroyen TIBOR lawsuits dismissed certain of the plaintiff's claims, including federal antitrust claims. In 2015, the same court dismissed plaintiff's federal racketeering claims and affirmed its previous dismissal of plaintiff's antitrust claims. UBS and other defendants in other lawsuits including those related to EURIBOR, CHF LIBOR and GBP LIBOR have filed motions to dismiss.

Since September 2014, putative class actions have been filed in federal court in New York and New Jersey against UBS and other financial institutions, among others, on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The complaints, which have since been consolidated into an amended complaint, allege that the defendants conspired to manipulate ISDAFIX rates from 1 January 2006 through January 2014, in violation of US antitrust laws and certain state laws, and seek unspecified compensatory damages, including treble damages. In March 2016, the court in the ISDAFIX action denied in substantial part defendants' motion to dismiss, holding that plaintiffs have stated Sherman Act, breach-of-contract, and unjust-enrichment claims against defendants, including UBS AG.

Government bonds: Putative class actions have been filed in US federal courts against UBS and other banks on behalf of persons who participated in markets for US Treasury securities since 2007. The complaints generally allege that the banks colluded with respect to, and manipulated prices of, US Treasury securities sold at auction. They assert claims under the antitrust laws and the CEA and for unjust enrichment. The cases have been consolidated in the SDNY. Following filing of these complaints, UBS and reportedly other banks are responding to investigations and requests for information from various authorities regarding US Treasury securities and other government bond trading practices. As a result of its review to date, UBS has taken appropriate action.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, our balance sheet at 30 June 2016 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

6. Swiss retrocessions

The Federal Supreme Court of Switzerland ruled in 2012, in a test case against UBS, that distribution fees paid to a firm for distributing third-party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the firm, absent a valid waiver.

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients.

The Supreme Court decision has resulted, and may continue to result, in a number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are assessed on a case-by-case basis. Considerations taken into account when assessing these cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

Note 16 Provisions and contingent liabilities (continued)

Our balance sheet at 30 June 2016 reflected a provision with respect to matters described in this item 6 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence, as in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

7. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (Pactual) by UBS to BTG Investments, LP (BTG), BTG has submitted contractual

indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being challenged in administrative and judicial proceedings. The majority of these assessments relate to the deductibility of goodwill amortization in connection with UBS's 2006 acquisition of Pactual and payments made to Pactual employees through various profit-sharing plans. In 2015, an intermediate administrative court issued a decision that was largely in favor of the tax authority with respect to the goodwill amortization assessment. In May 2016, the highest level of the administrative court agreed to review this decision on a number of the significant issues.

Note 17 Guarantees, commitments and forward starting transactions

The table below shows the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

| CHF million | 30.6.16 | | | 31.3.16 | | | 31.12.15 | | |
|--|---------------|--------------------|---------------|---------|--------------------|--------|----------|--------------------|--------|
| | Gross | Sub-participations | Net | Gross | Sub-participations | Net | Gross | Sub-participations | Net |
| Guarantees | | | | | | | | | |
| Credit guarantees and similar instruments | 6,393 | (448) | 5,945 | 6,525 | (439) | 6,086 | 6,708 | (315) | 6,393 |
| Performance guarantees and similar instruments | 3,111 | (763) | 2,347 | 3,029 | (643) | 2,386 | 3,035 | (699) | 2,336 |
| Documentary credits | 6,376 | (1,626) | 4,750 | 6,073 | (1,602) | 4,471 | 6,276 | (1,707) | 4,569 |
| Total guarantees | 15,880 | (2,837) | 13,043 | 15,627 | (2,684) | 12,942 | 16,019 | (2,721) | 13,298 |
| Loan commitments | 49,577 | (1,454) | 48,123 | 51,913 | (1,480) | 50,433 | 56,067 | (1,559) | 54,508 |
| Forward starting transactions¹ | | | | | | | | | |
| Reverse repurchase agreements | 14,373 | | | 18,695 | | | 6,577 | | |
| Securities borrowing agreements | 88 | | | 43 | | | 6 | | |
| Repurchase agreements | 11,188 | | | 13,098 | | | 6,323 | | |

¹ Cash to be paid in the future by either UBS or the counterparty.

Note 18 Changes in organization and disposals

Restructuring expenses

Restructuring expenses arise from programs that materially change either the scope of business undertaken by the Group or the manner in which such business is conducted. Restructuring expenses are temporary costs that are necessary to effect such programs and include items such as severance and other personnel-related expenses, duplicate headcount costs, impairment and

accelerated depreciation of assets, contract termination costs, consulting fees, and related infrastructure and system costs. These costs are presented in the income statement according to the underlying nature of the expense. As the costs associated with restructuring programs are temporary in nature, and in order to provide a more thorough understanding of business performance, such costs are separately presented below.

Net restructuring expenses by business division and Corporate Center unit

| CHF million | For the quarter ended | | | Year-to-date | |
|---|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Wealth Management | 86 | 79 | 69 | 165 | 115 |
| Wealth Management Americas | 38 | 33 | 24 | 71 | 48 |
| Personal & Corporate Banking | 31 | 23 | 17 | 55 | 33 |
| Asset Management | 34 | 20 | 4 | 54 | 22 |
| Investment Bank | 163 | 117 | 66 | 280 | 136 |
| Corporate Center | 25 | (6) | 12 | 19 | 143 |
| of which: Services | 20 | (8) | 0 | 13 | 118 |
| of which: Non-core and Legacy Portfolio | 5 | 2 | 13 | 6 | 24 |
| Total net restructuring expenses | 377 | 265 | 191 | 642 | 496 |
| of which: personnel expenses | 192 | 128 | 110 | 320 | 178 |
| of which: general and administrative expenses | 185 | 136 | 80 | 322 | 306 |
| of which: depreciation and impairment of property, equipment and software | 0 | 1 | 1 | 0 | 11 |
| of which: amortization and impairment of intangible assets | 0 | 0 | 0 | 0 | 0 |

Net restructuring expenses by personnel expense category

| CHF million | For the quarter ended | | | Year-to-date | |
|---|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Salaries and variable compensation | 200 | 115 | 129 | 315 | 197 |
| Contractors | 16 | 11 | 9 | 28 | 14 |
| Social security | 1 | 2 | 1 | 3 | 2 |
| Pension and other post-employment benefit plans | (30) | (4) | (33) | (34) | (41) |
| Other personnel expenses | 4 | 4 | 4 | 8 | 5 |
| Total net restructuring expenses: personnel expenses | 192 | 128 | 110 | 320 | 178 |

Net restructuring expenses by general and administrative expense category

| CHF million | For the quarter ended | | | Year-to-date | |
|--|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Occupancy | 41 | 29 | 9 | 70 | 19 |
| Rent and maintenance of IT and other equipment | 34 | 10 | (6) | 44 | 24 |
| Administration | 3 | 3 | 1 | 6 | 4 |
| Travel and entertainment | 5 | 3 | 4 | 8 | 6 |
| Professional fees | 36 | 34 | 42 | 70 | 73 |
| Outsourcing of IT and other services | 74 | 74 | 47 | 148 | 70 |
| Other ¹ | (8) | (17) | (16) | (25) | 110 |
| Total net restructuring expenses: general and administrative expenses | 185 | 136 | 80 | 322 | 306 |

¹ Mainly comprised of onerous real estate lease contracts.

Note 18 Changes in organization and disposals (continued)**Disposal group held for sale**

In the second quarter of 2016, UBS agreed to sell a life insurance subsidiary within Wealth Management, which resulted in the recognition of a loss of CHF 23 million. This sale is expected to close

in the second half of 2016 subject to customary closing conditions. As of 30 June 2016, the assets and liabilities of this business are presented as a disposal group held for sale within *Other assets* and *Other liabilities* and amounted to CHF 5,380 million and CHF 5,334 million, respectively.

Note 19 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of UBS's foreign operations into Swiss francs.

| | Spot rate | | | | Average rate ¹ | | | | |
|---------|-----------|---------|----------|---------|---------------------------|---------|---------|--------------|---------|
| | As of | | | | For the quarter ended | | | Year-to-date | |
| | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.15 | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| 1 USD | 0.98 | 0.96 | 1.00 | 0.94 | 0.98 | 0.99 | 0.94 | 0.99 | 0.94 |
| 1 EUR | 1.08 | 1.09 | 1.09 | 1.04 | 1.10 | 1.10 | 1.04 | 1.10 | 1.04 |
| 1 GBP | 1.30 | 1.38 | 1.48 | 1.47 | 1.37 | 1.42 | 1.45 | 1.39 | 1.44 |
| 100 JPY | 0.95 | 0.85 | 0.83 | 0.76 | 0.92 | 0.86 | 0.77 | 0.89 | 0.78 |

¹ Monthly income statement items of foreign operations with a functional currency other than Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a quarter represent an average of three month-end rates, weighted according to the income and expense volumes of all foreign operations of the Group with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for the Group.

UBS AG interim consolidated financial information (unaudited)

This section contains a comparison of selected financial and capital information between UBS Group AG (consolidated) and UBS AG (consolidated), as well as key figures for UBS AG (consolidated). Refer to "Quarterly reporting" at www.ubs.com/investors for the interim consolidated financial statements of UBS AG, which will be published on 4 August 2016.

Comparison UBS Group AG (consolidated) versus UBS AG (consolidated)

The accounting policies applied under International Financial Reporting Standards (IFRS) to both UBS Group AG and UBS AG consolidated financial statements are identical. However, there are certain scope and presentation differences which relate to:

- Assets, liabilities, operating income, operating expenses and operating profit before tax relating to UBS Group AG and its directly held subsidiaries, including UBS Business Solutions AG, are reflected in the consolidated financial statements of UBS Group AG but not of UBS AG. UBS AG's assets, liabilities, operating income, and operating expenses related to transactions with UBS Group AG and its directly held subsidiaries are not subject to elimination in the UBS AG consolidated financial statements, but are eliminated in the UBS Group AG consolidated financial statements.
- Total equity of UBS Group AG (consolidated) was lower than total equity of UBS AG (consolidated) as of 30 June 2016, primarily related to employee share-based compensation awards.
- Preferred notes issued by UBS AG are presented in the consolidated UBS Group AG balance sheet as equity attributable to NCI, while in the consolidated UBS AG balance sheet, these preferred notes are required to be presented as equity attributable to preferred noteholders.
- Fully applied total capital of UBS AG (consolidated) was lower than fully applied total capital of UBS Group AG (consolidated) as of 30 June 2016, reflecting lower AT1 capital and lower tier 2 capital, partly offset by higher CET1 capital. The difference in CET1 capital was primarily due to compensation-related regulatory capital accruals, liabilities and capital instruments which are reflected on the level of UBS Group AG. The difference in AT1 capital relates to the issuances of AT1 capital notes by UBS Group AG, as well as Deferred Contingent Capital Plan (DCCP) awards granted for the performance years 2014 and 2015. The difference in tier 2 capital relates to high-trigger loss-absorbing capital, in the form of 2012 and 2013 DCCP awards, held at the UBS Group AG level.

Comparison UBS Group AG (consolidated) versus UBS AG (consolidated)

| CHF million, except where indicated | As of or for the quarter ended 30.6.16 | | |
|--|--|--------------------------|--------------------------|
| | UBS Group AG (consolidated) | UBS AG (consolidated) | Difference (absolute) |
| Income statement | | | |
| Operating income | 7,404 | 7,399 | 5 |
| Operating expenses | 5,915 | 5,942 | (27) |
| Operating profit / (loss) before tax | 1,489 | 1,457 | 32 |
| <i>of which: Wealth Management</i> | 518 | 514 | 4 |
| <i>of which: Wealth Management Americas</i> | 237 | 225 | 12 |
| <i>of which: Personal & Corporate Banking</i> | 534 | 533 | 1 |
| <i>of which: Asset Management</i> | 114 | 113 | 1 |
| <i>of which: Investment Bank</i> | 284 | 267 | 17 |
| <i>of which: Corporate Center</i> | (198) | (195) | (3) |
| <i>of which: Services</i> | (113) | (109) | (4) |
| <i>of which: Group ALM</i> | 44 | 42 | 2 |
| <i>of which: Non-core and Legacy Portfolio</i> | (129) | (128) | (1) |
| Net profit / (loss) | 1,113 | 1,088 | 25 |
| <i>of which: net profit / (loss) attributable to shareholders</i> | 1,034 | 1,009 | 25 |
| <i>of which: net profit / (loss) attributable to preferred noteholders</i> | | 78 | (78) |
| <i>of which: net profit / (loss) attributable to non-controlling interests</i> | 79 | 1 | 78 |
| Statement of comprehensive income | | | |
| Other comprehensive income | 445 | 446 | (1) |
| <i>of which: attributable to shareholders</i> | 117 | 118 | (1) |
| <i>of which: attributable to preferred noteholders</i> | | 328 | (328) |
| <i>of which: attributable to non-controlling interests</i> | 329 | 0 | 329 |
| Total comprehensive income | 1,558 | 1,535 | 23 |
| <i>of which: attributable to shareholders</i> | 1,151 | 1,127 | 24 |
| <i>of which: attributable to preferred noteholders</i> | | 406 | (406) |
| <i>of which: attributable to non-controlling interests</i> | 407 | 1 | 406 |
| Balance sheet | | | |
| Total assets | 989,397 | 990,135 | (738) |
| Total liabilities | 935,835 | 936,096 | (261) |
| Total equity | 53,562 | 54,039 | (477) |
| <i>of which: equity attributable to shareholders</i> | 52,876 | 53,353 | (477) |
| <i>of which: equity attributable to preferred noteholders</i> | | 649 | (649) |
| <i>of which: equity attributable to non-controlling interests</i> | 686 | 37 | 649 |
| Capital information | | | |
| Common equity tier 1 capital (fully applied) | 30,264 | 32,184 | (1,920) |
| Common equity tier 1 capital (phase-in) | 37,064 | 38,913 | (1,849) |
| Additional tier 1 capital (fully applied) | 7,785 | 2,688 | 5,097 |
| Tier 2 capital (fully applied) | 11,331 | 10,441 | 890 |
| Total capital (fully applied) | 49,381 | 45,313 | 4,068 |
| Risk-weighted assets (fully applied) | 213,840 | 214,210 | (370) |
| Common equity tier 1 capital ratio (fully applied, %) | 14.2 | 15.0 | (0.8) |
| Common equity tier 1 capital ratio (phase-in, %) | 17.1 | 17.9 | (0.8) |
| Total capital ratio (fully applied, %) | 23.1 | 21.2 | 1.9 |
| Leverage ratio denominator (fully applied) | 898,195 | 899,075 | (880) |
| Leverage ratio (fully applied, %) | 5.5 | 5.0 | 0.5 |

| As of or for the quarter ended 31.3.16 | | | As of or for the quarter ended 31.12.15 | | |
|--|--------------------------|--------------------------|---|--------------------------|--------------------------|
| UBS Group AG (consolidated) | UBS AG (consolidated) | Difference (absolute) | UBS Group AG (consolidated) | UBS AG (consolidated) | Difference (absolute) |
| 6,833 | 6,855 | (22) | 6,775 | 6,771 | 4 |
| 5,855 | 5,876 | (21) | 6,541 | 6,543 | (2) |
| 978 | 979 | (1) | 234 | 228 | 6 |
| 557 | 552 | 5 | 344 | 342 | 2 |
| 211 | 204 | 7 | 14 | 8 | 6 |
| 399 | 399 | 0 | 355 | 356 | (1) |
| 90 | 90 | 0 | 171 | 171 | 0 |
| 253 | 236 | 17 | 80 | 83 | (3) |
| (534) | (502) | (32) | (729) | (732) | 3 |
| (203) | (193) | (10) | (345) | (349) | 4 |
| (148) | (127) | (21) | (56) | (54) | (2) |
| (183) | (182) | (1) | (329) | (329) | 0 |
| 708 | 713 | (5) | 950 | 951 | (1) |
| 707 | 713 | (6) | 949 | 950 | (1) |
| | 0 | 0 | | 0 | 0 |
| 0 | 0 | 0 | 1 | 1 | 0 |
| (358) | (358) | 0 | 214 | 214 | 0 |
| (308) | (308) | 0 | 177 | 177 | 0 |
| | (50) | 50 | | 35 | (35) |
| (50) | (1) | (49) | 37 | 2 | 35 |
| 349 | 355 | (6) | 1,164 | 1,165 | (1) |
| 399 | 405 | (6) | 1,126 | 1,126 | 0 |
| | (50) | 50 | | 35 | (35) |
| (50) | (1) | (49) | 38 | 3 | 35 |
| 966,873 | 968,158 | (1,285) | 942,819 | 943,256 | (437) |
| 910,088 | 910,557 | (469) | 885,511 | 886,013 | (502) |
| 56,786 | 57,601 | (815) | 57,308 | 57,243 | 65 |
| 54,845 | 55,660 | (815) | 55,313 | 55,248 | 65 |
| | 1,905 | (1,905) | | 1,954 | (1,954) |
| 1,941 | 36 | 1,905 | 1,995 | 41 | 1,954 |
| 29,853 | 32,118 | (2,265) | 30,044 | 32,042 | (1,998) |
| 36,580 | 38,762 | (2,182) | 40,378 | 41,516 | (1,138) |
| 7,585 | 2,643 | 4,942 | 6,154 | 1,252 | 4,902 |
| 11,112 | 10,217 | 895 | 11,237 | 10,325 | 912 |
| 48,551 | 44,978 | 3,573 | 47,435 | 43,619 | 3,816 |
| 213,558 | 214,973 | (1,415) | 207,530 | 208,186 | (656) |
| 14.0 | 14.9 | (0.9) | 14.5 | 15.4 | (0.9) |
| 16.9 | 17.8 | (0.9) | 19.0 | 19.5 | (0.5) |
| 22.7 | 20.9 | 1.8 | 22.9 | 21.0 | 1.9 |
| 905,801 | 907,277 | (1,476) | 897,607 | 898,251 | (644) |
| 5.4 | 5.0 | 0.4 | 5.3 | 4.9 | 0.4 |

UBS AG (consolidated) key figures

| CHF million, except where indicated | As of or for the quarter ended | | | | As of or year-to-date | |
|---|--------------------------------|---------|----------|---------|-----------------------|---------|
| | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.15 | 30.6.16 | 30.6.15 |
| Results | | | | | | |
| Operating income | 7,399 | 6,855 | 6,771 | 7,784 | 14,254 | 16,644 |
| Operating expenses | 5,942 | 5,876 | 6,543 | 6,087 | 11,818 | 12,254 |
| Operating profit/(loss) before tax | 1,457 | 979 | 228 | 1,698 | 2,436 | 4,391 |
| Net profit/(loss) attributable to UBS AG shareholders | 1,009 | 713 | 950 | 1,178 | 1,723 | 3,201 |
| Key performance indicators¹ | | | | | | |
| Profitability | | | | | | |
| Return on tangible equity (%) | 8.6 | 6.0 | 8.1 | 10.4 | 7.3 | 14.1 |
| Return on assets, gross (%) | 3.0 | 2.9 | 2.8 | 3.1 | 2.9 | 3.2 |
| Cost/income ratio (%) | 80.2 | 85.7 | 95.8 | 78.1 | 82.9 | 73.5 |
| Growth | | | | | | |
| Net profit growth (%) | (14.3) | (64.8) | 6.4 | 48.7 | (46.2) | 73.4 |
| Net new money growth for combined wealth management businesses (%) ² | 1.7 | 5.9 | 2.9 | 1.5 | 3.8 | 2.6 |
| Resources | | | | | | |
| Common equity tier 1 capital ratio (fully applied, %) ³ | 15.0 | 14.9 | 15.4 | 15.6 | 15.0 | 15.6 |
| Leverage ratio (phase-in, %) ⁴ | 5.5 | 5.6 | 5.7 | 5.1 | 5.5 | 5.1 |
| Additional information | | | | | | |
| Profitability | | | | | | |
| Return on equity (RoE) (%) | 7.4 | 5.1 | 6.9 | 8.9 | 6.3 | 12.1 |
| Return on risk-weighted assets, gross (%) ⁵ | 13.8 | 13.0 | 12.8 | 14.6 | 13.4 | 15.5 |
| Resources | | | | | | |
| Total assets | 990,135 | 968,158 | 943,256 | 951,528 | 990,135 | 951,528 |
| Equity attributable to UBS AG shareholders | 53,353 | 55,660 | 55,248 | 51,685 | 53,353 | 51,685 |
| Common equity tier 1 capital (fully applied) ³ | 32,184 | 32,118 | 32,042 | 32,834 | 32,184 | 32,834 |
| Common equity tier 1 capital (phase-in) ³ | 38,913 | 38,762 | 41,516 | 39,169 | 38,913 | 39,169 |
| Risk-weighted assets (fully applied) ³ | 214,210 | 214,973 | 208,186 | 210,400 | 214,210 | 210,400 |
| Common equity tier 1 capital ratio (phase-in, %) ³ | 17.9 | 17.8 | 19.5 | 18.5 | 17.9 | 18.5 |
| Total capital ratio (fully applied, %) ³ | 21.2 | 20.9 | 21.0 | 20.2 | 21.2 | 20.2 |
| Total capital ratio (phase-in, %) ³ | 23.5 | 23.9 | 24.9 | 23.8 | 23.5 | 23.8 |
| Leverage ratio (fully applied, %) ⁴ | 5.0 | 5.0 | 4.9 | 4.5 | 5.0 | 4.5 |
| Leverage ratio denominator (fully applied) ⁴ | 899,075 | 907,277 | 898,251 | 946,457 | 899,075 | 946,457 |
| Other | | | | | | |
| Invested assets (CHF billion) ⁶ | 2,677 | 2,618 | 2,689 | 2,628 | 2,677 | 2,628 |
| Personnel (full-time equivalents) ⁷ | 57,387 | 58,053 | 58,131 | 59,648 | 57,387 | 59,648 |

¹ Refer to the "Measurement of performance" section of our Annual Report 2015 and to the "Recent developments" section of this report for the definitions of our key performance indicators. ² Based on adjusted net new money which excludes the negative effect on net new money of CHF 6.6 billion in Wealth Management from our balance sheet and capital optimization program in the second quarter of 2015. ³ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of this report for more information. ⁴ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ⁵ Based on fully applied risk-weighted assets. ⁶ Includes invested assets for Personal & Corporate Banking. ⁷ As of 30 June 2016, the breakdown of personnel by business division and Corporate Center was as follows: Wealth Management: 10,131; Wealth Management Americas: 13,643; Personal & Corporate Banking: 5,012; Asset Management: 2,340; Investment Bank: 5,014; Corporate Center – Services: 21,042; Corporate Center – Group ALM: 134; Corporate Center – Non-core and Legacy Portfolio: 70.

Legal entity financial and regulatory information

Unaudited

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UBS Group AG (standalone)

Income statement

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|-------------|--------------|---------------|-----------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Dividend income from the investment in UBS AG | 3,434 | 0 | 1,869 | | 84 | 3,434 | 1,869 |
| Other operating income | 131 | 128 | 95 | 2 | 38 | 260 | 143 |
| Operating income | 3,565 | 128 | 1,964 | | 82 | 3,694 | 2,012 |
| Operating expenses | 144 | 148 | 102 | (2) | 41 | 292 | 247 |
| Operating profit/(loss) before tax | 3,421 | (19) | 1,862 | | 84 | 3,401 | 1,765 |
| Tax expense/(benefit) | 6 | 5 | 0 | 31 | | 11 | 0 |
| Net profit/(loss) for the period | 3,415 | (24) | 1,862 | | 83 | 3,391 | 1,765 |

Balance sheet

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|---|---------------|---------------|---------------|---------------|------------|
| | | | | 31.3.16 | 31.12.15 |
| Current assets | 2,250 | 2,448 | 2,422 | (8) | (7) |
| Non-current assets | 47,307 | 47,188 | 45,959 | 0 | 3 |
| of which: investment in UBS AG | 40,376 | 40,376 | 40,376 | 0 | 0 |
| Total assets | 49,557 | 49,636 | 48,381 | 0 | 2 |
| Short-term liabilities | 2,014 | 2,592 | 1,741 | (22) | 16 |
| Long-term liabilities | 9,511 | 9,083 | 8,225 | 5 | 16 |
| of which: additional tier 1 capital | 6,533 | 6,453 | 5,106 | 1 | 28 |
| Total liabilities | 11,525 | 11,675 | 9,966 | (1) | 16 |
| of which: Deferred Contingent Capital Plan | 1,367 | 1,198 | 1,173 | 14 | 17 |
| of which: other deferred compensation plans | 2,440 | 2,174 | 2,654 | 12 | (8) |
| Share capital ¹ | 385 | 385 | 385 | 0 | 0 |
| General reserve ² | 34,880 | 37,011 | 37,006 | (6) | (6) |
| of which: statutory capital reserve | 34,880 | 37,011 | 37,006 | (6) | (6) |
| of which: capital contribution reserve | 34,880 | 38,040 | 38,035 | (8) | (8) |
| of which: other capital reserve | 0 | (1,028) | (1,029) | (100) | (100) |
| Voluntary earnings reserve ² | 1,709 | (10) | (10) | | |
| Treasury shares | (2,343) | (2,158) | (1,724) | 9 | 36 |
| Reserve for own shares held by subsidiaries | 9 | 0 | 1 | | 827 |
| Retained earnings/(loss) carried forward ² | 0 | 2,756 | 0 | (100) | |
| Net profit/(loss) for the period | 3,391 | (24) | 2,756 | | 23 |
| Equity attributable to shareholders | 38,031 | 37,961 | 38,415 | 0 | (1) |
| Total liabilities and equity | 49,557 | 49,636 | 48,381 | 0 | 2 |

¹ Refer to the "UBS shares" section of this report for information on UBS Group AG shares. ² During the second quarter of 2016, as approved at the Annual General Meeting of shareholders held on 10 May 2016, the 2015 net profit of CHF 2,756 million was appropriated to the other capital reserve within the general reserve (CHF 1,029 million) and to the voluntary earnings reserve (CHF 1,727 million). In addition, a payment of an ordinary cash dividend of CHF 0.60 per dividend-bearing share, totaling CHF 2,233 million, and of a special cash dividend of CHF 0.25 per dividend-bearing share, totaling CHF 930 million, was made out of the capital contribution reserve within the general reserve.

Basis of accounting

The UBS Group AG standalone financial statements are prepared in accordance with the principles of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). More information on the accounting policies applied for the standalone financial statements of UBS Group AG is provided in Note 2 to the UBS Group AG standalone financial statements in the Annual Report 2015.

In preparing the interim financial information for UBS Group AG, the same accounting policies and methods of computation have been applied as in the annual financial statements as of 31 December 2015. This interim financial information is unaudited and should be read in conjunction with the audited financial statements of UBS Group AG included in the Annual Report 2015.

UBS AG (standalone)

Income statement

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|--|-----------------------|-------------|--------------|---------------|------|--------------|----------------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 ¹ |
| Interest and discount income | 1,377 | 1,405 | 1,493 | (2) | (8) | 2,781 | 3,602 |
| Interest and dividend income from trading portfolio | 637 | 574 | 805 | 11 | (21) | 1,211 | 1,455 |
| Interest and dividend income from financial investments | 46 | 38 | 46 | 21 | 0 | 84 | 99 |
| Interest expense | (2,085) | (1,485) | (1,915) | 40 | 9 | (3,570) | (3,377) |
| Gross interest income | (26) | 532 | 430 | | | 506 | 1,778 |
| Credit loss (expense)/recovery | 8 | (23) | (5) | | | (14) | (35) |
| Net interest income | (18) | 509 | 425 | | | 492 | 1,743 |
| Fee and commission income from securities and investment business | 486 | 546 | 756 | (11) | (36) | 1,032 | 2,376 |
| Credit-related fees and commissions | 60 | 50 | 87 | 20 | (31) | 110 | 192 |
| Other fee and commission income | (6) | (5) | 23 | 20 | | (11) | 150 |
| Fee and commission expense | (212) | (198) | (307) | 7 | (31) | (410) | (596) |
| Net fee and commission income | 328 | 393 | 560 | (17) | (41) | 721 | 2,123 |
| Net trading income | 1,584 | 999 | 548 | 59 | 189 | 2,584 | 2,745 |
| Net income from disposal of financial investments | 44 | 52 | 34 | (15) | 29 | 96 | 128 |
| Dividend income from investments in subsidiaries and other participations | 408 | 36 | 134 | | 204 | 445 | 412 |
| Income from real estate holdings | 162 | 119 | 122 | 36 | 33 | 282 | 294 |
| Sundry ordinary income | 1,311 | 1,353 | 1,261 | (3) | 4 | 2,665 | 1,985 |
| Sundry ordinary expenses | (107) | (94) | (133) | 14 | (20) | (201) | (272) |
| Other income from ordinary activities | 1,820 | 1,466 | 1,418 | 24 | 28 | 3,286 | 2,547 |
| Total operating income | 3,714 | 3,368 | 2,950 | 10 | 26 | 7,082 | 9,157 |
| Personnel expenses | 1,629 | 1,553 | 1,367 | 5 | 19 | 3,182 | 3,716 |
| General and administrative expenses | 1,342 | 1,294 | 1,249 | 4 | 7 | 2,636 | 2,618 |
| Subtotal operating expenses | 2,971 | 2,847 | 2,616 | 4 | 14 | 5,818 | 6,334 |
| Impairment of investments in subsidiaries and other participations | 210 | 373 | 550 | (44) | (62) | 583 | 1,536 |
| Depreciation and impairment of property, equipment and software | 171 | 178 | 149 | (4) | 15 | 349 | 314 |
| Amortization and impairment of goodwill and other intangible assets | 6 | 6 | 6 | 0 | 0 | 11 | 11 |
| Changes in provisions and other allowances and losses | 26 | (3) | (25) | | | 23 | 25 |
| Total operating expenses | 3,383 | 3,401 | 3,295 | (1) | 3 | 6,784 | 8,220 |
| Operating profit | 331 | (33) | (345) | | | 298 | 937 |
| Extraordinary income | 1,197 | 65 | 77 | | | 1,262 | 613 |
| <i>of which: reversal of impairments of investments in subsidiaries and other participations</i> | 1,075 | 65 | 32 | | | 1,140 | 49 |
| Extraordinary expenses | 1 | 0 | 5 | | (80) | 2 | 6 |
| Tax expense/(benefit) | 37 | 49 | 89 | (24) | (58) | 85 | 211 |
| Net profit/(loss) for the period | 1,491 | (18) | (362) | | | 1,473 | 1,334 |

¹ Comparative amounts presented for year-to-date 30 June 2015 include the results of the Personal & Corporate Banking and Wealth Management businesses booked in Switzerland, which were transferred from UBS AG to UBS Switzerland AG in the second quarter of 2015. Refer to "Establishment of UBS Switzerland AG" in the "Legal entity financial and regulatory information" section of our Annual Report 2015 for more information.

Balance sheet

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|---|----------------|----------------|----------------|---------------|------------|
| | | | | 31.3.16 | 31.12.15 |
| Assets | | | | | |
| Cash and balances with central banks | 34,260 | 48,770 | 45,125 | (30) | (24) |
| Due from banks | 50,572 | 49,059 | 40,611 | 3 | 25 |
| Receivables from securities financing transactions | 98,755 | 101,796 | 90,479 | (3) | 9 |
| <i>of which: cash collateral on securities borrowed</i> | 37,928 | 33,363 | 27,925 | 14 | 36 |
| <i>of which: reverse repurchase agreements</i> | 60,827 | 68,433 | 62,553 | (11) | (3) |
| Due from customers | 104,399 | 93,749 | 97,401 | 11 | 7 |
| Mortgage loans | 4,399 | 4,563 | 4,679 | (4) | (6) |
| Trading portfolio assets | 75,142 | 76,436 | 94,210 | (2) | (20) |
| Positive replacement values | 23,975 | 20,136 | 20,987 | 19 | 14 |
| Financial investments | 41,364 | 34,242 | 27,528 | 21 | 50 |
| Accrued income and prepaid expenses | 1,914 | 1,730 | 1,708 | 11 | 12 |
| Investments in subsidiaries and other participations | 46,187 | 43,399 | 43,791 | 6 | 5 |
| Property, equipment and software | 6,721 | 6,579 | 6,503 | 2 | 3 |
| Goodwill and other intangible assets | 24 | 30 | 36 | (20) | (33) |
| Other assets | 3,559 | 3,808 | 3,986 | (7) | (11) |
| Total assets | 491,269 | 484,296 | 477,045 | 1 | 3 |
| <i>of which: subordinated assets</i> | 7,160 | 6,555 | 5,752 | 9 | 24 |
| <i>of which: subject to mandatory conversion and/or debt waiver</i> | 4,521 | 4,500 | 4,020 | 0 | 12 |
| Liabilities | | | | | |
| Due to banks | 36,164 | 39,092 | 36,669 | (7) | (1) |
| Payables from securities financing transactions | 64,883 | 59,322 | 55,457 | 9 | 17 |
| <i>of which: cash collateral on securities lent</i> | 33,811 | 28,961 | 34,094 | 17 | (1) |
| <i>of which: repurchase agreements</i> | 31,072 | 30,361 | 21,363 | 2 | 45 |
| Due to customers | 148,463 | 145,607 | 144,842 | 2 | 2 |
| Trading portfolio liabilities | 21,253 | 23,405 | 21,179 | (9) | 0 |
| Negative replacement values | 26,798 | 25,463 | 24,669 | 5 | 9 |
| Financial liabilities designated at fair value | 55,601 | 52,754 | 58,104 | 5 | (4) |
| Bonds issued and loans from central mortgage institutions | 76,333 | 75,655 | 72,750 | 1 | 5 |
| Accrued expenses and deferred income | 3,445 | 3,414 | 4,356 | 1 | (21) |
| Other liabilities | 7,037 | 6,266 | 5,505 | 12 | 28 |
| Provisions | 1,523 | 1,608 | 1,786 | (5) | (15) |
| Total liabilities | 441,501 | 432,585 | 425,316 | 2 | 4 |
| Equity | | | | | |
| Share capital | 386 | 386 | 386 | 0 | 0 |
| General reserve | 38,149 | 33,669 | 33,669 | 13 | 13 |
| <i>of which: statutory capital reserve</i> | 38,149 | 38,149 | 38,149 | 0 | 0 |
| <i>of which: capital contribution reserve</i> | 38,149 | 38,149 | 38,149 | 0 | 0 |
| <i>of which: statutory earnings reserve¹</i> | 0 | (4,480) | (4,480) | (100) | (100) |
| Voluntary earnings reserve ¹ | 9,760 | 5,689 | 5,689 | 72 | 72 |
| Retained earnings / (loss) carried forward ¹ | 0 | 11,984 | 0 | (100) | |
| Net profit / (loss) for the period | 1,473 | (18) | 11,984 | | (88) |
| Total equity | 49,768 | 51,711 | 51,728 | (4) | (4) |
| Total liabilities and equity | 491,269 | 484,296 | 477,045 | 1 | 3 |
| <i>of which: subordinated liabilities</i> | 15,275 | 16,840 | 16,139 | (9) | (5) |
| <i>of which: subject to mandatory conversion and/or debt waiver</i> | 12,849 | 12,689 | 11,858 | 1 | 8 |

¹ During the second quarter of 2016, the 2015 net profit of CHF 11,984 million was appropriated to the statutory earnings reserve (CHF 4,480 million) and to the voluntary earnings reserve (CHF 4,070 million) and a payment of a cash dividend of CHF 3,434 million was made out of retained earnings to UBS Group AG, as approved at the Annual General Meeting of shareholders held on 4 May 2016.

Basis of accounting

UBS AG standalone financial statements are prepared in accordance with Swiss GAAP (FINMA Circular 2015/1 and the Banking Ordinance).

The accounting policies are principally the same as the IFRS-based accounting policies for the consolidated financial statements outlined in Note 1 to the consolidated financial statements of UBS AG in the Annual Report 2015. Major differences between the Swiss GAAP requirements and IFRS are described in Note 38 to the consolidated financial statements of UBS AG in the Annual Report 2015. Further information on the accounting policies

applied for the standalone financial statements of UBS AG is provided in Note 2 to the UBS AG standalone financial statements in the Annual Report 2015.

In preparing the interim financial information for UBS AG, the same accounting policies and methods of computation have been applied as in the annual financial statements as of 31 December 2015. This interim financial information is unaudited and should be read in conjunction with the audited financial statements of UBS AG included in the Annual Report 2015.

Recent developments

In the second quarter of 2016, UBS AG transferred several subsidiaries into UBS Asset Management AG, a direct subsidiary of UBS AG, through a contribution in kind. These transfers were made at a value of CHF 1.5 billion and resulted in a gain of CHF 1.1 billion

that was recognized in the income statement of UBS AG, largely as extraordinary income, and which increased the value of UBS AG's investment in UBS Asset Management AG.

Joint and several liability

In June 2015, the Personal & Corporate Banking and Wealth Management businesses booked in Switzerland were transferred from UBS AG to UBS Switzerland AG through an asset transfer in accordance with the Swiss Merger Act. Under the Swiss Merger Act, UBS AG assumed joint liability for obligations existing on the asset transfer date, 14 June 2015, that were transferred to UBS Switzerland AG.

As of the asset transfer date, UBS AG assumed joint liability for approximately CHF 260 billion of obligations of UBS Switzerland AG, excluding the collateralized portion of secured contractual

obligations. UBS AG has no liability for new obligations incurred by UBS Switzerland AG after the asset transfer date.

→ Refer to "Establishment of UBS Switzerland AG" in the "Legal entity financial and regulatory information" section of our Annual Report 2015 for more information

The joint liability amount declines as obligations mature, terminate or are novated following the asset transfer date. As of 30 June 2016, the joint liability amounted to approximately CHF 1 billion.

Regulatory key figures

| | Requirement | | Actual | |
|--|-------------|---------|---------|----------|
| <i>CHF million, except where indicated</i> | 30.6.16 | 30.6.16 | 31.3.16 | 31.12.15 |
| Capital ratios – Swiss SRB (phase-in) | | | | |
| Common equity tier 1 capital | 24,076 | 34,128 | 33,678 | 32,656 |
| Tier 2 capital | | 0 | 0 | 0 |
| Total capital | 33,707 | 34,128 | 33,678 | 32,656 |
| Risk-weighted assets | | 240,762 | 235,271 | 227,170 |
| Common equity tier 1 capital ratio (%) | 10.0 | 14.2 | 14.3 | 14.4 |
| Total capital ratio (%) | 14.0 | 14.2 | 14.3 | 14.4 |
| Leverage ratio – Swiss SRB (phase-in) | | | | |
| Total capital | | 34,128 | 33,678 | 32,656 |
| Leverage ratio denominator | | 625,789 | 636,514 | 633,985 |
| Leverage ratio (%) | 3.4 | 5.5 | 5.3 | 5.2 |
| Leverage ratio – BIS (phase-in) | | | | |
| Tier 1 capital | | 34,128 | 33,678 | 32,656 |
| Leverage ratio denominator | | 625,789 | 636,514 | 633,985 |
| Leverage ratio (%) | | 5.5 | 5.3 | 5.2 |
| Liquidity coverage ratio¹ | | | | |
| High-quality liquid assets (CHF billion) | | 103 | 116 | 108 |
| Net cash outflows (CHF billion) | | 79 | 88 | 93 |
| Liquidity coverage ratio (%) | | 131 | 132 | 116 |

¹ Figures represent a 3-month average.

Information concerning the capital requirements applicable to UBS AG (standalone) under Swiss SRB regulations, as revised by the FINMA decree dated 20 December 2013, will be provided in the document "UBS AG second quarter 2016 report," which will be available from 4 August 2016 under "Quarterly reporting" at www.ubs.com/investors.

The same document will contain supplemental Swiss SRB capital information and information on the leverage ratio and the liquidity coverage ratio.

UBS Switzerland AG (standalone) interim financial statements

Income statement

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|------------|------------|---------------|-------------|--------------|----------------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 ¹ |
| Interest and discount income | 972 | 962 | 1,096 | 1 | (11) | 1,934 | 1,096 |
| Interest and dividend income from trading portfolio | (1) | 1 | 0 | | | 0 | 0 |
| Interest and dividend income from financial investments | 25 | 20 | 15 | 25 | 67 | 44 | 15 |
| Interest expense | (125) | (116) | (285) | 8 | (56) | (242) | (285) |
| Gross interest income | 871 | 866 | 826 | 1 | 5 | 1,737 | 826 |
| Credit loss (expense)/recovery | 5 | 6 | (2) | (17) | | 11 | (2) |
| Net interest income | 876 | 872 | 825 | 0 | 6 | 1,748 | 825 |
| Fee and commission income from securities and investment business | 819 | 838 | 910 | (2) | (10) | 1,657 | 910 |
| Credit-related fees and commissions | 38 | 35 | 39 | 9 | (3) | 73 | 39 |
| Other fee and commission income | 182 | 171 | 173 | 6 | 5 | 353 | 173 |
| Fee and commission expense | (88) | (87) | (94) | 1 | (6) | (176) | (94) |
| Net fee and commission income | 951 | 956 | 1,028 | (1) | (7) | 1,907 | 1,028 |
| Net trading income | 175 | 155 | 246 | 13 | (29) | 330 | 246 |
| Net income from disposal of financial investments | 136 | 18 | 2 | 656 | | 154 | 2 |
| Dividend income from investments in subsidiaries and other participations | 28 | 0 | 30 | | (7) | 28 | 30 |
| Income from real estate holdings | 0 | 0 | 0 | | | 0 | 0 |
| Sundry ordinary income | 37 | 57 | 58 | (35) | (36) | 94 | 58 |
| Sundry ordinary expenses | (4) | (5) | (19) | (20) | (79) | (9) | (19) |
| Other income from ordinary activities | 198 | 69 | 72 | 187 | 175 | 267 | 72 |
| Total operating income | 2,199 | 2,053 | 2,171 | 7 | 1 | 4,252 | 2,171 |
| Personnel expenses | 528 | 539 | 548 | (2) | (4) | 1,067 | 548 |
| General and administrative expenses | 845 | 861 | 785 | (2) | 8 | 1,706 | 785 |
| Subtotal operating expenses | 1,372 | 1,401 | 1,333 | (2) | 3 | 2,773 | 1,333 |
| Depreciation and impairment of property, equipment and software | 3 | 3 | 4 | 0 | (25) | 6 | 4 |
| Amortization and impairment of goodwill and other intangible assets | 263 | 263 | 263 | 0 | 0 | 525 | 263 |
| Changes in provisions and other allowances and losses | (1) | 2 | 6 | | | 1 | 6 |
| Total operating expenses | 1,637 | 1,668 | 1,605 | (2) | 2 | 3,305 | 1,605 |
| Operating profit | 562 | 385 | 566 | 46 | (1) | 947 | 566 |
| Extraordinary income | 0 | 0 | 0 | | | 0 | 0 |
| Extraordinary expenses | 0 | 0 | 0 | | | 0 | 0 |
| Tax expense/(benefit) | 122 | 90 | 54 | 36 | 126 | 213 | 54 |
| Net profit/(loss) for the period | 440 | 295 | 512 | 49 | (14) | 735 | 512 |

¹ Primarily represents income and expenses for the second quarter of 2015. During the first quarter of 2015, UBS Switzerland AG had no operations and recorded therefore virtually no profit or loss during that period.

Balance sheet

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|--|----------------|----------------|----------------|---------------|----------|
| | | | | 31.3.16 | 31.12.15 |
| Assets | | | | | |
| Cash and balances with central banks | 46,418 | 47,385 | 38,701 | (2) | 20 |
| Due from banks | 4,377 | 4,976 | 3,477 | (12) | 26 |
| Receivables from securities financing transactions | 31,251 | 25,396 | 23,672 | 23 | 32 |
| of which: cash collateral on securities borrowed | 5,656 | 4,645 | 7,414 | 22 | (24) |
| of which: reverse repurchase agreements | 25,595 | 20,752 | 16,258 | 23 | 57 |
| Due from customers | 37,931 | 38,779 | 38,373 | (2) | (1) |
| Mortgage loans | 147,252 | 147,621 | 148,492 | 0 | (1) |
| Trading portfolio assets | 1,871 | 1,719 | 1,736 | 9 | 8 |
| Positive replacement values | 3,158 | 2,632 | 2,274 | 20 | 39 |
| Financial investments | 22,707 | 22,957 | 22,878 | (1) | (1) |
| Accrued income and prepaid expenses | 266 | 225 | 237 | 18 | 12 |
| Investments in subsidiaries and other participations | 54 | 42 | 42 | 29 | 29 |
| Property, equipment and software | 21 | 18 | 15 | 17 | 40 |
| Goodwill and other intangible assets | 3,938 | 4,200 | 4,463 | (6) | (12) |
| Other assets | 868 | 812 | 817 | 7 | 6 |
| Total assets | 300,111 | 296,764 | 285,176 | 1 | 5 |
| of which: subordinated assets | 1 | 0 | 0 | | |
| of which: subject to mandatory conversion and/or debt waiver | 0 | 0 | 0 | | |
| Liabilities | | | | | |
| Due to banks | 17,772 | 19,178 | 19,280 | (7) | (8) |
| Payables from securities financing transactions | 12,116 | 11,664 | 8,997 | 4 | 35 |
| of which: cash collateral on securities lent | 2,900 | 2,485 | 2,493 | 17 | 16 |
| of which: repurchase agreements | 9,216 | 9,179 | 6,505 | 0 | 42 |
| Due to customers | 242,396 | 238,974 | 231,294 | 1 | 5 |
| Trading portfolio liabilities | 243 | 255 | 128 | (5) | 90 |
| Negative replacement values | 1,629 | 1,532 | 1,092 | 6 | 49 |
| Bonds issued and loans from central mortgage institutions | 8,144 | 8,229 | 8,274 | (1) | (2) |
| Accrued expenses and deferred income | 863 | 662 | 822 | 30 | 5 |
| Other liabilities | 1,885 | 1,654 | 963 | 14 | 96 |
| Provisions | 178 | 171 | 179 | 4 | (1) |
| Total liabilities | 285,227 | 282,319 | 271,027 | 1 | 5 |
| Equity | | | | | |
| Share capital | 10 | 10 | 10 | 0 | 0 |
| General reserve | 13,072 | 13,072 | 13,072 | 0 | 0 |
| of which: statutory capital reserve | 13,072 | 13,072 | 13,072 | 0 | 0 |
| of which: capital contribution reserve | 13,072 | 13,072 | 13,072 | 0 | 0 |
| Voluntary earnings reserve ¹ | 1,068 | 0 | 0 | | |
| Retained earnings / (loss) carried forward ¹ | 0 | 1,068 | 0 | (100) | |
| Net profit / (loss) for the period | 735 | 295 | 1,068 | 149 | (31) |
| Total equity | 14,884 | 14,444 | 14,149 | 3 | 5 |
| Total liabilities and equity | 300,111 | 296,764 | 285,176 | 1 | 5 |
| of which: subordinated liabilities | 4,521 | 4,540 | 4,020 | 0 | 12 |
| of which: subject to mandatory conversion and/or debt waiver | 4,521 | 4,540 | 4,020 | 0 | 12 |

¹ During the second quarter of 2016, the 2015 net profit of CHF 1,068 million was appropriated to the voluntary earnings reserve.

Balance sheet (continued)

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|---|--------------|---------|----------|---------------|----------|
| | | | | 31.3.16 | 31.12.15 |
| Off-balance sheet items | | | | | |
| Contingent liabilities, gross | 9,057 | 8,546 | 8,784 | 6 | 3 |
| Sub-participations | (1,010) | (891) | (854) | 13 | 18 |
| Contingent liabilities, net | 8,048 | 7,655 | 7,930 | 5 | 1 |
| of which: guarantees to third parties related to subsidiaries | 8 | 9 | 9 | (11) | (11) |
| of which: credit guarantees and similar instruments | 3,252 | 3,058 | 3,313 | 6 | (2) |
| of which: performance guarantees and similar instruments | 2,260 | 2,303 | 2,318 | (2) | (3) |
| of which: documentary credits | 2,528 | 2,285 | 2,291 | 11 | 10 |
| Irrevocable commitments, gross | 9,303 | 7,790 | 7,982 | 19 | 17 |
| Sub-participations | (2) | (2) | 0 | 0 | |
| Irrevocable commitments, net | 9,300 | 7,788 | 7,982 | 19 | 17 |
| of which: loan commitments | 8,435 | 6,923 | 7,117 | 22 | 19 |
| of which: payment commitment related to deposit insurance | 865 | 865 | 865 | 0 | 0 |
| Forward starting transactions¹ | 112 | 121 | 0 | (7) | |
| of which: reverse repurchase agreements | 112 | 121 | 0 | (7) | |
| of which: repurchase agreements | 0 | 0 | 0 | | |
| Liabilities for calls on shares and other equity instruments | 43 | 37 | 37 | 16 | 16 |

¹ Cash to be paid in the future by either UBS or the counterparty.

Basis of accounting

The UBS Switzerland AG standalone financial statements are prepared in accordance with the interim reporting requirements of Swiss GAAP (FINMA Circular 2015/1 and the Banking Ordinance).

The accounting policies are principally the same as the IFRS-based accounting policies for the consolidated financial statements of UBS Group AG outlined in Note 1 to the consolidated financial statements of UBS Group AG in the Annual Report 2015. Major differences between the Swiss GAAP requirements and IFRS are described in Note 38 to the consolidated financial statements of UBS Group AG in the Annual Report 2015. Further infor-

mation on the accounting policies applied for the standalone financial statements of UBS Switzerland AG is provided in Note 2 to the UBS Switzerland AG standalone financial statements in the Annual Report 2015.

In preparing the interim financial statements for UBS Switzerland AG, the same accounting policies and methods of computation have been applied as in the annual financial statements as of 31 December 2015. The interim financial statements are unaudited and should be read in conjunction with the audited financial statements included in the Annual Report 2015.

Joint and several liability

In June 2015, the Personal & Corporate Banking and Wealth Management businesses booked in Switzerland were transferred from UBS AG to UBS Switzerland AG through an asset transfer in accordance with the Swiss Merger Act. Under the Swiss Merger Act, UBS AG assumed joint liability for obligations existing on the asset transfer date, 14 June 2015, which were transferred to UBS Switzerland AG. Under the terms of the asset transfer agreement, UBS Switzerland AG assumed joint liability for approximately CHF 325 billion of contractual obligations of UBS AG existing on the asset transfer date, excluding the collateralized portion of secured contractual obligations and covered bonds. UBS Switzerland AG has no liability for new obligations incurred by UBS AG after the asset transfer date. Under certain circum-

stances, the Swiss Banking Act and the bank insolvency ordinance of the Swiss Financial Market Supervisory Authority (FINMA) authorize FINMA to modify, extinguish or convert to common equity liabilities of a bank in connection with a resolution or insolvency of such bank.

→ Refer to “Establishment of UBS Switzerland AG” in the “Legal entity financial and regulatory information” section of our Annual Report 2015 for more information

The joint liability amount declines as obligations mature, terminate or are novated following the asset transfer date. As of 30 June 2016, the joint liability of UBS Switzerland AG amounted to approximately CHF 109 billion.

Regulatory key figures

| CHF million, except where indicated | Requirement ¹ | | Actual | |
|--|--------------------------|---------|---------|----------|
| | 30.6.16 | 30.6.16 | 31.3.16 | 31.12.15 |
| Capital ratios – Swiss SRB (phase-in) | | | | |
| Common equity tier 1 capital | | 10,489 | 10,495 | 10,468 |
| Additional tier 1 capital | | 2,000 | 2,000 | 1,500 |
| Tier 2 capital | | 2,500 | 2,500 | 2,500 |
| Total capital | 13,577 | 14,989 | 14,995 | 14,468 |
| Risk-weighted assets | | 93,094 | 93,018 | 95,765 |
| Common equity tier 1 capital ratio (%) | 8.6 | 11.3 | 11.3 | 10.9 |
| Total capital ratio (%) | 14.6 | 16.1 | 16.1 | 15.1 |
| Leverage ratio – Swiss SRB (phase-in) | | | | |
| Total capital | | 14,989 | 14,995 | 14,468 |
| Leverage ratio denominator | | 313,285 | 309,001 | 296,865 |
| Leverage ratio (%) | 3.4 | 4.8 | 4.9 | 4.9 |
| Leverage ratio – BIS (phase-in) | | | | |
| Tier 1 capital | | 12,489 | 12,495 | 11,968 |
| Leverage ratio denominator | | 313,285 | 309,001 | 296,865 |
| Leverage ratio (%) | | 4.0 | 4.0 | 4.0 |
| Liquidity coverage ratio² | | | | |
| High-quality liquid assets (CHF billion) | | 81 | 77 | 75 |
| Net cash outflows (CHF billion) | | 72 | 69 | 65 |
| Liquidity coverage ratio (%) | | 113 | 113 | 115 |

¹ The CET1 capital ratio requirement of 8.6%, the total capital ratio requirement of 14.6% and the total leverage ratio requirement of 3.4% are the current phase-in requirements according to the Swiss Capital Adequacy Ordinance. In addition, FINMA defined a) a total capital ratio requirement for UBS Switzerland AG which is the sum of 14.4% and the current effect of the countercyclical buffer requirement of 0.4%, of which 10.0% plus the effect of the countercyclical buffer requirement must be satisfied with CET1 capital, and b) a total leverage ratio requirement of 3.5%. These requirements will be effective until they are exceeded by the Swiss SRB phase-in requirements. ² Figures represent a 3-month average.

Additional information concerning the capital requirements applicable to UBS Switzerland AG (standalone) will be provided in the document "UBS Switzerland AG (standalone) regulatory information," which will be available from 4 August 2016 under "Disclosure for subsidiaries and branches" at www.ubs.com/investors.

The same document will contain supplemental Swiss SRB capital information, as well as information on the leverage ratio and the liquidity coverage ratio.

UBS Limited (standalone)

Income statement

| GBP million | For the quarter ended | | | % change from | | Year-to-date | |
|--------------------------------|-----------------------|-----------|-----------|---------------|------------|--------------|-----------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Interest income | 116 | 84 | 73 | 38 | 59 | 200 | 126 |
| Interest expense | (124) | (81) | (85) | 53 | 46 | (205) | (141) |
| Net interest income | (7) | 2 | (12) | | (42) | (5) | (15) |
| Credit loss (expense)/recovery | 0 | (2) | 1 | | (100) | (2) | 2 |
| Net fee and commission income | 221 | 191 | 208 | 16 | 6 | 412 | 439 |
| Net trading income | 32 | 0 | 6 | | 433 | 32 | (8) |
| Other income | (29) | (20) | (29) | 45 | 0 | (50) | (65) |
| Total operating income | 217 | 170 | 174 | 28 | 25 | 387 | 353 |
| Total operating expenses | 147 | 137 | 136 | 7 | 8 | 284 | 285 |
| Operating profit before tax | 70 | 33 | 38 | 112 | 84 | 103 | 68 |
| Tax expense/(benefit) | 13 | 6 | 11 | 117 | 18 | 18 | 21 |
| Net profit | 58 | 27 | 27 | 115 | 115 | 85 | 47 |

Statement of comprehensive income

| GBP million | For the quarter ended | | | Year-to-date | |
|-------------------|-----------------------|-----------|-----------|--------------|-----------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Net profit | 58 | 27 | 27 | 85 | 47 |

Other comprehensive income

Other comprehensive income that may be reclassified to the income statement

Financial assets available for sale

| | | | | | |
|--|------------|-----------|------------|-----------|------------|
| Net unrealized gains/(losses) on financial assets available for sale | (2) | 2 | (7) | 0 | (1) |
| Total other comprehensive income that may be reclassified to the income statement | (2) | 2 | (7) | 0 | (1) |
| Total comprehensive income | 56 | 29 | 20 | 85 | 46 |

Balance sheet

| GBP million | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|---|---------------|---------------|---------------|---------------|-----------|
| | | | | 30.6.16 | 31.12.15 |
| Assets | | | | | |
| Cash and balances with central banks | 12 | 10 | 5 | 20 | 140 |
| Due from banks | 1,512 | 1,012 | 841 | 49 | 80 |
| Loans and advances to customers | 1,083 | 752 | 791 | 44 | 37 |
| Cash collateral on securities borrowed | 5,118 | 4,777 | 3,711 | 7 | 38 |
| Reverse repurchase agreements | 3,007 | 3,777 | 2,973 | (20) | 1 |
| Trading portfolio assets | 5,486 | 5,172 | 3,770 | 6 | 46 |
| Positive replacement values | 23,367 | 20,237 | 17,668 | 15 | 32 |
| Cash collateral receivables on derivative instruments | 6,907 | 5,258 | 6,027 | 31 | 15 |
| Financial assets designated at fair value | 3,993 | 3,190 | 666 | 25 | 499 |
| Financial assets available for sale | 121 | 699 | 3,163 | (83) | (96) |
| Deferred tax assets | 173 | 172 | 172 | 0 | 0 |
| Other assets | 459 | 366 | 319 | 25 | 44 |
| Total assets | 51,237 | 45,422 | 40,106 | 13 | 28 |
| Liabilities | | | | | |
| Due to banks | 5,110 | 3,362 | 2,309 | 52 | 121 |
| Due to customers | 406 | 484 | 230 | (16) | 77 |
| Cash collateral on securities lent | 1,131 | 853 | 668 | 33 | 69 |
| Repurchase agreements | 4,281 | 4,537 | 4,021 | (6) | 6 |
| Trading portfolio liabilities | 5,057 | 5,743 | 4,787 | (12) | 6 |
| Negative replacement values | 24,590 | 20,981 | 18,040 | 17 | 36 |
| Cash collateral payables on derivative instruments | 6,149 | 5,034 | 5,966 | 22 | 3 |
| Financial liabilities designated at fair value | 858 | 807 | 728 | 6 | 18 |
| Other liabilities | 517 | 535 | 316 | (3) | 64 |
| Total liabilities | 48,099 | 42,337 | 37,064 | 14 | 30 |
| Equity | | | | | |
| Share capital | 227 | 227 | 227 | 0 | 0 |
| Share premium | 2,184 | 2,184 | 2,184 | 0 | 0 |
| Retained earnings | 491 | 436 | 396 | 13 | 24 |
| Cumulative net income recognized directly in equity, net of tax | 1 | 4 | 1 | (75) | 0 |
| Other equity instruments | 235 | 235 | 235 | 0 | 0 |
| Total equity | 3,137 | 3,086 | 3,042 | 2 | 3 |
| Total liabilities and equity | 51,237 | 45,422 | 40,106 | 13 | 28 |

Basis of accounting

The financial statements of UBS Limited are prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union (EU), and are stated in British pounds (GBP), the functional currency of the entity. UBS Group AG is the ultimate parent of UBS Limited, which is 100% owned by UBS AG. This interim financial information does not comply with IAS 34, *Interim Financial Reporting*, as it includes only the income statement, the statement of comprehensive income and the balance sheet of UBS Limited.

In preparing this interim financial information, the same accounting policies and methods of computation have been applied as in the audited financial statements included in the Annual Report and Financial Statements of UBS Limited for the year ended 31 December 2015, which is available under "Disclosure for subsidiaries and branches" at www.ubs.com/investors. This interim financial information is unaudited and should be read in conjunction with the audited financial statements of UBS Limited.

Capital information^{1,2,3}

GBP million, except where indicated

| | 30.6.16 | 31.3.16 | 31.12.15 |
|--|--------------|---------|----------|
| Capital | | | |
| Common equity tier 1 capital before adjustment | 2,801 | 2,804 | 2,807 |
| Regulatory adjustments | (263) | (245) | (239) |
| Common equity tier 1 capital | 2,538 | 2,559 | 2,568 |
| Additional tier 1 capital | 235 | 235 | 235 |
| Total tier 1 capital | 2,773 | 2,794 | 2,803 |
| Tier 2 capital | 660 | 621 | 587 |
| Total capital | 3,433 | 3,415 | 3,390 |

Risk-weighted assets and leverage ratio denominator

| | | | |
|----------------------------|--------|--------|--------|
| Risk-weighted assets | 12,772 | 12,404 | 12,317 |
| Leverage ratio denominator | 42,744 | 40,472 | 37,807 |

Capital and leverage ratios

| | | | |
|--|------|------|------|
| Common equity tier 1 capital ratio (%) | 19.9 | 20.6 | 20.9 |
| Tier 1 capital ratio (%) | 21.7 | 22.5 | 22.8 |
| Total capital ratio (%) | 26.9 | 27.5 | 27.5 |
| Leverage ratio (%) | 6.5 | 6.9 | 7.4 |

¹ Capital information for UBS Limited has been prepared in accordance with Regulation (EU) No 575/2013 (as amended by Regulation (EU) 2015/62 in respect of the leverage ratio). ² There is no local disclosure requirement for the liquidity coverage ratio as of 30 June 2016. ³ Capital information presented for 31 December 2015 is based on UBS Limited's Pillar 3 – Supplementary Disclosures as of 31 December 2015.

Abbreviations frequently used in our financial reports

| | | | | | |
|----------|---|----------|--|-----------|---|
| A | | D | | G | |
| ABS | asset-backed security | DBO | defined benefit obligation | GAAP | generally accepted accounting principles |
| AGM | annual general meeting of shareholders | DCCP | Deferred Contingent Capital Plan | GBP | British pound |
| AIV | alternative investment vehicle | DOJ | Department of Justice | GEB | Group Executive Board |
| AMA | advanced measurement approach | DTA | deferred tax asset | GIIPS | Greece, Italy, Ireland, Portugal and Spain |
| AT1 | additional tier 1 | DVA | debit valuation adjustment | Group ALM | Group Asset and Liability Management |
| B | | E | | H | |
| BCBS | Basel Committee on Banking Supervision | EAD | exposure at default | HQLA | high-quality liquid assets |
| BD | business division | EC | European Commission | | |
| BIS | Bank for International Settlements | ECB | European Central Bank | | |
| BoD | Board of Directors | EIR | effective interest rate | | |
| BVG | Swiss occupational pension plan | EMEA | Europe, Middle East and Africa | | |
| C | | EOP | Equity Ownership Plan | I | |
| CC | Corporate Center | EPS | earnings per share | IAS | International Accounting Standards |
| CCAR | Comprehensive Capital Analysis and Review | ETD | exchange-traded derivatives | IASB | International Accounting Standards Board |
| CCF | credit conversion factors | ETF | exchange-traded fund | IFRS | International Financial Reporting Standards |
| CCP | central counterparty | EU | European Union | IRB | internal ratings-based |
| CDO | collateralized debt obligation | EUR | euro | IRC | incremental risk charge |
| CDR | constant default rate | EURIBOR | Euro Interbank Offered Rate | ISDA | International Swaps and Derivatives Association |
| CDS | credit default swap | F | | K | |
| CEA | Commodity Exchange Act | FCA | UK Financial Conduct Authority | KPI | key performance indicator |
| CEO | Chief Executive Officer | FCT | foreign currency translation | | |
| CET1 | common equity tier 1 | FDIC | Federal Deposit Insurance Corporation | L | |
| CFO | Chief Financial Officer | FINMA | Swiss Financial Market Supervisory Authority | LAC | loss-absorbing capital |
| CHF | Swiss franc | FRA | forward rate agreement | LAS | liquidity-adjusted stress |
| CLN | credit-linked note | FSA | UK Financial Services Authority | LCR | liquidity coverage ratio |
| CLO | collateralized loan obligation | FSB | Financial Stability Board | LGD | loss given default |
| CMBS | commercial mortgage-backed security | FTD | first to default | LIBOR | London Interbank Offered Rate |
| CVA | credit valuation adjustment | FTP | funds transfer price | LRD | leverage ratio denominator |
| | | FVA | funding valuation adjustment | LTV | loan-to-value |
| | | FX | foreign exchange | M | |
| | | | | MTN | medium-term note |

 Abbreviations frequently used in our financial reports (continued)

| | | | | | |
|----------|------------------------------------|----------|--|----------|-------------------------------|
| N | | R | | T | |
| NAV | net asset value | RLN | reference-linked note | TBTF | too big to fail |
| NRV | negative replacement value | RMBS | residential mortgage-backed security | TLAC | total loss-absorbing capacity |
| NPA | non-prosecution agreement | RoAE | return on attributed equity | TRS | total return swap |
| NSFR | net stable funding ratio | RoE | return on equity | U | |
| O | | RoTE | return on tangible equity | USD | US dollar |
| OCI | other comprehensive income | RV | replacement value | V | |
| OTC | over-the-counter | RWA | risk-weighted assets | VaR | value-at-risk |
| P | | S | | | |
| PRA | UK Prudential Regulation Authority | SE | structured entity | | |
| PRV | positive replacement value | SEC | US Securities and Exchange Commission | | |
| | | SEEOOP | Senior Executive Equity Ownership Plan | | |
| | | SFT | securities financing transaction | | |
| | | SNB | Swiss National Bank | | |
| | | SRB | systemically relevant bank | | |
| | | SRM | Single Resolution Mechanism | | |
| | | SVaR | stressed value-at-risk | | |

Information sources

Reporting publications

Annual publications: Annual publications: *Annual report (SAP no. 80531)*: Published in both English and German, this single volume report provides a description of our Group strategy and performance; the strategy and performance of the business divisions and Corporate Center; a description of risk, treasury, capital management, corporate governance, responsibility and senior management compensation, including compensation for the Board of Directors and the Group Executive Board members; and financial information, including the financial statements. *Review (SAP no. 80530)*: The booklet contains key information on our strategy and financials. It is published in English, German, French and Italian. *Compensation Report (SAP no. 82307)*: The report discusses our compensation framework and provides information on compensation for the Board of Directors and the Group Executive Board members. It is published in English and German.

Quarterly publications: *Financial report (SAP no. 80834)* and *results materials*: The quarterly financial report, published for the first, second and third quarter, and the fourth-quarter earnings release and financial supplement provide an update on our strategy and performance for the respective quarter. They are mainly available in English.

How to order reports: The annual and quarterly publications are available in PDF on the internet at www.ubs.com/investors in the "Financial information" section. Printed copies can be ordered from the same website in the "Investor services" section, which can be accessed via the link on the left-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference, where applicable, from UBS AG, F4UK-AUL, P.O. Box, CH-8098 Zurich, Switzerland.

Other information

Website: The "Investor Relations" website at www.ubs.com/investors provides the following information on UBS: news releases, financial information, including results-related filings with the US Securities and Exchange Commission, information for shareholders, including UBS share price charts and data and dividend information, and for bondholders, the UBS corporate calendar and presentations by management for investors and financial analysts. Information on the internet is available in English, with some information also available in German.

Result presentations: Our quarterly results presentations are webcast live. A playback of most presentations is downloadable at www.ubs.com/presentations.

Messaging service/UBS news alert: On the www.ubs.com/newsalerts website, it is possible to subscribe to receive news alerts about UBS via SMS or email. Messages are sent in English, German, French or Italian and it is possible to state theme preferences for the alerts received.

Form 20-F and other submissions to the US Securities and Exchange Commission: We file periodic reports and submit other information about UBS to the US Securities and Exchange Commission (SEC). Principal among these filings is the annual report on Form 20-F, filed pursuant to the US Securities Exchange Act of 1934. The filing of Form 20-F is structured as a "wrap-around" document. Most sections of the filing can be satisfied by referring to parts of the annual report. However, there is a small amount of additional information in Form 20-F which is not presented elsewhere and is particularly targeted at readers in the US. Readers are encouraged to refer to this additional disclosure. Any document that we file with the SEC is available to read and copy on the SEC's website, www.sec.gov, or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC, 20549. Please call the SEC on +1800-SEC-0330 for further information on the operation of its public reference room. Refer to www.ubs.com/investors for more information.

Cautionary Statement Regarding Forward-Looking Statements | This report contains statements that constitute “forward-looking statements,” including but not limited to management’s outlook for UBS’s financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS’s business and future development. While these forward-looking statements represent UBS’s judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS’s expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in executing its announced strategic plans, including its cost reduction and efficiency initiatives and its targets for risk-weighted assets (RWA) and leverage ratio denominator (LRD), and the degree to which UBS is successful in implementing changes to its wealth management businesses to meet changing market, regulatory and other conditions; (ii) the continuing low or negative interest rate environment, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and geopolitical tensions on the financial position or creditworthiness of UBS’s clients and counterparties as well as on client sentiment and levels of activity; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC) requirements, or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose, or result in, more stringent capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures, and the effect this would have on UBS’s business activities; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve a limited reduction of gone concern requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements, including changes in legal structure and reporting required to implement US enhanced prudential standards, implementing a service company model, completing the transfer of the Asset Management business to a holding company, and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements relating to capital requirements, resolvability requirements and proposals in Switzerland and other countries for mandatory structural reform of banks and the extent to which such changes have the intended effects; (vii) the uncertainty arising from the UK referendum vote to withdraw from the EU and the potential need to make changes in UBS’s legal structure and operations as a result of a UK exit from the EU; (viii) changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational component of our RWA; (xi) the effects on UBS’s cross-border banking business of tax or regulatory developments and of possible changes in UBS’s policies and practices relating to this business; (xii) UBS’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiv) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xv) whether UBS will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyber-attacks, and systems failures; (xvii) restrictions on the ability of UBS Group AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA of its broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors, including methodology, assumptions and stress scenarios, may affect UBS’s ability to maintain its stated capital return objective; and (xix) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2015. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

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

Tables | Within tables, blank fields generally indicate that the field is not applicable or not meaningful, or that information is not available as of the relevant date or for the relevant period. Zero values generally indicate that the respective figure is zero on an actual or rounded basis. Percentage changes are presented as a mathematical calculation of the change between periods.

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APPENDIX II

**APPENDIX 11 to the Registration Document
Second quarter 2016 report of UBS AG as at 30 June 2016**



UBS AG

Second quarter 2016 report

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Corporate calendar UBS AG

Publication dates of quarterly and annual reports and results will be made available as part of the corporate calendar of UBS AG at www.ubs.com/investors

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UBS AG (consolidated) key figures

UBS AG (consolidated) key figures

| CHF million, except where indicated | As of or for the quarter ended | | | | As of or year-to-date | |
|---|--------------------------------|---------|----------|---------|-----------------------|---------|
| | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.15 | 30.6.16 | 30.6.15 |
| Results | | | | | | |
| Operating income | 7,399 | 6,855 | 6,771 | 7,784 | 14,254 | 16,644 |
| Operating expenses | 5,942 | 5,876 | 6,543 | 6,087 | 11,818 | 12,254 |
| Operating profit / (loss) before tax | 1,457 | 979 | 228 | 1,698 | 2,436 | 4,391 |
| Net profit / (loss) attributable to UBS AG shareholders | 1,009 | 713 | 950 | 1,178 | 1,723 | 3,201 |
| Key performance indicators¹ | | | | | | |
| Profitability | | | | | | |
| Return on tangible equity (%) | 8.6 | 6.0 | 8.1 | 10.4 | 7.3 | 14.1 |
| Return on assets, gross (%) | 3.0 | 2.9 | 2.8 | 3.1 | 2.9 | 3.2 |
| Cost / income ratio (%) | 80.2 | 85.7 | 95.8 | 78.1 | 82.9 | 73.5 |
| Growth | | | | | | |
| Net profit growth (%) | (14.3) | (64.8) | 6.4 | 48.7 | (46.2) | 73.4 |
| Net new money growth for combined wealth management businesses (%) ² | 1.7 | 5.9 | 2.9 | 1.5 | 3.8 | 2.6 |
| Resources | | | | | | |
| Common equity tier 1 capital ratio (fully applied, %) ³ | 15.0 | 14.9 | 15.4 | 15.6 | 15.0 | 15.6 |
| Leverage ratio (phase-in, %) ⁴ | 5.5 | 5.6 | 5.7 | 5.1 | 5.5 | 5.1 |
| Additional information | | | | | | |
| Profitability | | | | | | |
| Return on equity (RoE) (%) | 7.4 | 5.1 | 6.9 | 8.9 | 6.3 | 12.1 |
| Return on risk-weighted assets, gross (%) ⁵ | 13.8 | 13.0 | 12.8 | 14.6 | 13.4 | 15.5 |
| Resources | | | | | | |
| Total assets | 990,135 | 968,158 | 943,256 | 951,528 | 990,135 | 951,528 |
| Equity attributable to UBS AG shareholders | 53,353 | 55,660 | 55,248 | 51,685 | 53,353 | 51,685 |
| Common equity tier 1 capital (fully applied) ³ | 32,184 | 32,118 | 32,042 | 32,834 | 32,184 | 32,834 |
| Common equity tier 1 capital (phase-in) ³ | 38,913 | 38,762 | 41,516 | 39,169 | 38,913 | 39,169 |
| Risk-weighted assets (fully applied) ³ | 214,210 | 214,973 | 208,186 | 210,400 | 214,210 | 210,400 |
| Common equity tier 1 capital ratio (phase-in, %) ³ | 17.9 | 17.8 | 19.5 | 18.5 | 17.9 | 18.5 |
| Total capital ratio (fully applied, %) ³ | 21.2 | 20.9 | 21.0 | 20.2 | 21.2 | 20.2 |
| Total capital ratio (phase-in, %) ³ | 23.5 | 23.9 | 24.9 | 23.8 | 23.5 | 23.8 |
| Leverage ratio (fully applied, %) ⁴ | 5.0 | 5.0 | 4.9 | 4.5 | 5.0 | 4.5 |
| Leverage ratio denominator (fully applied) ⁴ | 899,075 | 907,277 | 898,251 | 946,457 | 899,075 | 946,457 |
| Other | | | | | | |
| Invested assets (CHF billion) ⁶ | 2,677 | 2,618 | 2,689 | 2,628 | 2,677 | 2,628 |
| Personnel (full-time equivalents) ⁷ | 57,387 | 58,053 | 58,131 | 59,648 | 57,387 | 59,648 |

¹ Refer to the "Measurement of performance" section of our Annual Report 2015 and to the "Recent developments" section of the UBS Group second quarter 2016 report for the definitions of our key performance indicators. ² Based on adjusted net new money which excludes the negative effect on net new money of CHF 6.6 billion in Wealth Management from our balance sheet and capital optimization program in the second quarter of 2015. ³ Based on the Basel III framework as applicable for Swiss systemically relevant banks (SRBs). Refer to the "Capital management" section of the UBS Group second quarter 2016 report for more information. ⁴ Calculated in accordance with Swiss SRB rules. Refer to the "Capital management" section of the UBS Group second quarter 2016 report for more information. From 31 December 2015 onward, the leverage ratio denominator calculation is aligned with the Basel III rules. Figures for periods prior to 31 December 2015 are calculated in accordance with former Swiss SRB rules and are therefore not fully comparable. ⁵ Based on fully applied risk-weighted assets. ⁶ Includes invested assets for Personal & Corporate Banking. ⁷ As of 30 June 2016, the breakdown of personnel by business division and Corporate Center was as follows: Wealth Management: 10,131; Wealth Management Americas: 13,643; Personal & Corporate Banking: 5,012; Asset Management: 2,340; Investment Bank: 5,014; Corporate Center – Services: 21,042; Corporate Center – Group ALM: 134; Corporate Center – Non-core and Legacy Portfolio: 70.

Introduction

Structure of this report

Following the establishment of UBS Group AG as the holding company for the UBS Group and the parent company of UBS AG, UBS Group AG is the primary financial reporting entity for the UBS Group. 100% of UBS AG's issued shares are held by UBS Group AG, and UBS AG's shares are no longer publicly traded following delisting from the New York Stock Exchange and SIX Swiss Exchange in 2015. Financial information for UBS AG (consolidated) does not differ materially from that for UBS Group AG (consolidated).

This report includes risk and capital management information for UBS AG (consolidated), the interim consolidated financial statements of UBS AG for the quarter ended 30 June 2016, as well as selected financial and regulatory information for UBS AG (standalone).

→ Refer to the UBS Group second quarter 2016 report in "Quarterly reporting" at www.ubs.com/investors for more information

Comparison UBS Group AG (consolidated) vs UBS AG (consolidated)

The table on the following page contains a comparison of selected financial and capital information between UBS Group AG (consolidated) and UBS AG (consolidated).

The accounting policies applied under International Financial Reporting Standards (IFRS) to both UBS Group AG and UBS AG consolidated financial statements are identical. However, there are certain scope and presentation differences:

- Assets, liabilities, operating income, operating expenses and operating profit before tax relating to UBS Group AG and its directly held subsidiaries, including UBS Business Solutions AG, are reflected in the consolidated financial statements of UBS Group AG, but not of UBS AG. UBS AG's assets, liabilities, operating income, and operating expenses related to transactions with UBS Group AG and its directly held subsidiaries are not subject to elimination in the UBS AG consolidated financial statements, but are eliminated in the UBS Group AG consolidated financial statements.
- Total equity of UBS Group AG (consolidated) was lower than total equity of UBS AG (consolidated) as of 30 June 2016, primarily related to employee share-based compensation awards.
- Preferred notes issued by UBS AG are presented in the consolidated UBS Group AG balance sheet as equity attributable to non-controlling interests (NCI), while in the consolidated UBS AG balance sheet, these preferred notes are required to be presented as equity attributable to preferred noteholders.
- Refer to the "Capital management" section of this report for more information on differences in regulatory capital between UBS Group AG (consolidated) and UBS AG (consolidated).

Comparison UBS Group AG (consolidated) versus UBS AG (consolidated)

| CHF million, except where indicated | As of or for the quarter ended 30.6.16 | | |
|---|--|--------------------------|--------------------------|
| | UBS Group AG (consolidated) | UBS AG (consolidated) | Difference (absolute) |
| Income statement | | | |
| Operating income | 7,404 | 7,399 | 5 |
| Operating expenses | 5,915 | 5,942 | (27) |
| Operating profit / (loss) before tax | 1,489 | 1,457 | 32 |
| of which: Wealth Management | 518 | 514 | 4 |
| of which: Wealth Management Americas | 237 | 225 | 12 |
| of which: Personal & Corporate Banking | 534 | 533 | 1 |
| of which: Asset Management | 114 | 113 | 1 |
| of which: Investment Bank | 284 | 267 | 17 |
| of which: Corporate Center | (198) | (195) | (3) |
| of which: Services | (113) | (109) | (4) |
| of which: Group ALM | 44 | 42 | 2 |
| of which: Non-core and Legacy Portfolio | (129) | (128) | (1) |
| Net profit / (loss) | 1,113 | 1,088 | 25 |
| of which: net profit / (loss) attributable to shareholders | 1,034 | 1,009 | 25 |
| of which: net profit / (loss) attributable to preferred noteholders | | 78 | (78) |
| of which: net profit / (loss) attributable to non-controlling interests | 79 | 1 | 78 |
| Statement of comprehensive income | | | |
| Other comprehensive income | 445 | 446 | (1) |
| of which: attributable to shareholders | 117 | 118 | (1) |
| of which: attributable to preferred noteholders | | 328 | (328) |
| of which: attributable to non-controlling interests | 329 | 0 | 329 |
| Total comprehensive income | 1,558 | 1,535 | 23 |
| of which: attributable to shareholders | 1,151 | 1,127 | 24 |
| of which: attributable to preferred noteholders | | 406 | (406) |
| of which: attributable to non-controlling interests | 407 | 1 | 406 |
| Balance sheet | | | |
| Total assets | 989,397 | 990,135 | (738) |
| Total liabilities | 935,835 | 936,096 | (261) |
| Total equity | 53,562 | 54,039 | (477) |
| of which: equity attributable to shareholders | 52,876 | 53,353 | (477) |
| of which: equity attributable to preferred noteholders | | 649 | (649) |
| of which: equity attributable to non-controlling interests | 686 | 37 | 649 |
| Capital information | | | |
| Common equity tier 1 capital (fully applied) | 30,264 | 32,184 | (1,920) |
| Common equity tier 1 capital (phase-in) | 37,064 | 38,913 | (1,849) |
| Additional tier 1 capital (fully applied) | 7,785 | 2,688 | 5,097 |
| Tier 2 capital (fully applied) | 11,331 | 10,441 | 890 |
| Total capital (fully applied) | 49,381 | 45,313 | 4,068 |
| Risk-weighted assets (fully applied) | 213,840 | 214,210 | (370) |
| Common equity tier 1 capital ratio (fully applied, %) | 14.2 | 15.0 | (0.8) |
| Common equity tier 1 capital ratio (phase-in, %) | 17.1 | 17.9 | (0.8) |
| Total capital ratio (fully applied, %) | 23.1 | 21.2 | 1.9 |
| Leverage ratio denominator (fully applied) | 898,195 | 899,075 | (880) |
| Leverage ratio (fully applied, %) | 5.5 | 5.0 | 0.5 |

| As of or for the quarter ended 31.3.16 | | | As of or for the quarter ended 31.12.15 | | |
|--|--------------------------|--------------------------|---|--------------------------|--------------------------|
| UBS Group AG (consolidated) | UBS AG (consolidated) | Difference (absolute) | UBS Group AG (consolidated) | UBS AG (consolidated) | Difference (absolute) |
| 6,833 | 6,855 | (22) | 6,775 | 6,771 | 4 |
| 5,855 | 5,876 | (21) | 6,541 | 6,543 | (2) |
| 978 | 979 | (1) | 234 | 228 | 6 |
| 557 | 552 | 5 | 344 | 342 | 2 |
| 211 | 204 | 7 | 14 | 8 | 6 |
| 399 | 399 | 0 | 355 | 356 | (1) |
| 90 | 90 | 0 | 171 | 171 | 0 |
| 253 | 236 | 17 | 80 | 83 | (3) |
| (534) | (502) | (32) | (729) | (732) | 3 |
| (203) | (193) | (10) | (345) | (349) | 4 |
| (148) | (127) | (21) | (56) | (54) | (2) |
| (183) | (182) | (1) | (329) | (329) | 0 |
| 708 | 713 | (5) | 950 | 951 | (1) |
| 707 | 713 | (6) | 949 | 950 | (1) |
| | 0 | 0 | | 0 | 0 |
| 0 | 0 | 0 | 1 | 1 | 0 |
| (358) | (358) | 0 | 214 | 214 | 0 |
| (308) | (308) | 0 | 177 | 177 | 0 |
| | (50) | 50 | | 35 | (35) |
| (50) | (1) | (49) | 37 | 2 | 35 |
| 349 | 355 | (6) | 1,164 | 1,165 | (1) |
| 399 | 405 | (6) | 1,126 | 1,126 | 0 |
| | (50) | 50 | | 35 | (35) |
| (50) | (1) | (49) | 38 | 3 | 35 |
| 966,873 | 968,158 | (1,285) | 942,819 | 943,256 | (437) |
| 910,088 | 910,557 | (469) | 885,511 | 886,013 | (502) |
| 56,786 | 57,601 | (815) | 57,308 | 57,243 | 65 |
| 54,845 | 55,660 | (815) | 55,313 | 55,248 | 65 |
| | 1,905 | (1,905) | | 1,954 | (1,954) |
| 1,941 | 36 | 1,905 | 1,995 | 41 | 1,954 |
| 29,853 | 32,118 | (2,265) | 30,044 | 32,042 | (1,998) |
| 36,580 | 38,762 | (2,182) | 40,378 | 41,516 | (1,138) |
| 7,585 | 2,643 | 4,942 | 6,154 | 1,252 | 4,902 |
| 11,112 | 10,217 | 895 | 11,237 | 10,325 | 912 |
| 48,551 | 44,978 | 3,573 | 47,435 | 43,619 | 3,816 |
| 213,558 | 214,973 | (1,415) | 207,530 | 208,186 | (656) |
| 14.0 | 14.9 | (0.9) | 14.5 | 15.4 | (0.9) |
| 16.9 | 17.8 | (0.9) | 19.0 | 19.5 | (0.5) |
| 22.7 | 20.9 | 1.8 | 22.9 | 21.0 | 1.9 |
| 905,801 | 907,277 | (1,476) | 897,607 | 898,251 | (644) |
| 5.4 | 5.0 | 0.4 | 5.3 | 4.9 | 0.4 |

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Risk and capital management

Management report

Risk management and control

UBS AG (consolidated) risk profile

The risk profile of UBS AG (consolidated) does not differ materially from that of UBS Group AG (consolidated), and risk information provided in the UBS Group second quarter 2016 report is equally applicable to UBS AG (consolidated).

The credit risk profile of UBS AG (consolidated) differs from that of UBS Group AG (consolidated) primarily in relation to

receivables of UBS AG and UBS Switzerland AG from UBS Group AG. As a result of these receivables, total banking products exposure of UBS AG (consolidated) as of 30 June 2016 was CHF 0.9 billion or 0.2% higher than the exposure of UBS Group, compared with CHF 1.7 billion or 0.3% as of 31 March 2016.

→ Refer to the **“Risk management and control”** section of the **UBS Group second quarter 2016 report in “Quarterly reporting”** at **www.ubs.com/investors** for more information

Capital management

UBS is considered a systemically relevant bank (SRB) under Swiss banking law and both UBS Group and UBS AG are, on a consolidated basis, required to comply with regulations based on the Basel III framework as applicable for Swiss SRBs. Therefore, the capital and leverage ratio disclosures in this section focus on Swiss SRB capital information. The capital and leverage ratio framework and requirements applicable to UBS AG (consolidated) are consistent with those applicable to UBS Group AG (consolidated).

In May 2016, the Swiss Federal Council adopted the amendments to the too big to fail (TbTF) provisions, based on the cornerstones announced by the Swiss Federal Council in October 2015. The revised Capital Adequacy Ordinance forms the basis of a revised Swiss SRB framework which became effective as of 1 July

2016. Information on the revised Swiss SRB framework and requirements, as well as information on the current Swiss SRB framework and requirements applicable to UBS AG (consolidated) can be found in the "Capital management" section of the UBS Group second quarter 2016 report.

In this section, we disclose UBS AG (consolidated) capital and leverage ratio information and differences between UBS Group AG (consolidated) and UBS AG (consolidated) in accordance with the current Swiss SRB framework effective as of 30 June 2016.

→ Refer to the UBS Group second quarter 2016 report in the section "Quarterly reporting" at www.ubs.com/investors, for more information

UBS AG (consolidated) capital information

Swiss SRB capital ratio requirements and information (phase-in)

| | Capital ratio (%) | | | | Capital | | | |
|---|--------------------------|----------------|---------------------|----------|----------------|----------------|-------------------------|----------|
| | Requirement ¹ | 30.6.16 | Actual ² | 31.12.15 | Requirement | 30.6.16 | Eligible ^{2,3} | 31.12.15 |
| <i>CHF million, except where indicated</i> | 30.6.16 | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.16 | 30.6.16 | 31.3.16 | 31.12.15 |
| Base capital (common equity tier 1 capital) | 4.5 | 4.5 | 4.5 | 4.5 | 9,759 | 9,759 | 9,796 | 9,567 |
| Buffer capital (common equity tier 1 capital and high-trigger loss-absorbing capital) | 6.4 ⁴ | 13.8 | 13.3 | 15.0 | 13,961 | 29,927 | 28,965 | 31,948 |
| of which: effect of countercyclical buffer | 0.2 | 0.2 | 0.2 | 0.2 | 407 | 407 | 415 | 356 |
| Progressive buffer capital (low-trigger loss-absorbing capital) | 3.4 | 4.8 | 5.6 | 4.9 | 7,368 | 10,441 | 12,236 | 10,325 |
| Phase-out capital (tier 2 capital) | | 0.3 | 0.4 | 0.5 | | 741 | 947 | 996 |
| Total | 14.3 | 23.5 | 23.9 | 24.9 | 31,087 | 50,867 | 51,945 | 52,837 |

¹ The total capital ratio requirement of 14.3% is the current phase-in requirement according to the Swiss Capital Adequacy Ordinance. Prior to the implementation of the Swiss SRB framework, FINMA also defined a total capital ratio target for UBS AG consolidated of 14.4%, which will be effective until it is exceeded by the Swiss SRB phase-in capital requirement. ² Swiss SRB CET1 capital exceeding the base capital requirement is allocated to the buffer capital. ³ As of 30 June 2016, high-trigger loss-absorbing capital (LAC) is included in the buffer capital. Before, high-trigger LAC was included in the progressive buffer capital. ⁴ CET1 capital can be substituted by high-trigger loss-absorbing capital up to 2.6%.

Swiss SRB capital information

| | | Phase-in | | Fully applied | | |
|--|----------------|------------------|--------------------|----------------|---------|----------|
| <i>CHF million, except where indicated</i> | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.16 | 31.3.16 | 31.12.15 |
| Common equity tier 1 capital | | | | | | |
| Total common equity tier 1 capital | 38,913 | 38,762 | 41,516 | 32,184 | 32,118 | 32,042 |
| Additional tier 1 capital | | | | | | |
| High-trigger loss-absorbing capital | | 772 ¹ | 2,019 ¹ | 0 ² | 2,688 | 2,643 |
| Total tier 1 capital³ | 39,685 | 40,781 | 41,516 | 34,872 | 34,761 | 33,294 |
| Tier 2 capital | | | | | | |
| Low-trigger loss-absorbing capital | 10,441 | 10,217 | 10,325 | 10,441 | 10,217 | 10,325 |
| Phase-out capital | 741 | 947 | 996 | | | |
| Total tier 2 capital | 11,182 | 11,164 | 11,321 | 10,441 | 10,217 | 10,325 |
| Total capital | 50,867 | 51,945 | 52,837 | 45,313 | 44,978 | 43,619 |
| Risk-weighted assets | 216,863 | 217,699 | 212,609 | 214,210 | 214,973 | 208,186 |
| Common equity tier 1 capital ratio (%) | 17.9 | 17.8 | 19.5 | 15.0 | 14.9 | 15.4 |
| Tier 1 capital ratio (%) | 18.3 | 18.7 | 19.5 | 16.3 | 16.2 | 16.0 |
| Total capital ratio (%) | 23.5 | 23.9 | 24.9 | 21.2 | 20.9 | 21.0 |

¹ High-trigger loss-absorbing capital (30 June 2016: CHF 2,688 million, 31 March 2016: CHF 2,643 million) was partly offset by required deductions for goodwill (30 June 2016: CHF 1,916 million, 31 March 2016: CHF 624 million). ² High-trigger loss-absorbing capital of CHF 1,252 million was offset by required deductions for goodwill. ³ Includes on a phase-in basis hybrid capital subject to phase-out (30 June 2016: CHF 649 million, 31 March 2016: CHF 1,904 million, 31 December 2015: CHF 1,954 million), offset by required deductions for goodwill.

As of 30 June 2016, fully applied total capital of UBS AG (consolidated) was CHF 4.1 billion lower than for UBS Group AG (consolidated), reflecting CHF 5.1 billion lower AT1 capital and CHF 0.9 billion lower tier 2 capital, partly offset by CHF 1.9 billion higher CET1 capital.

The difference of CHF 1.9 billion in fully applied CET1 capital was primarily due to compensation-related regulatory capital accruals, liabilities and capital instruments which are reflected at the UBS Group AG level.

The difference of CHF 5.1 billion in fully applied AT1 capital relates to AT1 capital notes issued at the UBS Group AG level, as well as CHF 1.0 billion of high-trigger loss-absorbing Deferred

Contingent Capital Plan (DCCP) awards granted to eligible employees for the performance years 2014 and 2015.

The difference of CHF 0.9 billion in tier 2 capital relates to high-trigger loss-absorbing capital, in the form of 2012 and 2013 DCCP awards, held at the UBS Group AG level.

Differences in capital between UBS Group AG (consolidated) and UBS AG (consolidated) related to employee compensation plans will reverse to the extent underlying services are performed by employees of, and are consequently charged to, UBS AG and its subsidiaries. Such reversal generally occurs over the service period of the employee compensation plans.

Swiss SRB capital information (UBS Group AG vs UBS AG consolidated)

| As of 30.6.16 <i>CHF million, except where indicated</i> | Phase-in | | | Fully applied | | |
|---|--------------------------------|--------------------------|--------------|--------------------------------|--------------------------|--------------|
| | UBS Group AG (consolidated) | UBS AG (consolidated) | Differences | UBS Group AG (consolidated) | UBS AG (consolidated) | Differences |
| Common equity tier 1 capital | | | | | | |
| Total common equity tier 1 capital | 37,064 | 38,913 | (1,849) | 30,264 | 32,184 | (1,920) |
| Additional tier 1 capital | | | | | | |
| High-trigger loss-absorbing capital | 5,374 | 772 | 4,602 | 5,374 | 2,688 | 2,686 |
| Low-trigger loss-absorbing capital | 496 | | 496 | 2,411 | | 2,411 |
| Total additional tier 1 capital | 5,870 | 772 | 5,098 | 7,785 | 2,688 | 5,097 |
| Total tier 1 capital | 42,934 | 39,685 | 3,249 | 38,049 | 34,872 | 3,177 |
| Tier 2 capital | | | | | | |
| High-trigger loss-absorbing capital | 890 | | 890 | 890 | | 890 |
| Low-trigger loss-absorbing capital | 10,441 | 10,441 | 0 | 10,441 | 10,441 | 0 |
| Phase-out capital | 741 | 741 | 0 | | | |
| Total tier 2 capital | 12,072 | 11,182 | 890 | 11,331 | 10,441 | 890 |
| Total capital | 55,006 | 50,867 | 4,139 | 49,381 | 45,313 | 4,068 |
| Risk-weighted assets | 216,671 | 216,863 | (192) | 213,840 | 214,210 | (370) |
| Common equity tier 1 capital ratio (%) | 17.1 | 17.9 | (0.8) | 14.2 | 15.0 | (0.8) |
| Tier 1 capital ratio (%) | 19.8 | 18.3 | 1.5 | 17.8 | 16.3 | 1.5 |
| Total capital ratio (%) | 25.4 | 23.5 | 1.9 | 23.1 | 21.2 | 1.9 |

Reconciliation IFRS equity to Swiss SRB capital (UBS Group AG vs UBS AG consolidated)

| As of 30.6.16 | Phase-in | | | Fully applied | | |
|---|--------------------------------|--------------------------|-------------|--------------------------------|--------------------------|-------------|
| CHF million | UBS Group AG (consolidated) | UBS AG (consolidated) | Differences | UBS Group AG (consolidated) | UBS AG (consolidated) | Differences |
| Total IFRS equity | 53,562 | 54,039 | (477) | 53,562 | 54,039 | (477) |
| Equity attributable to preferred noteholders and other non-controlling interests | (686) | (686) | 0 | (686) | (686) | 0 |
| Defined benefit plans | (59) | (59) | 0 | (99) | (99) | 0 |
| Deferred tax assets recognized for tax loss carry-forwards | (4,619) | (4,619) | 0 | (7,699) | (7,699) | 0 |
| Deferred tax assets on temporary differences, excess over threshold | (822) | (715) | (107) | (1,938) | (1,761) | (177) |
| Goodwill, net of tax, less hybrid capital and loss-absorbing additional tier 1 capital | (3,847) | (3,847) | 0 | (6,412) | (6,412) | 0 |
| Intangible assets, net of tax | (272) | (272) | 0 | (272) | (272) | 0 |
| Unrealized (gains) / losses from cash flow hedges, net of tax | (2,332) | (2,332) | 0 | (2,332) | (2,332) | 0 |
| Compensation and own shares-related capital components | (1,348) | | (1,348) | (1,348) | | (1,348) |
| Unrealized own credit related to financial liabilities designated at fair value, net of tax, and replacement values | (390) | (390) | 0 | (390) | (390) | 0 |
| Unrealized gains related to financial assets available for sale, net of tax | (339) | (339) | 0 | (339) | (339) | 0 |
| Prudential valuation adjustments | (63) | (63) | 0 | (63) | (63) | 0 |
| Consolidation scope | (126) | (126) | 0 | (126) | (126) | 0 |
| Other | (1,592) | (1,675) | 83 | (1,592) | (1,675) | 83 |
| Total common equity tier 1 capital | 37,064 | 38,913 | (1,849) | 30,264 | 32,184 | (1,920) |
| High-trigger loss-absorbing capital | 5,374 | 2,688 | 2,686 | 5,374 | 2,688 | 2,686 |
| Low-trigger loss-absorbing capital | 2,411 | | 2,411 | 2,411 | | 2,411 |
| Hybrid capital subject to phase-out | 649 | 649 | 0 | | | |
| Goodwill, net of tax, offset against hybrid capital and low-trigger loss-absorbing capital | (2,565) | (2,565) | 0 | | | |
| Total additional tier 1 capital | 5,870 | 772 | 5,097 | 7,785 | 2,688 | 5,097 |
| Total tier 1 capital | 42,934 | 39,685 | 3,249 | 38,049 | 34,872 | 3,177 |
| Total tier 2 capital | 12,072 | 11,182 | 890 | 11,331 | 10,441 | 890 |
| Total capital | 55,006 | 50,867 | 4,139 | 49,381 | 45,313 | 4,068 |

UBS AG (consolidated) leverage ratio information

Swiss SRB leverage ratio requirements and information (phase-in)

| | Swiss SRB leverage ratio (%) | | | | Swiss SRB leverage ratio capital | | | |
|---|------------------------------|---------------------|---------|----------|----------------------------------|-------------------------|---------|----------|
| | Requirement ¹ | Actual ² | 31.3.16 | 31.12.15 | Requirement | Eligible ^{2,3} | 31.3.16 | 31.12.15 |
| <i>CHF million, except where indicated</i> | 30.6.16 | 30.6.16 | | | 30.6.16 | 30.6.16 | | |
| Base capital (common equity tier 1 capital) | 1.1 | 1.1 | 1.1 | 1.1 | 9,755 | 9,755 | 9,843 | 9,769 |
| Buffer capital (common equity tier 1 capital and high-trigger loss-absorbing capital) | 1.5 ⁴ | 3.3 | 3.2 | 3.5 | 13,549 | 29,930 | 28,919 | 31,747 |
| Progressive buffer capital (low-trigger loss-absorbing capital) | 0.8 | 1.2 | 1.3 | 1.1 | 7,365 | 10,441 | 12,236 | 10,325 |
| Total | 3.4 | 5.5 | 5.6 | 5.7 | 30,669 | 50,127 | 50,998 | 51,841 |

¹ Requirements for base capital (24% of 4.5%), buffer capital (24% of 6.3%) and progressive buffer capital (24% of 3.4%). The total leverage ratio requirement of 3.4% is the current phase-in requirement according to the Swiss Capital Adequacy Ordinance. In addition, FINMA defined a total leverage ratio target of 3.5%, which will be effective until it is exceeded by the Swiss SRB phase-in requirement. ² Swiss SRB CET1 capital exceeding the base capital requirement is allocated to the buffer capital. ³ As of 30 June 2016, high-trigger loss-absorbing capital (LAC) is included in the buffer capital. Before, high-trigger LAC was included in the progressive buffer capital. ⁴ CET1 capital can be substituted by high-trigger loss-absorbing capital up to 0.6%.

The leverage ratio framework for UBS AG (consolidated) is consistent with that of UBS Group AG (consolidated).

As of 30 June 2016, the Swiss SRB leverage ratio of UBS AG (consolidated) was 0.5 percentage points lower than that of UBS

Group AG (consolidated) on both a fully applied and a phase-in basis, mainly as CET1 capital including loss-absorbing capital of UBS AG (consolidated) was CHF 4.1 billion lower on both a fully applied and phase-in basis.

Swiss SRB leverage ratio (UBS Group AG vs UBS AG consolidated)

As of 30.6.16

| <i>CHF million, except where indicated</i> | UBS Group AG (consolidated) | UBS AG (consolidated) | Differences |
|--|-----------------------------|-----------------------|--------------|
| Total IFRS assets | 989,397 | 990,135 | (738) |
| Difference between IFRS and regulatory scope of consolidation ¹ | (15,154) | (15,202) | 48 |
| Less derivative exposures and securities financing transactions ² | (347,729) | (347,729) | 0 |
| On-balance sheet exposures (excluding derivative exposures and securities financing transactions) | 626,513 | 627,203 | (690) |
| Derivative exposures | 121,213 | 121,213 | 0 |
| Securities financing transactions | 129,742 | 129,742 | 0 |
| Off-balance sheet items | 37,836 | 37,848 | (12) |
| Items deducted from Swiss SRB tier 1 capital, phase-in | (12,873) | (12,767) | (106) |
| Total exposures (leverage ratio denominator), phase-in | 902,431 | 903,240 | (809) |
| Additional items deducted from Swiss SRB tier 1 capital, fully applied | (4,236) | (4,164) | (72) |
| Total exposures (leverage ratio denominator), fully applied | 898,195 | 899,075 | (880) |

Phase-in

| | | | |
|--|---------------|---------------|--------------|
| Common equity tier 1 capital | 37,064 | 38,913 | (1,849) |
| Loss-absorbing capital | 17,201 | 11,213 | 5,988 |
| Common equity tier 1 capital including loss-absorbing capital | 54,265 | 50,127 | 4,138 |
| Swiss SRB leverage ratio (%) | 6.0 | 5.5 | 0.5 |

Fully applied

| | | | |
|--|---------------|---------------|--------------|
| Common equity tier 1 capital | 30,264 | 32,184 | (1,920) |
| Loss-absorbing capital | 19,116 | 13,129 | 5,987 |
| Common equity tier 1 capital including loss-absorbing capital | 49,381 | 45,313 | 4,068 |
| Swiss SRB leverage ratio (%) | 5.5 | 5.0 | 0.5 |

¹ Represents the difference between the IFRS and the regulatory scope of consolidation, which is the applicable scope for the LRD calculation. ² Consists of positive replacement values, cash collateral receivables on derivative instruments, cash collateral on securities borrowed, reverse repurchase agreements, margin loans and prime brokerage receivables related to securities financing transactions in accordance with the regulatory scope of consolidation, which are presented separately under derivative exposures and securities financing transactions in this table.

Consolidated financial statements

Unaudited

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UBS AG interim consolidated financial statements (unaudited)

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UBS AG interim consolidated financial statements (unaudited)

Income statement

| CHF million, except per share data | Note | For the quarter ended | | | % change from | | Year-to-date | |
|---|------|-----------------------|---------|---------|---------------|------|--------------|---------|
| | | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Interest income | 3 | 3,548 | 3,406 | 3,409 | 4 | 4 | 6,953 | 6,583 |
| Interest expense | 3 | (2,390) | (1,697) | (1,918) | 41 | 25 | (4,088) | (3,454) |
| Net interest income | 3 | 1,157 | 1,708 | 1,491 | (32) | (22) | 2,866 | 3,129 |
| Credit loss (expense)/recovery | | (7) | (3) | (13) | 133 | (46) | (9) | (29) |
| Net interest income after credit loss expense | | 1,151 | 1,706 | 1,479 | (33) | (22) | 2,857 | 3,100 |
| Net fee and commission income | 4 | 4,087 | 4,121 | 4,409 | (1) | (7) | 8,208 | 8,832 |
| Net trading income | 3 | 1,891 | 1,011 | 1,612 | 87 | 17 | 2,902 | 3,741 |
| Other income | 5 | 270 | 17 | 285 | | (5) | 288 | 972 |
| Total operating income | | 7,399 | 6,855 | 7,784 | 8 | (5) | 14,254 | 16,644 |
| Personnel expenses | 6 | 3,953 | 3,899 | 4,124 | 1 | (4) | 7,852 | 8,297 |
| General and administrative expenses | 7 | 1,727 | 1,711 | 1,723 | 1 | 0 | 3,438 | 3,470 |
| Depreciation and impairment of property, equipment and software | | 239 | 242 | 209 | (1) | 14 | 481 | 429 |
| Amortization and impairment of intangible assets | | 24 | 23 | 30 | 4 | (20) | 47 | 58 |
| Total operating expenses | | 5,942 | 5,876 | 6,087 | 1 | (2) | 11,818 | 12,254 |
| Operating profit / (loss) before tax | | 1,457 | 979 | 1,698 | 49 | (14) | 2,436 | 4,391 |
| Tax expense / (benefit) | 8 | 369 | 265 | 443 | 39 | (17) | 634 | 1,112 |
| Net profit / (loss) | | 1,088 | 713 | 1,255 | 53 | (13) | 1,802 | 3,278 |
| Net profit / (loss) attributable to preferred noteholders | | 78 | 0 | 76 | | 3 | 78 | 76 |
| Net profit / (loss) attributable to non-controlling interests | | 1 | 0 | 1 | | 0 | 1 | 1 |
| Net profit / (loss) attributable to UBS AG shareholders | | 1,009 | 713 | 1,178 | 42 | (14) | 1,723 | 3,201 |

Statement of comprehensive income

| CHF million | For the quarter ended | | | Year-to-date | |
|---|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Comprehensive income attributable to UBS AG shareholders | | | | | |
| Net profit/(loss) | 1,009 | 713 | 1,178 | 1,723 | 3,201 |
| Other comprehensive income that may be reclassified to the income statement | | | | | |
| Foreign currency translation | | | | | |
| Foreign currency translation movements, before tax | 311 | (953) | (748) | (642) | (1,582) |
| Foreign exchange amounts reclassified to the income statement from equity | 26 | 123 | (2) | 149 | (2) |
| Income tax relating to foreign currency translation movements | (2) | 5 | 4 | 3 | 7 |
| Subtotal foreign currency translation, net of tax | 335 | (825) | (746) | (491) | (1,577) |
| Financial assets available for sale | | | | | |
| Net unrealized gains/(losses) on financial assets available for sale, before tax | 116 | 253 | (103) | 369 | 119 |
| Impairment charges reclassified to the income statement from equity | 3 | 0 | 0 | 3 | 0 |
| Realized gains reclassified to the income statement from equity | (166) | (89) | (87) | (255) | (208) |
| Realized losses reclassified to the income statement from equity | 5 | 13 | 7 | 19 | 23 |
| Income tax relating to net unrealized gains/(losses) on financial assets available for sale | 3 | (46) | 37 | (44) | (1) |
| Subtotal financial assets available for sale, net of tax | (39) | 131 | (146) | 93 | (67) |
| Cash flow hedges | | | | | |
| Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax | 502 | 944 | (420) | 1,445 | (156) |
| Net (gains)/losses reclassified to the income statement from equity | (274) | (303) | (265) | (577) | (510) |
| Income tax relating to cash flow hedges | (47) | (127) | 140 | (174) | 136 |
| Subtotal cash flow hedges, net of tax | 181 | 513 | (545) | 694 | (530) |
| Total other comprehensive income that may be reclassified to the income statement, net of tax | 476 | (181) | (1,437) | 296 | (2,173) |
| Other comprehensive income that will not be reclassified to the income statement | | | | | |
| Defined benefit plans | | | | | |
| Gains/(losses) on defined benefit plans, before tax | (198) | (191) | (581) | (389) | 154 |
| Income tax relating to defined benefit plans | (4) | 12 | 170 | 8 | (16) |
| Subtotal defined benefit plans, net of tax | (202) | (179) | (412) | (381) | 138 |
| Own credit on financial liabilities designated at fair value | | | | | |
| Gains/(losses) from own credit on financial liabilities designated at fair value, before tax | (173) | 68 | | (105) | |
| Income tax relating to own credit on financial liabilities designated at fair value | 16 | (16) | | 0 | |
| Subtotal own credit on financial liabilities designated at fair value, net of tax | (157) | 52 | | (105) | 0 |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | (359) | (127) | (412) | (486) | 138 |
| Total other comprehensive income | 118 | (308) | (1,849) | (190) | (2,035) |
| Total comprehensive income attributable to UBS AG shareholders | 1,127 | 405 | (671) | 1,533 | 1,166 |

Statement of comprehensive income (continued)

| CHF million | For the quarter ended | | | Year-to-date | |
|--|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Comprehensive income attributable to preferred noteholders | | | | | |
| Net profit/(loss) | 78 | 0 | 76 | 78 | 76 |
| Other comprehensive income that will not be reclassified to the income statement | | | | | |
| Foreign currency translation movements, before tax | 328 | (50) | (49) | 279 | (173) |
| Income tax relating to foreign currency translation movements | 0 | 0 | 0 | 0 | 0 |
| Subtotal foreign currency translation, net of tax | 328 | (50) | (49) | 279 | (173) |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | 328 | (50) | (49) | 279 | (173) |
| Total comprehensive income attributable to preferred noteholders | 406 | (50) | 26 | 357 | (98) |
| Comprehensive income attributable to non-controlling interests | | | | | |
| Net profit/(loss) | 1 | 0 | 1 | 1 | 1 |
| Other comprehensive income that will not be reclassified to the income statement | | | | | |
| Foreign currency translation movements, before tax | 0 | (1) | (2) | 0 | (4) |
| Income tax relating to foreign currency translation movements | 0 | 0 | 0 | 0 | 0 |
| Subtotal foreign currency translation, net of tax | 0 | (1) | (2) | 0 | (4) |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | 0 | (1) | (2) | 0 | (4) |
| Total comprehensive income attributable to non-controlling interests | 1 | 0 | (1) | 1 | (2) |
| Total comprehensive income | | | | | |
| Net profit/(loss) | 1,088 | 713 | 1,255 | 1,802 | 3,278 |
| Other comprehensive income | 446 | (358) | (1,900) | 88 | (2,212) |
| <i>of which: other comprehensive income that may be reclassified to the income statement</i> | 476 | (181) | (1,437) | 296 | (2,173) |
| <i>of which: other comprehensive income that will not be reclassified to the income statement</i> | (30) | (177) | (463) | (207) | (39) |
| Total comprehensive income | 1,535 | 355 | (645) | 1,890 | 1,066 |

Balance sheet

| CHF million | Note | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|--|-----------|----------------|----------------|----------------|---------------|----------|
| | | | | | 31.3.16 | 31.12.15 |
| Assets | | | | | | |
| Cash and balances with central banks | | 94,246 | 105,710 | 91,306 | (11) | 3 |
| Due from banks | | 12,870 | 13,472 | 11,866 | (4) | 8 |
| Loans | | 307,860 | 306,629 | 312,723 | 0 | (2) |
| Cash collateral on securities borrowed | 11 | 29,367 | 32,432 | 25,584 | (9) | 15 |
| Reverse repurchase agreements | 11 | 73,289 | 73,562 | 67,893 | 0 | 8 |
| Trading portfolio assets | 9 | 101,364 | 105,332 | 124,047 | (4) | (18) |
| <i>of which: assets pledged as collateral which may be sold or repledged by counterparties</i> | | 30,778 | 32,549 | 51,943 | (5) | (41) |
| Positive replacement values | 9, 10, 11 | 198,441 | 180,518 | 167,435 | 10 | 19 |
| Cash collateral receivables on derivative instruments | 11 | 29,955 | 25,460 | 23,763 | 18 | 26 |
| Financial assets designated at fair value | 9, 11 | 63,922 | 40,652 | 5,808 | 57 | |
| Financial assets available for sale | 9 | 18,211 | 31,266 | 62,543 | (42) | (71) |
| Financial assets held to maturity | | 4,798 | 2,889 | | 66 | |
| Investments in associates | | 950 | 953 | 954 | 0 | 0 |
| Property, equipment and software | | 7,941 | 7,750 | 7,683 | 2 | 3 |
| Goodwill and intangible assets | | 6,402 | 6,326 | 6,568 | 1 | (3) |
| Deferred tax assets | | 12,150 | 12,190 | 12,833 | 0 | (5) |
| Other assets | 12 | 28,368 | 23,016 | 22,249 | 23 | 28 |
| Total assets | | 990,135 | 968,158 | 943,256 | 2 | 5 |

Balance sheet (continued)

| CHF million | Note | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|--|-----------|----------------|----------------|----------------|---------------|------------|
| | | | | | 31.3.16 | 31.12.15 |
| Liabilities | | | | | | |
| Due to banks | | 15,259 | 11,350 | 11,836 | 34 | 29 |
| Due to customers | | 429,555 | 416,966 | 402,522 | 3 | 7 |
| Cash collateral on securities lent | 11 | 6,301 | 6,353 | 8,029 | (1) | (22) |
| Repurchase agreements | 11 | 8,043 | 6,516 | 9,653 | 23 | (17) |
| Trading portfolio liabilities | 9 | 29,614 | 33,157 | 29,137 | (11) | 2 |
| Negative replacement values | 9, 10, 11 | 196,006 | 179,018 | 162,430 | 9 | 21 |
| Cash collateral payables on derivative instruments | 11 | 36,352 | 36,690 | 38,282 | (1) | (5) |
| Financial liabilities designated at fair value | 9, 11, 13 | 59,664 | 57,761 | 62,995 | 3 | (5) |
| Debt issued | 14 | 85,931 | 87,796 | 82,359 | (2) | 4 |
| Provisions | 15 | 3,653 | 3,961 | 4,163 | (8) | (12) |
| Other liabilities | 12 | 65,719 | 70,988 | 74,606 | (7) | (12) |
| Total liabilities | | 936,096 | 910,557 | 886,013 | 3 | 6 |
| Equity | | | | | | |
| Share capital | | 386 | 386 | 386 | 0 | 0 |
| Share premium | | 29,483 | 29,484 | 29,477 | 0 | 0 |
| Retained earnings | | 27,235 | 30,019 | 29,433 | (9) | (7) |
| Other comprehensive income recognized directly in equity, net of tax | | (3,752) | (4,228) | (4,047) | (11) | (7) |
| Equity attributable to UBS AG shareholders | | 53,353 | 55,660 | 55,248 | (4) | (3) |
| Equity attributable to preferred noteholders | | 649 | 1,905 | 1,954 | (66) | (67) |
| Equity attributable to non-controlling interests | | 37 | 36 | 41 | 3 | (10) |
| Total equity | | 54,039 | 57,601 | 57,243 | (6) | (6) |
| Total liabilities and equity | | 990,135 | 968,158 | 943,256 | 2 | 5 |

Statement of changes in equity

| <i>CHF million</i> | Share capital | Share premium | Treasury shares | Retained earnings |
|--|---------------|----------------------|-----------------|----------------------|
| Balance as of 1 January 2015 | 384 | 32,057 | (37) | 22,902 |
| Issuance of share capital | 1 | | | |
| Acquisition of treasury shares | | | (272) | |
| Disposal of treasury shares | | | 265 | |
| Treasury share gains / (losses) and net premium / (discount) on own equity derivative activity | | 43 | | |
| Premium on shares issued and warrants exercised | | 293 | | |
| Employee share and share option plans | | (6) | | |
| Tax (expense) / benefit recognized in share premium | | 1 | | |
| Dividends | | (1,914) ² | | |
| Preferred notes | | | | |
| Total comprehensive income for the period | | | | 3,340 |
| <i>of which: net profit / (loss)</i> | | | | 3,201 |
| <i>of which: other comprehensive income that may be reclassified to the income statement, net of tax</i> | | | | |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – defined benefit plans</i> | | | | 138 |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – foreign currency translation</i> | | | | |
| Balance as of 30 June 2015 | 386 | 30,474 | (44) | 26,241 |
| Balance as of 1 January 2016 | 386 | 29,477 | 0 | 29,433 |
| Issuance of share capital | | | | |
| Premium on shares issued and warrants exercised | | 3 | | |
| Employee share and share option plans | | (2) | | |
| Tax (expense) / benefit recognized in share premium | | 6 | | |
| Dividends | | | | (3,434) ² |
| Preferred notes | | | | |
| New consolidations / (deconsolidations) and other increases / (decreases) | | (2) | | |
| Total comprehensive income for the period | | | | 1,237 |
| <i>of which: net profit / (loss)</i> | | | | 1,723 |
| <i>of which: other comprehensive income that may be reclassified to the income statement, net of tax</i> | | | | |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – defined benefit plans</i> | | | | (381) |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – own credit</i> | | | | (105) |
| <i>of which: other comprehensive income that will not be reclassified to the income statement, net of tax – foreign currency translation</i> | | | | |
| Balance as of 30 June 2016 | 386 | 29,483 | 0 | 27,235 |

¹ Excludes defined benefit plans and own credit that are recorded directly in Retained earnings. ² Reflects the payment of an ordinary cash dividend of CHF 0.89 out of retained earnings (2015: CHF 0.50 out of the capital contribution reserve).

| Other comprehensive income recognized directly in equity, net of tax ¹ | <i>of which: foreign currency translation</i> | <i>of which: financial assets available for sale</i> | <i>of which: cash flow hedges</i> | Total equity attributable to UBS AG shareholders | Preferred noteholders | Non-controlling interests | Total equity |
|--|---|--|---------------------------------------|---|--------------------------|------------------------------|-----------------|
| (3,199) | (5,591) | 236 | 2,156 | 52,108 | 2,013 | 45 | 54,165 |
| | | | | 1 | | | 1 |
| | | | | (272) | | | (272) |
| | | | | 265 | | | 265 |
| | | | | 43 | | | 43 |
| | | | | 293 | | | 293 |
| | | | | (6) | | | (6) |
| | | | | 1 | | | 1 |
| | | | | (1,914) | (76) | (5) | (1,995) |
| | | | | 0 | 0 | | 0 |
| (2,173) | (1,577) | (67) | (530) | 1,166 | (98) | (2) | 1,066 |
| | | | | 3,201 | 76 | 1 | 3,278 |
| (2,173) | (1,577) | (67) | (530) | (2,173) | | | (2,173) |
| | | | | 138 | | | 138 |
| | | | | 0 | (173) | (4) | (177) |
| (5,373) | (7,168) | 169 | 1,626 | 51,685 | 1,840 | 38 | 53,562 |
| (4,047) | (5,857) | 172 | 1,638 | 55,248 | 1,954 | 41 | 57,243 |
| | | | | 0 | | | 0 |
| | | | | 3 | | | 3 |
| | | | | (2) | | | (2) |
| | | | | 6 | | | 6 |
| | | | | (3,434) | (78) | (5) | (3,517) |
| | | | | 0 | (1,584) | | (1,584) |
| | | | | (2) | | 0 | (2) |
| 296 | (491) | 93 | 694 | 1,533 | 357 | 1 | 1,890 |
| | | | | 1,723 | 78 | 1 | 1,802 |
| 296 | (491) | 93 | 694 | 296 | | | 296 |
| | | | | (381) | | | (381) |
| | | | | (105) | | | (105) |
| | | | | 0 | 279 | 0 | 278 |
| (3,752) | (6,348) | 264 | 2,332 | 53,353 | 649 | 37 | 54,039 |

Statement of cash flows

| | Year-to-date | |
|--|-----------------|----------|
| <i>CHF million</i> | 30.6.16 | 30.6.15 |
| Cash flow from / (used in) operating activities | | |
| Net profit / (loss) | 1,802 | 3,278 |
| Non-cash items included in net profit and other adjustments: | | |
| Depreciation and impairment of property, equipment and software | 481 | 429 |
| Amortization and impairment of intangible assets | 47 | 58 |
| Credit loss expense / (recovery) | 9 | 29 |
| Share of net profits of associates | (40) | (52) |
| Deferred tax expense / (benefit) | 243 | 691 |
| Net loss / (gain) from investing activities | (798) | (673) |
| Net loss / (gain) from financing activities | 6,781 | (2,980) |
| Other net adjustments | (573) | 7,908 |
| Net change in operating assets and liabilities: | | |
| Due from / to banks | 3,317 | 2,843 |
| Cash collateral on securities borrowed and reverse repurchase agreements | (13,109) | (1,019) |
| Cash collateral on securities lent and repurchase agreements | (1,832) | 3,537 |
| Trading portfolio and replacement values | 14,773 | 6,407 |
| Financial assets designated at fair value | (59,498) | (778) |
| Cash collateral on derivative instruments | (6,824) | 2,608 |
| Loans | 1,144 | (7,547) |
| Due to customers | 21,702 | (20,243) |
| Other assets, provisions and other liabilities | (6,955) | (4,695) |
| Income taxes paid, net of refunds | (207) | (210) |
| Net cash flow from / (used in) operating activities | (39,536) | (10,408) |
| Cash flow from / (used in) investing activities | | |
| Purchase of subsidiaries, associates and intangible assets | (23) | (38) |
| Disposal of subsidiaries, associates and intangible assets ¹ | 72 | 190 |
| Purchase of property, equipment and software | (934) | (795) |
| Disposal of property, equipment and software | 193 | 520 |
| Purchase of financial assets available for sale | (7,363) | (65,516) |
| Disposal and redemption of financial assets available for sale | 51,112 | 49,967 |
| Net (purchase) / redemption of financial assets held to maturity | (4,878) | (15,673) |
| Net cash flow from / (used in) investing activities | 38,177 | (15,673) |

Table continues on the next page.

Statement of cash flows (continued)

Table continued from previous page.

| <i>CHF million</i> | Year-to-date | |
|--|----------------|-----------------|
| | 30.6.16 | 30.6.15 |
| Cash flow from/(used in) financing activities | | |
| Net short-term debt issued/(repaid) | 9,797 | 5,353 |
| Distributions paid on UBS shares | (3,434) | (1,632) |
| Issuance of long-term debt, including financial liabilities designated at fair value | 18,857 | 33,204 |
| Repayment of long-term debt, including financial liabilities designated at fair value | (17,365) | (25,044) |
| Dividends paid and repayments of preferred notes | (1,366) | (77) |
| Net changes in non-controlling interests | (5) | (5) |
| Net cash flow from/(used in) financing activities | 6,484 | 11,799 |
| Effects of exchange rate differences on cash and cash equivalents | (1,293) | (5,595) |
| Net increase/(decrease) in cash and cash equivalents | 3,832 | (19,876) |
| Cash and cash equivalents at the beginning of the period | 102,962 | 116,715 |
| Cash and cash equivalents at the end of the period | 106,795 | 96,838 |
| Cash and cash equivalents comprise: | | |
| Cash and balances with central banks | 94,181 | 84,646 |
| Due from banks | 11,613 | 11,720 |
| Money market paper ² | 1,001 | 473 |
| Total³ | 106,795 | 96,838 |
| Additional information | | |
| Net cash flow from/(used in) operating activities include: | | |
| Cash received as interest | 5,995 | 5,315 |
| Cash paid as interest | 3,416 | 2,927 |
| Cash received as dividends on equity investments, investment funds and associates ⁴ | 999 | 1,182 |

¹ Includes dividends received from associates. ² Money market paper is included in the balance sheet under Trading portfolio assets, Financial assets available for sale and Financial assets designated at fair value. ³ Comprises balances with an original maturity of three months or less. CHF 3,631 million and CHF 3,404 million of cash and cash equivalents (mainly reflected in Due from banks) were restricted as of 30 June 2016 and 30 June 2015, respectively. Refer to Note 25 in the Annual Report 2015 for more information. ⁴ Includes dividends received from associates reported within cash flow from/(used in) investing activities.

Notes to the UBS AG interim consolidated financial statements (unaudited)

Note 1 Basis of accounting

The consolidated financial statements (the Financial Statements) of UBS AG and its subsidiaries (together referred to as "UBS AG" in these 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. UBS AG is 100% held by UBS Group AG. These interim Financial Statements are prepared in accordance with IAS 34, *Interim Financial Reporting*.

In preparing these interim Financial Statements, the same accounting policies and methods of computation have been applied as in the UBS AG consolidated annual Financial Statements for the period ended 31 December 2015, except for the changes described below and in "Note 1 Basis of accounting" in the "Consolidated financial statements" section of the first quarter 2016 report. These interim Financial Statements are unaudited and should be read in conjunction with UBS AG's audited consolidated Financial Statements included in the Annual Report 2015. In the opinion of management, all necessary adjustments were made for a fair presentation of UBS AG's financial position, results of operations and cash flows.

Preparation of these interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosures of contingent assets and liabilities. These estimates and assumptions are based on the best available information. Actual results in the future could differ from such estimates and such differences may be material to the Financial Statements. Revisions to estimates, based on regular reviews, are recognized in the period in which they occur. For more information on areas of estimation uncertainty considered to require critical judgment, refer to item 2 of "Note 1a Significant accounting policies" in the audited "Consolidated financial statements" section of the Annual Report 2015.

London Clearing House interest rate swaps converted to a settlement model

Effective 30 June 2016, UBS AG elected to convert its interest rate swaps (IRS) transacted with the London Clearing House from the previous collateral model to a settlement model. The IRS are now legally settled on a daily basis resulting in the derecognition of the associated assets and liabilities. Previously, UBS AG applied IAS 32 netting principles to offset the IRS with the associated variation margin. Gross cash collateral receivables and payables on derivative instruments and corresponding netting presented in Note 11 decreased by CHF 93 billion as of 30 June 2016, with no change to net cash collateral receivables and payables on derivative instruments recognized on the balance sheet.

→ Refer to Note 11 for more information

Derecognition of exchange-traded derivative client cash balances from UBS AG's balance sheet

In accordance with UBS AG's accounting policy, client cash balances associated with derivatives clearing and execution services are not recognized on the balance sheet if, through contractual agreement, regulation or practice, UBS AG does not obtain benefits from or control the client cash balances. These conditions are considered to have been met when (i) UBS AG is not permitted to reinvest client cash balances; (ii) interest paid by central counterparties (CCPs), brokers or deposit banks on cash deposits forms part of the client cash balances with deductions being made solely as compensation for clearing and execution services provided; (iii) UBS AG does not guarantee and is not liable to clients for the performance of the CCP, broker or deposit bank; and (iv) the client cash balances are legally isolated from UBS AG's estate.

During the second quarter of 2016, UBS AG formally and legally waived certain rights available to it under the rules of the US Commodity Futures Trading Commission that had previously enabled it to invest certain client cash balances in other assets, making them a source of benefit to UBS AG. As a result, UBS AG derecognized related client cash balances. Consequently, *Cash collateral receivables on derivative instruments* decreased by CHF 2.8 billion, *Due from banks* decreased by CHF 0.9 billion and *Cash collateral payables on derivative instruments* decreased by CHF 3.6 billion as of 30 June 2016.

Note 1 Basis of accounting (continued)

Amendments to IFRS 2 Share-based Payment

In June 2016, the IASB issued amendments to IFRS 2, *Share-based Payment*, which are mandatorily effective for UBS on 1 January 2018, with early adoption permitted. The amendments require that the approach used to account for vesting conditions when measuring cash-settled share-based payments is consistent with

that used for equity-settled share-based payments. The amendments also clarify the classification of share-based payments settled net of withholding tax as well as the accounting consequences resulting from a modification of share-based payments from cash-settled to equity-settled. UBS AG expects that the adoption of these amendments will not have a material impact on its financial statements.

Note 2 Segment reporting

UBS AG's businesses are organized globally into five business divisions: Wealth Management, Wealth Management Americas, Personal & Corporate Banking, Asset Management and the Investment Bank, supported by Corporate Center. The five business divisions qualify as reportable segments for the purpose of segment reporting

and, together with Corporate Center and its units, reflect the management structure of UBS AG. Refer to "Note 1a item 34 Segment reporting" and "Note 2 Segment reporting" in the audited "Consolidated financial statements" section of the Annual Report 2015 for more information on UBS AG's reporting segments.

Note 2 Segment reporting (continued)

| | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | Corporate Center | | | UBS AG |
|---|----------------------|----------------------------------|------------------------------------|---------------------|--------------------|------------------|-------------|-------------------------------------|--------------|
| | | | | | | Services | Group ALM | Non-core and Legacy Portfolio | |
| <i>CHF million</i> | | | | | | | | | |
| For the six months ended 30 June 2016 | | | | | | | | | |
| Net interest income | 954 | 652 | 957 | (17) | 140 | (162) | 386 | (44) | 2,866 |
| Non-interest income | 2,541 | 3,074 | 908 | 963 | 3,858 | 147 | (160) | 64 | 11,397 |
| Allocations from Corporate Center – Group ALM to business divisions and other CC units | 207 | 44 | 180 | 5 | (116) | 36 | (311) | (46) | 0 |
| Income | 3,702 | 3,771 | 2,046 | 951 | 3,882 | 22 | (85) | (26) | 14,263 |
| Credit loss (expense)/recovery | (1) | (2) | 2 | 0 | (5) | 0 | 0 | (3) | (9) |
| Total operating income | 3,700 | 3,769 | 2,048 | 951 | 3,877 | 22 | (85) | (29) | 14,254 |
| Personnel expenses | 1,205 | 2,398 | 425 | 367 | 1,555 | 1,859 | 15 | 28 | 7,852 |
| General and administrative expenses | 278 | 296 | 122 | 116 | 398 | 2,100 | 8 | 120 | 3,438 |
| Services (to)/from business divisions and Corporate Center | 1,148 | 618 | 561 | 262 | 1,402 | (4,102) | (23) | 134 | 0 |
| <i>of which: services from CC – Services</i> | <i>1,107</i> | <i>611</i> | <i>609</i> | <i>274</i> | <i>1,349</i> | <i>(4,116)</i> | <i>55</i> | <i>110</i> | <i>0</i> |
| Depreciation and impairment of property, equipment and software | 1 | 1 | 8 | 1 | 13 | 458 | 0 | 0 | 481 |
| Amortization and impairment of intangible assets | 2 | 26 | 0 | 2 | 6 | 11 | 0 | 0 | 47 |
| Total operating expenses ¹ | 2,635 | 3,340 | 1,116 | 748 | 3,374 | 324 | 0 | 282 | 11,818 |
| Operating profit/(loss) before tax | 1,066 | 429 | 932 | 203 | 503 | (302) | (84) | (311) | 2,436 |
| Tax expense/(benefit) | | | | | | | | | 634 |
| Net profit/(loss) | | | | | | | | | 1,802 |

As of 30 June 2016

| | | | | | | | | | |
|---------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|----------------|----------------|
| Total assets | 119,201 | 61,605 | 140,323 | 11,661 | 282,425 | 22,851 | 251,541 | 100,527 | 990,135 |
|---------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|----------------|----------------|

For the six months ended 30 June 2015²

| | | | | | | | | | |
|---|--------------|------------|------------|------------|--------------|----------------|------------|--------------|--------------|
| Net interest income | 874 | 492 | 937 | (18) | 609 | (162) | 430 | (35) | 3,129 |
| Non-interest income | 3,217 | 3,080 | 808 | 996 | 4,495 | 418 | 478 | 54 | 13,545 |
| Allocations from Corporate Center – Group ALM to business divisions and other CC units | 236 | 52 | 210 | 9 | (86) | 86 | (480) | (27) | 0 |
| Income | 4,327 | 3,624 | 1,956 | 987 | 5,018 | 342 | 427 | (8) | 16,674 |
| Credit loss (expense)/recovery | 0 | 0 | (25) | 0 | (6) | 0 | 0 | 2 | (29) |
| Total operating income | 4,327 | 3,624 | 1,931 | 987 | 5,012 | 342 | 427 | (6) | 16,644 |
| Personnel expenses | 1,316 | 2,245 | 447 | 342 | 1,948 | 1,915 | 15 | 69 | 8,297 |
| General and administrative expenses | 254 | 332 | 117 | 111 | 384 | 2,173 | 8 | 91 | 3,470 |
| Services (to)/from business divisions and Corporate Center | 1,055 | 589 | 534 | 233 | 1,366 | (3,946) | (20) | 190 | 0 |
| <i>of which: services from CC – Services</i> | <i>1,027</i> | <i>583</i> | <i>584</i> | <i>241</i> | <i>1,336</i> | <i>(3,963)</i> | <i>34</i> | <i>159</i> | <i>0</i> |
| Depreciation and impairment of property and equipment | 3 | 1 | 8 | 1 | 13 | 403 | 0 | 0 | 429 |
| Amortization and impairment of intangible assets | 2 | 25 | 0 | 3 | 18 | 11 | 0 | 0 | 58 |
| Total operating expenses ¹ | 2,629 | 3,192 | 1,107 | 689 | 3,729 | 556 | 2 | 349 | 12,254 |
| Operating profit/(loss) before tax | 1,698 | 432 | 824 | 298 | 1,284 | (214) | 425 | (355) | 4,391 |
| Tax expense/(benefit) | | | | | | | | | 1,112 |
| Net profit/(loss) | | | | | | | | | 3,278 |

As of 31 December 2015

| | | | | | | | | | |
|---------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|
| Total assets | 119,850 | 60,993 | 141,174 | 12,874 | 253,571 | 22,866 | 237,560 | 94,369 | 943,256 |
|---------------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|----------------|

¹ Refer to Note 17 for information on restructuring expenses. ² Figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period.

Note 3 Net interest and trading income

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|--------------|--------------|---------------|-------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Net interest and trading income | | | | | | | |
| Net interest income | 1,157 | 1,708 | 1,491 | (32) | (22) | 2,866 | 3,129 |
| Net trading income | 1,891 | 1,011 | 1,612 | 87 | 17 | 2,902 | 3,741 |
| Total net interest and trading income | 3,048 | 2,719 | 3,104 | 12 | (2) | 5,768 | 6,870 |
| Wealth Management | 736 | 750 | 711 | (2) | 4 | 1,486 | 1,517 |
| Wealth Management Americas | 446 | 439 | 375 | 2 | 19 | 885 | 732 |
| Personal & Corporate Banking | 643 | 643 | 628 | 0 | 2 | 1,286 | 1,315 |
| Asset Management | (1) | (9) | (2) | (89) | (50) | (9) | (8) |
| Investment Bank | 1,169 | 1,021 | 1,341 | 14 | (13) | 2,190 | 3,058 |
| of which: Corporate Client Solutions | 251 | 120 | 212 | 109 | 18 | 371 | 486 |
| of which: Investor Client Services | 918 | 901 | 1,128 | 2 | (19) | 1,818 | 2,572 |
| Corporate Center | 55 | (125) | 51 | | 8 | (69) | 254 |
| of which: Services | (13) | (9) | (2) | 44 | 550 | (23) | 23 |
| of which: Group ALM | 53 | (73) | 87 | | (39) | (20) | 350 |
| of which: own credit on financial liabilities designated at fair value | | | 259 | | | | 486 |
| of which: Non-core and Legacy Portfolio | 16 | (43) | (34) | | | (27) | (118) |
| Total net interest and trading income | 3,048 | 2,719 | 3,104 | 12 | (2) | 5,768 | 6,870 |
| Net interest income | | | | | | | |
| Interest income | | | | | | | |
| Interest income from loans and deposits ¹ | 2,345 | 2,329 | 2,141 | 1 | 10 | 4,673 | 4,241 |
| Interest income from securities financing transactions ² | 284 | 252 | 215 | 13 | 32 | 536 | 407 |
| Interest income from trading portfolio ³ | 781 | 688 | 904 | 14 | (14) | 1,469 | 1,660 |
| Interest income from financial assets and liabilities designated at fair value | 76 | 73 | 48 | 4 | 58 | 148 | 91 |
| Interest income from financial assets available for sale and held to maturity ³ | 63 | 65 | 101 | (3) | (38) | 128 | 185 |
| Total | 3,548 | 3,406 | 3,409 | 4 | 4 | 6,953 | 6,583 |
| Interest expense | | | | | | | |
| Interest expense on loans and deposits ⁴ | 415 | 323 | 176 | 28 | 136 | 736 | 342 |
| Interest expense on securities financing transactions ⁵ | 332 | 286 | 254 | 16 | 31 | 618 | 446 |
| Interest expense on trading portfolio ⁶ | 951 | 376 | 753 | 153 | 26 | 1,327 | 1,163 |
| Interest expense on financial assets and liabilities designated at fair value | 197 | 201 | 178 | (2) | 11 | 398 | 369 |
| Interest expense on debt issued | 495 | 513 | 556 | (4) | (11) | 1,008 | 1,134 |
| Total | 2,390 | 1,697 | 1,918 | 41 | 25 | 4,088 | 3,454 |
| Net interest income | 1,157 | 1,708 | 1,491 | (32) | (22) | 2,866 | 3,129 |
| Net trading income | | | | | | | |
| Investment Bank Corporate Client Solutions | 91 | (38) | 53 | | 72 | 52 | 167 |
| Investment Bank Investor Client Services | 1,307 | 802 | 1,128 | 63 | 16 | 2,110 | 2,364 |
| Other business divisions and Corporate Center | 493 | 247 | 431 | 100 | 14 | 740 | 1,210 |
| Net trading income | 1,891 | 1,011 | 1,612 | 87 | 17 | 2,902 | 3,741 |
| of which: net gains/(losses) from financial liabilities designated at fair value ⁷ | (648) | 1,059 | 1,247 | | | 411 | 259 |

¹ Consists of interest income from balances with central banks, amounts due from banks and loans, and negative interest on amounts due to banks and customers. ² Includes interest income on securities borrowed and reverse repurchase agreements and negative interest, including fees, on securities lent and repurchase agreements. ³ Includes dividend income. ⁴ Consists of interest expense on amounts due to banks and customers, and negative interest on balances with central banks, amounts due from banks and loans. ⁵ Includes interest expense on securities lent and repurchase agreements and negative interest, including fees, on securities borrowed and reverse repurchase agreements. ⁶ Includes expense related to dividend payment obligations on trading liabilities. ⁷ Excludes fair value changes of hedges related to financial liabilities designated at fair value and foreign currency translation effects arising from translating foreign currency transactions into the respective functional currency, both of which are reported within net trading income.

Note 4 Net fee and commission income

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|--------------|--------------|---------------|-------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Underwriting fees | 282 | 246 | 385 | 15 | (27) | 528 | 752 |
| <i>of which: equity underwriting fees</i> | 137 | 113 | 267 | 21 | (49) | 250 | 496 |
| <i>of which: debt underwriting fees</i> | 145 | 133 | 118 | 9 | 23 | 278 | 256 |
| M&A and corporate finance fees | 176 | 139 | 190 | 27 | (7) | 315 | 368 |
| Brokerage fees | 880 | 968 | 995 | (9) | (12) | 1,848 | 2,073 |
| Investment fund fees | 779 | 814 | 916 | (4) | (15) | 1,593 | 1,839 |
| Portfolio management and advisory fees | 1,968 | 1,966 | 1,951 | 0 | 1 | 3,934 | 3,892 |
| Other | 438 | 426 | 445 | 3 | (2) | 864 | 865 |
| Total fee and commission income | 4,523 | 4,560 | 4,883 | (1) | (7) | 9,083 | 9,788 |
| Brokerage fees paid | 192 | 197 | 210 | (3) | (9) | 390 | 442 |
| Other | 243 | 242 | 264 | 0 | (8) | 486 | 514 |
| Total fee and commission expense | 436 | 440 | 474 | (1) | (8) | 875 | 957 |
| Net fee and commission income | 4,087 | 4,121 | 4,409 | (1) | (7) | 8,208 | 8,832 |
| <i>of which: net brokerage fees</i> | <i>687</i> | <i>771</i> | <i>785</i> | <i>(11)</i> | <i>(12)</i> | <i>1,458</i> | <i>1,630</i> |

Note 5 Other income

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|--------------|------------|---------------|------------|--------------|------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Associates and subsidiaries | | | | | | | |
| Net gains/(losses) from disposals of subsidiaries ¹ | (49) | (123) | 2 | (60) | | (172) | 143 |
| Net gains/(losses) from disposals of investments in associates | 0 | 0 | 0 | | | 0 | 0 |
| Share of net profits of associates | 22 | 18 | 29 | 22 | (24) | 40 | 52 |
| Total | (27) | (104) | 31 | (74) | | (132) | 196 |
| Financial assets available for sale | | | | | | | |
| Net gains/(losses) from disposals | 161 | 76 | 80 | 112 | 101 | 237 | 185 |
| Impairment charges | (3) | 0 | 0 | | | (3) | 0 |
| Total | 158 | 76 | 80 | 108 | 98 | 233 | 185 |
| Net income from properties (excluding net gains/(losses) from disposals) ² | 7 | 7 | 7 | 0 | 0 | 14 | 13 |
| Net gains/(losses) from investment properties | 1 | 0 | (2) | | | 1 | (2) |
| Net gains/(losses) from disposals of properties held for sale | 120 | 0 | 1 | | | 120 | 378 |
| Net gains/(losses) from disposals of loans and receivables | 0 | (1) | 0 | (100) | | (1) | 26 |
| Other | 11 | 40 | 168 | (73) | (93) | 51 | 176 |
| Total other income | 270 | 17 | 285 | | (5) | 288 | 972 |

¹ Includes foreign exchange gains/(losses) reclassified from other comprehensive income related to disposed foreign subsidiaries and branches. ² Includes net rent received from third parties and net operating expenses.

Note 6 Personnel expenses

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|---|-----------------------|--------------|--------------|---------------|------------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Salaries and variable compensation | 2,505 | 2,340 | 2,617 | 7 | (4) | 4,845 | 5,242 |
| Contractors | 117 | 101 | 88 | 16 | 33 | 218 | 169 |
| Social security | 155 | 181 | 207 | (14) | (25) | 336 | 437 |
| Pension and other post-employment benefit plans | 150 | 199 | 188 | (25) | (20) | 349 | 412 |
| Wealth Management Americas: Financial advisor compensation ¹ | 911 | 909 | 878 | 0 | 4 | 1,820 | 1,748 |
| Other personnel expenses | 114 | 170 | 147 | (33) | (22) | 284 | 289 |
| Total personnel expenses² | 3,953 | 3,899 | 4,124 | 1 | (4) | 7,852 | 8,297 |

¹ Financial advisor compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment which are subject to vesting requirements. ² Includes restructuring expenses. Refer to Note 17 for more information.

Note 7 General and administrative expenses

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|--|-----------------------|--------------|--------------|---------------|----------|--------------|--------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 |
| Occupancy | 218 | 231 | 224 | (6) | (3) | 449 | 451 |
| Rent and maintenance of IT and other equipment | 125 | 140 | 98 | (11) | 28 | 265 | 247 |
| Communication and market data services | 157 | 166 | 146 | (5) | 8 | 323 | 302 |
| Administration | 203 | 199 | 166 | 2 | 22 | 403 | 318 |
| Marketing and public relations | 129 | 98 | 113 | 32 | 14 | 227 | 192 |
| Travel and entertainment | 111 | 115 | 119 | (3) | (7) | 227 | 225 |
| Professional fees | 322 | 276 | 324 | 17 | (1) | 598 | 610 |
| Outsourcing of IT and other services | 375 | 433 | 424 | (13) | (12) | 807 | 817 |
| Provisions for litigation, regulatory and similar matters ¹ | 72 | 39 | 71 | 85 | 1 | 111 | 130 |
| Other | 15 | 13 | 37 | 15 | (59) | 28 | 178 |
| Total general and administrative expenses² | 1,727 | 1,711 | 1,723 | 1 | 0 | 3,438 | 3,470 |

¹ Reflects the net increase in provisions for litigation, regulatory and similar matters recognized in the income statement. Refer to Note 15 for more information. Also includes recoveries from third parties (second quarter of 2016: CHF 0 million; first quarter of 2016: CHF 3 million; second quarter of 2015: CHF 0 million). ² Includes restructuring expenses. Refer to Note 17 for more information.

Note 8 Income taxes

UBS AG recognized a net income tax expense of CHF 369 million in the second quarter of 2016 compared with a net tax expense of CHF 443 million in the second quarter of 2015.

The current tax expense was CHF 218 million in the second quarter of 2016 compared with CHF 247 million in the same quarter a year earlier and related to taxable profits of UBS Switzerland AG and other subsidiaries. Deferred tax expenses were CHF 150 million in the second quarter of 2016 compared with CHF 196 million in the second quarter of 2015 and mainly related to the amortization of deferred tax assets previously recognized in relation to Swiss tax losses carried forward and deductible temporary differences to reflect their offset against profits for the quarter.

In 2014 and 2015, UBS Limited recognized deferred tax assets of CHF 223 million in connection with the transfer of certain busi-

nesses from UBS AG London branch, reflecting the transfer of net operating loss carryforwards.

During the second quarter of 2016, Her Majesty's Revenue and Customs (HMRC) indicated that it may seek to challenge this transfer of net operating loss carryforwards, notwithstanding its prior confirmation to the contrary. To the extent that UBS Limited does not prevail in a dispute on the validity of the transfer of net operating loss carryforwards, it would incur a reduction in recognized deferred tax assets of approximately CHF 113 million as well as potential current tax expenses for prior periods. This would be in addition to a reduction in recognized deferred tax assets of approximately CHF 110 million assuming currently proposed changes in UK tax law are enacted in the second half of 2016.

Note 9 Fair value measurement

This Note provides fair value measurement information for both financial and non-financial instruments and should be read in conjunction with "Note 24 Fair value measurement" in the audited "Consolidated financial statements" section of the Annual Report 2015 which provides more information on valua-

tion principles, valuation governance, valuation techniques, valuation adjustments, fair value hierarchy classification, valuation inputs, sensitivity of fair value measurements and methods applied to calculate fair values for financial instruments not measured at fair value.

a) Valuation adjustments

Day-1 reserves

The table below summarizes the changes in deferred day-1 profit or loss reserves during the respective period.

Deferred day-1 profit or loss related to financial instruments other than financial assets available for sale is released into *Net trading income* when pricing of equivalent products or the underlying parameters become observable or when the transaction is closed out.

Deferred day-1 profit or loss related to financial assets available for sale is released into *Other comprehensive income* when pricing of equivalent products or the underlying parameters become observable and is released into *Other income* when the assets are sold.

Deferred day-1 profit or loss

| CHF million | For the quarter ended | | | Year-to-date | |
|--|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Balance at the beginning of the period | 474 | 421 | 458 | 421 | 480 |
| Profit / (loss) deferred on new transactions | 38 | 123 | 69 | 160 | 145 |
| (Profit) / loss recognized in the income statement | (53) | (58) | (86) | (110) | (167) |
| (Profit) / loss recognized in other comprehensive income | (23) | 0 | 0 | (23) | 0 |
| Foreign currency translation | 8 | (13) | (16) | (5) | (33) |
| Balance at the end of the period | 444 | 474 | 425 | 444 | 425 |

Note 9 Fair value measurement (continued)

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

The fair value hierarchy classification of financial and non-financial assets and liabilities measured at fair value is summarized in the table below.

Determination of fair values from quoted market prices or valuation techniques¹

| CHF billion | 30.6.16 | | | | 31.3.16 | | | | 31.12.15 | | | |
|---|--------------|--------------|------------|--------------|--------------|--------------|------------|--------------|--------------|--------------|------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets measured at fair value on a recurring basis | | | | | | | | | | | | |
| Financial assets held for trading ² | 78.6 | 16.2 | 2.2 | 97.0 | 81.2 | 17.3 | 3.1 | 101.6 | 96.4 | 21.9 | 2.1 | 120.4 |
| of which: | | | | | | | | | | | | |
| Government bills/bonds | 14.7 | 1.4 | 0.0 | 16.1 | 13.6 | 2.2 | 0.0 | 15.8 | 12.9 | 3.3 | 0.0 | 16.2 |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 0.1 | 6.5 | 0.8 | 7.5 | 0.3 | 7.8 | 1.0 | 9.1 | 0.2 | 8.1 | 0.7 | 9.0 |
| Loans | 0.0 | 3.1 | 0.9 | 4.0 | 0.0 | 1.3 | 1.2 | 2.6 | 0.0 | 1.8 | 0.8 | 2.6 |
| Investment fund units | 5.3 | 3.5 | 0.1 | 8.9 | 4.9 | 4.2 | 0.2 | 9.3 | 6.1 | 5.7 | 0.2 | 11.9 |
| Asset-backed securities | 0.0 | 0.7 | 0.0 | 0.7 | 0.0 | 0.6 | 0.2 | 0.8 | 0.0 | 1.0 | 0.2 | 1.2 |
| Equity instruments | 50.3 | 0.5 | 0.2 | 51.0 | 48.3 | 0.5 | 0.3 | 49.1 | 62.4 | 1.5 | 0.1 | 64.0 |
| Financial assets for unit-linked investment contracts | 8.2 | 0.5 | 0.1 | 8.7 | 14.2 | 0.7 | 0.1 | 14.9 | 14.8 | 0.7 | 0.1 | 15.5 |
| Positive replacement values | 1.3 | 194.9 | 2.3 | 198.4 | 0.7 | 177.8 | 2.0 | 180.5 | 0.5 | 164.0 | 2.9 | 167.4 |
| of which: | | | | | | | | | | | | |
| Interest rate contracts | 0.0 | 90.2 | 0.0 | 90.2 | 0.0 | 84.0 | 0.0 | 84.1 | 0.0 | 74.4 | 0.1 | 74.5 |
| Credit derivative contracts | 0.0 | 3.8 | 0.9 | 4.7 | 0.0 | 5.0 | 0.8 | 5.8 | 0.0 | 5.4 | 1.3 | 6.7 |
| Foreign exchange contracts | 0.5 | 79.7 | 0.4 | 80.7 | 0.4 | 69.5 | 0.4 | 70.3 | 0.3 | 64.9 | 0.5 | 65.7 |
| Equity/index contracts | 0.0 | 17.9 | 0.9 | 18.8 | 0.0 | 16.6 | 0.7 | 17.3 | 0.0 | 15.9 | 1.0 | 16.9 |
| Commodity contracts | 0.0 | 3.2 | 0.0 | 3.2 | 0.0 | 2.6 | 0.0 | 2.6 | 0.0 | 3.4 | 0.0 | 3.4 |
| Financial assets designated at fair value | 41.1 | 20.0 | 2.8 | 63.9 | 27.0 | 10.4 | 3.3 | 40.7 | 0.2 | 2.3 | 3.3 | 5.8 |
| of which: | | | | | | | | | | | | |
| Government bills/bonds | 40.9 | 5.6 | 0.0 | 46.6 | 26.8 | 2.5 | 0.0 | 29.3 | 0.0 | 0.0 | 0.0 | 0.0 |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 0.0 | 12.2 | 0.0 | 12.2 | 0.1 | 5.7 | 0.0 | 5.7 | 0.0 | 0.0 | 0.0 | 0.0 |
| Loans (including structured loans) | 0.0 | 2.1 | 1.5 | 3.6 | 0.0 | 2.2 | 1.7 | 3.9 | 0.0 | 2.3 | 1.7 | 4.0 |
| Structured reverse repurchase and securities borrowing agreements | 0.0 | 0.0 | 1.2 | 1.2 | 0.0 | 0.0 | 1.4 | 1.4 | 0.0 | 0.0 | 1.5 | 1.6 |
| Other | 0.2 | 0.0 | 0.1 | 0.3 | 0.1 | 0.0 | 0.1 | 0.3 | 0.2 | 0.0 | 0.1 | 0.3 |
| Financial assets available for sale | 4.2 | 13.4 | 0.6 | 18.2 | 11.9 | 18.7 | 0.7 | 31.3 | 34.2 | 27.7 | 0.7 | 62.5 |
| of which: | | | | | | | | | | | | |
| Government bills/bonds | 3.2 | 0.4 | 0.0 | 3.6 | 9.4 | 0.9 | 0.0 | 10.3 | 31.1 | 2.0 | 0.0 | 33.1 |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 0.9 | 9.7 | 0.0 | 10.6 | 2.5 | 14.5 | 0.0 | 17.0 | 3.0 | 22.2 | 0.0 | 25.2 |
| Investment fund units | 0.0 | 0.0 | 0.1 | 0.2 | 0.0 | 0.0 | 0.1 | 0.2 | 0.0 | 0.1 | 0.1 | 0.2 |
| Asset-backed securities | 0.0 | 3.3 | 0.0 | 3.3 | 0.0 | 3.2 | 0.0 | 3.2 | 0.0 | 3.4 | 0.0 | 3.4 |
| Equity instruments | 0.1 | 0.1 | 0.4 | 0.6 | 0.1 | 0.0 | 0.5 | 0.6 | 0.1 | 0.0 | 0.5 | 0.6 |
| Non-financial assets | | | | | | | | | | | | |
| Precious metals and other physical commodities | 4.4 | 0.0 | 0.0 | 4.4 | 3.8 | 0.0 | 0.0 | 3.8 | 3.7 | 0.0 | 0.0 | 3.7 |
| Assets measured at fair value on a non-recurring basis | | | | | | | | | | | | |
| Other assets ³ | 5.3 | 0.1 | 0.1 | 5.5 | 0.3 | 0.1 | 0.1 | 0.4 | 0.3 | 0.1 | 0.1 | 0.4 |
| Total assets measured at fair value | 134.9 | 244.7 | 7.9 | 387.5 | 124.9 | 224.3 | 9.0 | 358.2 | 135.2 | 216.0 | 9.0 | 360.3 |

Note 9 Fair value measurement (continued)**Determination of fair values from quoted market prices or valuation techniques¹ (continued)**

| CHF billion | 30.6.16 | | | | 31.3.16 | | | | 31.12.15 | | | |
|---|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Liabilities measured at fair value on a recurring basis | | | | | | | | | | | | |
| Trading portfolio liabilities | 25.7 | 3.7 | 0.1 | 29.6 | 29.0 | 4.0 | 0.1 | 33.2 | 25.5 | 3.5 | 0.2 | 29.1 |
| of which: | | | | | | | | | | | | |
| Government bills/bonds | 6.8 | 0.7 | 0.0 | 7.6 | 7.4 | 0.8 | 0.0 | 8.1 | 6.0 | 0.8 | 0.0 | 6.8 |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 0.0 | 2.7 | 0.1 | 2.8 | 0.0 | 2.9 | 0.1 | 3.0 | 0.0 | 2.4 | 0.1 | 2.5 |
| Investment fund units | 0.4 | 0.1 | 0.0 | 0.4 | 0.5 | 0.1 | 0.0 | 0.6 | 0.7 | 0.1 | 0.0 | 0.7 |
| Equity instruments | 18.5 | 0.2 | 0.1 | 18.8 | 21.1 | 0.3 | 0.1 | 21.4 | 18.8 | 0.2 | 0.0 | 19.1 |
| Negative replacement values | 1.3 | 190.7 | 4.0 | 196.0 | 0.8 | 175.1 | 3.1 | 179.0 | 0.6 | 158.5 | 3.3 | 162.4 |
| of which: | | | | | | | | | | | | |
| Interest rate contracts | 0.0 | 81.6 | 0.6 | 82.2 | 0.0 | 77.2 | 0.3 | 77.5 | 0.0 | 67.2 | 0.3 | 67.6 |
| Credit derivative contracts | 0.0 | 3.9 | 1.6 | 5.5 | 0.0 | 5.1 | 1.3 | 6.3 | 0.0 | 5.4 | 1.3 | 6.7 |
| Foreign exchange contracts | 0.5 | 80.4 | 0.2 | 81.0 | 0.4 | 71.1 | 0.2 | 71.7 | 0.3 | 63.0 | 0.2 | 63.5 |
| Equity/index contracts | 0.0 | 21.7 | 1.6 | 23.3 | 0.0 | 19.3 | 1.3 | 20.6 | 0.0 | 19.7 | 1.4 | 21.2 |
| Commodity contracts | 0.0 | 3.1 | 0.0 | 3.1 | 0.0 | 2.5 | 0.0 | 2.5 | 0.0 | 3.2 | 0.0 | 3.2 |
| Financial liabilities designated at fair value | 0.0 | 48.0 | 11.6 | 59.7 | 0.0 | 47.0 | 10.7 | 57.8 | 0.0 | 52.3 | 10.7 | 63.0 |
| of which: | | | | | | | | | | | | |
| Non-structured fixed-rate bonds | 0.0 | 0.9 | 3.3 | 4.2 | 0.0 | 1.0 | 3.0 | 4.0 | 0.0 | 1.5 | 2.6 | 4.1 |
| Structured debt instruments issued | 0.0 | 42.5 | 6.8 | 49.3 | 0.0 | 42.1 | 5.8 | 47.9 | 0.0 | 45.7 | 6.7 | 52.4 |
| Structured over-the-counter debt instruments | 0.0 | 4.3 | 0.9 | 5.3 | 0.0 | 3.4 | 1.4 | 4.7 | 0.0 | 4.7 | 0.8 | 5.5 |
| Structured repurchase agreements | 0.0 | 0.2 | 0.6 | 0.8 | 0.0 | 0.5 | 0.6 | 1.0 | 0.0 | 0.3 | 0.6 | 0.8 |
| Loan commitments and guarantees | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |
| Other liabilities – amounts due under unit-linked investment contracts | 0.0 | 9.0 | 0.0 | 9.0 | 0.0 | 15.1 | 0.0 | 15.1 | 0.0 | 15.7 | 0.0 | 15.7 |
| Liabilities measured at fair value on a non-recurring basis | | | | | | | | | | | | |
| Other liabilities ³ | 0.0 | 5.3 | 0.0 | 5.3 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 | 0.0 | 0.2 |
| Total liabilities measured at fair value | 27.0 | 256.8 | 15.7 | 299.6 | 29.8 | 241.5 | 13.9 | 285.3 | 26.1 | 230.3 | 14.1 | 270.5 |

¹ Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. As of 30 June 2016, net bifurcated embedded derivative assets held at fair value totaling CHF 0.1 billion (of which CHF 0.2 billion were net Level 2 assets and CHF 0.1 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 March 2016, net bifurcated embedded derivative assets held at fair value totaling CHF 0.1 billion (of which CHF 0.1 billion were net Level 2 assets and CHF 0.0 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. As of 31 December 2015, net bifurcated embedded derivative liabilities held at fair value totaling CHF 0.1 billion (of which CHF 0.1 billion were net Level 2 assets and CHF 0.2 billion net Level 2 liabilities) were recognized on the balance sheet within Debt issued. ² Financial assets held for trading do not include precious metals and other physical commodities. ³ Other assets and other liabilities primarily consist of assets held for sale as well as assets and liabilities of a disposal group held for sale, which are measured at the lower of their net carrying amount or fair value less costs to sell. Refer to Note 17 for more information on the disposal group held for sale.

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

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

Note 9 Fair value measurement (continued)

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

The amounts disclosed reflect transfers between Level 1 and Level 2 for instruments which were held for the entire reporting period.

Assets totaling approximately CHF 0.3 billion, which were mainly comprised of financial assets held for trading, primarily government bills/bonds as well as equity instruments, and liabilities totaling approximately CHF 0.3 billion were transferred from Level 2 to Level 1 during the first six months of 2016,

generally due to increased levels of trading activity observed within the market.

Assets totaling approximately CHF 0.5 billion, which were mainly comprised of financial assets available for sale, primarily corporate and municipal bonds, and liabilities totaling approximately CHF 0.1 billion were transferred from Level 1 to Level 2 during the first six months of 2016, generally due to diminished levels of trading activity observed within the market.

d) Movements of Level 3 instruments

Significant changes in Level 3 instruments

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

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

Assets transferred into and out of Level 3 totaled CHF 1.5 billion and CHF 0.9 billion, respectively. Transfers into Level 3 were primar-

ily comprised of structured loans and equity instruments, due to decreased observability of the respective credit spread and equity market pricing inputs. Transfers out of Level 3 were primarily comprised of traded loans and credit derivative contracts, reflecting increased observability of the respective credit spread inputs.

Liabilities transferred into and out of Level 3 totaled CHF 1.7 billion and CHF 1.5 billion, respectively. Transfers into Level 3 were primarily comprised of equity-linked structured debt instruments issued and interest rate contracts, due to decreased observability of the respective equity volatility and rates volatility inputs used to determine the fair value of the options embedded in these structures. Transfers out of Level 3 were primarily comprised of equity-linked structured debt instruments issued resulting from changes in the availability of observable equity volatility inputs used to determine the fair value of the options embedded in these structures.

Note 9 Fair value measurement (continued)**Movements of Level 3 instruments**

| CHF billion | Balance as of 31 December 2014 | Total gains / losses included in comprehensive income | | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Foreign currency transla- tion | Balance as of 30 June 2015 |
|--|---|---|--|------------|--------------|------------|--------------|------------------------------|--------------------------------|---|-------------------------------------|
| | | Net interest income, net trading income and other income | of which: related to Level 3 instruments held at the end of the reporting period | | | | | | | | |
| Financial assets held for trading | 3.5 | (0.6) | (0.2) | 0.3 | (3.2) | 3.0 | 0.0 | 0.4 | (0.5) | (0.2) | 2.8 |
| <i>of which:</i> | | | | | | | | | | | |
| <i>Corporate bonds and municipal bonds, including bonds issued by financial institutions</i> | 1.4 | 0.0 | 0.0 | 0.2 | (0.3) | 0.0 | 0.0 | 0.1 | (0.1) | (0.1) | 1.1 |
| <i>Loans</i> | 1.1 | (0.6) | (0.1) | 0.0 | (2.4) | 3.0 | 0.0 | 0.1 | (0.3) | (0.1) | 0.9 |
| <i>Asset-backed securities</i> | 0.6 | 0.0 | 0.0 | 0.1 | (0.4) | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.2 |
| <i>Other</i> | 0.5 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.6 |
| Financial assets designated at fair value | 3.5 | (0.6) | (0.2) | 0.0 | 0.0 | 0.9 | 0.0 | 0.3 | (0.4) | (0.2) | 3.4 |
| <i>of which:</i> | | | | | | | | | | | |
| <i>Loans (including structured loans)</i> | 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.0 | 0.3 | (0.4) | 0.0 | 1.6 |
| <i>Structured reverse repurchase and securities borrowing agreements</i> | 2.4 | (0.6) | (0.2) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.2) | 1.6 |
| <i>Other</i> | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 |
| Financial assets available for sale | 0.6 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 |
| Positive replacement values | 4.4 | (0.3) | (0.3) | 0.0 | 0.0 | 1.5 | (1.7) | 0.4 | (0.3) | (0.1) | 3.8 |
| <i>of which:</i> | | | | | | | | | | | |
| <i>Credit derivative contracts</i> | 1.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | (0.8) | 0.1 | (0.1) | (0.1) | 1.6 |
| <i>Foreign exchange contracts</i> | 0.6 | (0.1) | (0.1) | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.0 | 0.6 |
| <i>Equity/index contracts</i> | 1.9 | (0.2) | (0.3) | 0.0 | 0.0 | 0.5 | (0.7) | 0.1 | (0.2) | (0.1) | 1.3 |
| <i>Other</i> | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.0 | 0.4 |
| Negative replacement values | 5.0 | (0.4) | (0.6) | 0.0 | 0.0 | 0.4 | (1.0) | 0.4 | (0.3) | (0.4) | 3.7 |
| <i>of which:</i> | | | | | | | | | | | |
| <i>Credit derivative contracts</i> | 1.7 | (0.2) | (0.2) | 0.0 | 0.0 | 0.0 | (0.2) | 0.2 | (0.1) | (0.1) | 1.3 |
| <i>Foreign exchange contracts</i> | 0.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.3 |
| <i>Equity/index contracts</i> | 2.4 | (0.2) | (0.3) | 0.0 | 0.0 | 0.4 | (0.7) | 0.2 | (0.2) | (0.1) | 1.8 |
| <i>Other</i> | 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | (0.1) | 0.3 |
| Financial liabilities designated at fair value | 11.9 | 0.4 | 0.3 | 0.0 | 0.0 | 3.8 | (3.7) | 1.0 | (1.6) | (0.9) | 10.9 |
| <i>of which:</i> | | | | | | | | | | | |
| <i>Non-structured fixed-rate bonds</i> | 2.2 | (0.2) | (0.1) | 0.0 | 0.0 | 0.7 | (0.1) | 0.0 | (0.3) | (0.2) | 2.2 |
| <i>Structured debt instruments issued</i> | 7.3 | 0.5 | 0.1 | 0.0 | 0.0 | 2.8 | (2.6) | 0.9 | (1.3) | (0.5) | 7.0 |
| <i>Structured over-the-counter debt instruments</i> | 1.5 | 0.1 | 0.1 | 0.0 | 0.0 | 0.2 | (0.7) | 0.0 | 0.0 | (0.2) | 1.1 |
| <i>Structured repurchase agreements</i> | 0.9 | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | (0.3) | 0.0 | 0.0 | 0.0 | 0.6 |

¹ Total Level 3 assets as of 30 June 2016 were CHF 7.9 billion (31 March 2016: CHF 9.0 billion; 31 December 2015: CHF 9.0 billion). Total Level 3 liabilities as of 30 June 2016 were CHF 15.7 billion (31 March 2016: CHF 13.9 billion; 31 December 2015: CHF 14.1 billion).

| Balance as of 31 December 2015 | Total gains/losses included in comprehensive income | | | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Foreign currency translation | Balance as of 30 June 2016 ¹ |
|--------------------------------|--|---|------------|--------------|------------|--------------|-------------|------------------------|--------------------------|------------------------------|---|
| | Net interest income, net trading income and other income | <i>of which: related to Level 3 instruments held at the end of the reporting period</i> | | | | | | | | | |
| 2.1 | (0.1) | 0.0 | 0.6 | (3.0) | 2.5 | 0.0 | 0.5 | (0.4) | (0.1) | 2.2 | |
| 0.7 | 0.1 | 0.1 | 0.5 | (0.3) | 0.0 | 0.0 | 0.0 | (0.1) | (0.1) | 0.8 | |
| 0.8 | 0.0 | 0.1 | 0.0 | (2.3) | 2.5 | 0.0 | 0.1 | (0.2) | 0.0 | 0.9 | |
| 0.2 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | |
| 0.4 | (0.2) | (0.2) | 0.1 | (0.3) | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.4 | |
| 3.3 | (0.2) | (0.2) | 0.0 | 0.0 | 0.2 | (0.8) | 0.4 | (0.1) | (0.1) | 2.8 | |
| 1.7 | (0.2) | (0.2) | 0.0 | 0.0 | 0.2 | (0.5) | 0.4 | (0.1) | (0.1) | 1.5 | |
| 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.3) | 0.0 | 0.0 | 0.0 | 1.2 | |
| 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | |
| 0.7 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.6 | |
| 2.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.5 | (1.1) | 0.5 | (0.4) | (0.1) | 2.3 | |
| 1.3 | 0.1 | 0.1 | 0.0 | 0.0 | 0.1 | (0.3) | 0.1 | (0.2) | 0.0 | 0.9 | |
| 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.0 | 0.4 | |
| 1.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | (0.3) | 0.2 | (0.1) | 0.0 | 0.9 | |
| 0.1 | (0.2) | (0.1) | 0.0 | 0.0 | 0.2 | (0.4) | 0.2 | 0.0 | 0.0 | 0.0 | |
| 3.3 | 0.8 | 0.8 | 0.0 | 0.0 | 0.5 | (1.1) | 0.6 | (0.2) | 0.0 | 4.0 | |
| 1.3 | 0.7 | 0.6 | 0.0 | 0.0 | 0.1 | (0.4) | 0.0 | 0.0 | 0.0 | 1.6 | |
| 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | (0.1) | 0.0 | 0.0 | 0.0 | 0.2 | |
| 1.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | (0.2) | 0.1 | (0.1) | 0.0 | 1.6 | |
| 0.3 | 0.2 | 0.2 | 0.0 | 0.0 | 0.0 | (0.3) | 0.5 | 0.0 | 0.0 | 0.6 | |
| 10.7 | 0.5 | 0.5 | 0.0 | 0.0 | 2.3 | (1.4) | 1.1 | (1.3) | (0.2) | 11.6 | |
| 2.6 | 0.3 | 0.3 | 0.0 | 0.0 | 0.4 | (0.1) | 0.1 | (0.1) | (0.1) | 3.3 | |
| 6.7 | 0.2 | 0.2 | 0.0 | 0.0 | 1.2 | (0.9) | 0.9 | (1.2) | (0.2) | 6.8 | |
| 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.6 | (0.5) | 0.0 | 0.0 | 0.0 | 0.9 | |
| 0.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | (0.1) | 0.0 | 0.0 | 0.0 | 0.6 | |

Note 9 Fair value measurement (continued)**e) Valuation of assets and liabilities classified as Level 3**

The table below presents assets and liabilities recognized at fair value and classified as Level 3, together with the valuation techniques used to measure fair value, the significant inputs used in the valuation technique that are considered unobservable and a range of values and respective weighted averages, where applicable, for those unobservable inputs.

The range of values represents the highest and lowest level input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities. The ranges and weighted averages will vary from period to period and from parameter to parameter based on

characteristics of the instruments held at each balance sheet date. Further, the ranges and weighted averages of unobservable inputs may differ across other financial institutions due to the diversity of the products in each firm's inventory.

The significant unobservable inputs disclosed in the table below are consistent with those included in "Note 24 Fair value measurement" in the audited "Consolidated financial statements" section of the Annual Report 2015. A description of the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown, is also provided in Note 24 of the Annual Report 2015.

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

| CHF billion | Fair value | | | | Valuation technique(s) | Significant unobservable input(s) ¹ | Range of inputs | | | | | | unit ¹ |
|---|------------|----------|-------------|----------|--|--|-----------------|------|-------------------------------|----------|------|-------------------------------|-------------------|
| | Assets | | Liabilities | | | | 30.6.16 | | | 31.12.15 | | | |
| | 30.6.16 | 31.12.15 | 30.6.16 | 31.12.15 | | | low | high | weighted average ² | low | high | weighted average ² | |
| Financial assets held for trading / Trading portfolio liabilities, Financial assets / liabilities designated at fair value and Financial assets available for sale | | | | | | | | | | | | | |
| <i>Corporate bonds and municipal bonds, including bonds issued by financial institutions</i> | | | | | | | | | | | | | |
| | 0.9 | 0.7 | 0.1 | 0.1 | Relative value to market comparable | Bond price equivalent | 0 | 131 | 88 | 0 | 134 | 94 | points |
| <i>Traded loans, loans designated at fair value, loan commitments and guarantees</i> | | | | | | | | | | | | | |
| | 2.6 | 2.6 | 0.0 | 0.0 | Relative value to market comparable | Loan price equivalent | 80 | 103 | 94 | 65 | 100 | 93 | points |
| | | | | | Discounted expected cash flows | Credit spread | 54 | 624 | | 30 | 252 | | basis points |
| | | | | | Market comparable and securitization model | Discount margin / spread | 1 | 17 | 3 | 1 | 14 | 2 | % |
| <i>Investment fund units³</i> | | | | | | | | | | | | | |
| | 0.2 | 0.3 | 0.0 | 0.0 | Relative value to market comparable | Net asset value | | | | | | | |
| <i>Asset-backed securities</i> | | | | | | | | | | | | | |
| | 0.0 | 0.2 | 0.0 | 0.0 | Discounted cash flow projection | Constant prepayment rate | 1 | 8 | 3 | 0 | 18 | 5 | % |
| | | | | | | Discount margin / spread | 3 | 4 | 3 | 0 | 12 | 3 | % |
| | | | | | Relative value to market comparable | Bond price equivalent | 1 | 88 | 11 | 1 | 92 | 72 | points |
| <i>Equity instruments³</i> | | | | | | | | | | | | | |
| | 0.7 | 0.6 | 0.1 | 0.0 | Relative value to market comparable | Price | | | | | | | |
| <i>Structured (reverse) repurchase agreements</i> | | | | | | | | | | | | | |
| | 1.2 | 1.5 | 0.6 | 0.6 | Discounted expected cash flows | Funding spread | 15 | 179 | | 18 | 183 | | basis points |
| <i>Financial assets for unit-linked investment contracts³</i> | | | | | | | | | | | | | |
| | 0.1 | 0.1 | | | Relative value to market comparable | Price | | | | | | | |
| <i>Structured debt instruments and non-structured fixed-rate bonds⁴</i> | | | | | | | | | | | | | |
| | | | 11.0 | 10.1 | | | | | | | | | |

Note 9 Fair value measurement (continued)

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

| CHF billion | Fair value | | | | Valuation technique(s) | Significant unobservable input(s) ¹ | Range of inputs | | | | | | |
|---|------------|----------|-------------|----------|--|--|-----------------|------------|-------------------------------|----------|-------|-------------------------------|-------------------|
| | Assets | | Liabilities | | | | 30.6.16 | | | 31.12.15 | | | unit ¹ |
| | 30.6.16 | 31.12.15 | 30.6.16 | 31.12.15 | | | low | high | weighted average ² | low | high | weighted average ² | |
| Replacement values | | | | | | | | | | | | | |
| <i>Interest rate contracts</i> | 0.0 | 0.1 | 0.6 | 0.3 | Option model | Volatility of interest rates | 33 | 124 | | 16 | 130 | % | |
| | | | | | | Rate-to-rate correlation | 84 | 94 | | 84 | 94 | % | |
| | | | | | | Intra-curve correlation | 36 | 94 | | 36 | 94 | % | |
| | | | | | Discounted expected cash flows | Constant prepayment rate ⁵ | | | | 0 | 3 | % | |
| | | | | | Discounted expected cash flow based on modeled defaults and recoveries | Credit spreads | 2 | 505 | | 1 | 1,163 | basis points | |
| <i>Credit derivative contracts</i> | 0.9 | 1.3 | 1.6 | 1.3 | | Upfront price points | 26 | 26 | | 8 | 25 | % | |
| | | | | | | Recovery rates | 0 | 95 | | 0 | 95 | % | |
| | | | | | | Credit index correlation | 10 | 85 | | 10 | 85 | % | |
| | | | | | | Discount margin / spread | 0 | 167 | | 1 | 72 | % | |
| | | | | | | Credit pair correlation | 57 | 87 | | 57 | 94 | % | |
| | | | | | Discounted cash flow projection on underlying bond | Constant prepayment rate | 1 | 15 | | 0 | 15 | % | |
| | | | | | | Constant default rate | 1 | 9 | | 0 | 9 | % | |
| | | | | | | Loss severity | 28 | 100 | | 0 | 100 | % | |
| | | | | | | Discount margin / spread | 1 | 15 | | 1 | 15 | % | |
| <i>Foreign exchange contracts</i> | 0.4 | 0.5 | 0.2 | 0.2 | Option model | Bond price equivalent | 2 | 103 | | 0 | 104 | points | |
| | | | | | | Rate-to-FX correlation | (57) | 60 | | (57) | 60 | % | |
| | | | | | | FX-to-FX correlation | (70) | 80 | | (70) | 80 | % | |
| <i>Equity/index contracts</i> | 0.9 | 1.0 | 1.6 | 1.4 | Option model | Equity dividend yields | 0 | 21 | | 0 | 57 | % | |
| | | | | | | Volatility of equity stocks, equity and other indices | 0 | 250 | | 0 | 143 | % | |
| | | | | | | Equity-to-FX correlation | (35) | 82 | | (44) | 82 | % | |
| | | | | | | Equity-to-equity correlation | 9 | 98 | | 3 | 99 | % | |
| Non-financial assets^{3,6} | 0.1 | 0.1 | | | Relative value to market comparable | Price | | | | | | | |
| | | | | | Discounted cash flow projection | Projection of cost and income related to the particular property | | | | | | | |
| | | | | | | Discount rate | | | | | | | |
| | | | | | | Assessment of the particular property's condition | | | | | | | |

¹ The ranges of significant unobservable inputs are represented in points, percentages and basis points. Points are a percentage of par. For example, 100 points would be 100% of par. ² Weighted averages are provided for non-derivative financial instruments and were calculated by weighting inputs based on the fair values of the respective instruments. Weighted averages are not provided for inputs related to derivative contracts as this would not be meaningful. ³ The range of inputs is not disclosed due to the dispersion of possible values given the diverse nature of the investments. ⁴ Valuation techniques, significant unobservable inputs and the respective input ranges for structured debt instruments and non-structured fixed-rate bonds are the same as the equivalent derivative or structured financing instruments presented elsewhere in this table. ⁵ The range of inputs is not disclosed as of 30 June 2016 because this unobservable input parameter was not significant to the respective valuation technique as of that date. ⁶ Non-financial assets include other assets which primarily consist of assets held for sale.

Note 9 Fair value measurement (continued)**f) Sensitivity of fair value measurements to changes in unobservable input assumptions**

The table below summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof.

The table shown presents the favorable and unfavorable effects for each class of financial assets and liabilities for which the potential change in fair value is considered significant. The sensitivity data presented represent an estimation of valuation uncertainty based on reasonably possible alternative values for

Level 3 inputs at the balance sheet date and does not represent the estimated effect of stress scenarios. Typically, these financial assets and liabilities are sensitive to a combination of inputs from Levels 1–3. Although well-defined interdependencies may exist between Levels 1–2 and Level 3 parameters (e.g., between interest rates, which are generally Level 1 or Level 2, and pre-payments, which are generally Level 3), these have not been incorporated in the table. Further, direct inter-relationships between the Level 3 parameters are not a significant element of the valuation uncertainty.

Sensitivity of fair value measurements to changes in unobservable input assumptions

| CHF million | 30.6.16 | | 31.3.16 | | 31.12.15 | |
|---|--------------------------------|----------------------------------|--------------------------------|----------------------------------|--------------------------------|----------------------------------|
| | Favorable changes ¹ | Unfavorable changes ¹ | Favorable changes ¹ | Unfavorable changes ¹ | Favorable changes ¹ | Unfavorable changes ¹ |
| Corporate bonds and municipal bonds, including bonds issued by financial institutions | 41 | (36) | 40 | (40) | 24 | (25) |
| Traded loans, loans designated at fair value, loan commitments and guarantees | 86 | (14) | 102 | (43) | 88 | (28) |
| Equity instruments | 81 | (58) | 152 | (59) | 166 | (74) |
| Interest rate derivative contracts, net | 49 | (36) | 76 | (44) | 107 | (67) |
| Credit derivative contracts, net | 160 | (234) | 155 | (198) | 174 | (196) |
| Foreign exchange derivative contracts, net | 18 | (8) | 21 | (11) | 33 | (28) |
| Equity/index derivative contracts, net | 65 | (65) | 61 | (60) | 61 | (57) |
| Structured debt instruments issued and non-structured fixed-rate bonds | 142 | (145) | 144 | (155) | 136 | (146) |
| Other | 15 | (15) | 22 | (25) | 20 | (20) |
| Total | 658 | (611) | 774 | (634) | 809 | (640) |

¹ Of the total favorable changes, CHF 84 million as of 30 June 2016 (31 March 2016: CHF 152 million; 31 December 2015: CHF 164 million) related to financial assets available for sale. Of the total unfavorable changes, CHF 62 million as of 30 June 2016 (31 March 2016: CHF 61 million; 31 December 2015: CHF 71 million) related to financial assets available for sale.

Note 9 Fair value measurement (continued)

g) Financial instruments not measured at fair value

The table below reflects the estimated fair values of financial instruments not measured at fair value.

Financial instruments not measured at fair value

| CHF billion | 30.6.16 | | 31.3.16 | | 31.12.15 | |
|---|----------------|------------|----------------|------------|----------------|------------|
| | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| Assets | | | | | | |
| Cash and balances with central banks | 94.2 | 94.2 | 105.7 | 105.7 | 91.3 | 91.3 |
| Due from banks | 12.9 | 12.9 | 13.5 | 13.5 | 11.9 | 11.9 |
| Loans | 307.9 | 312.8 | 306.6 | 309.8 | 312.7 | 314.9 |
| Cash collateral on securities borrowed | 29.4 | 29.4 | 32.4 | 32.4 | 25.6 | 25.6 |
| Reverse repurchase agreements | 73.3 | 73.3 | 73.6 | 73.6 | 67.9 | 67.9 |
| Cash collateral receivables on derivative instruments | 30.0 | 30.0 | 25.5 | 25.5 | 23.8 | 23.8 |
| Financial assets held to maturity | 4.8 | 4.9 | 2.9 | 2.9 | | |
| Other assets | 21.2 | 21.2 | 21.0 | 21.0 | 20.1 | 20.1 |
| Liabilities | | | | | | |
| Due to banks | 15.3 | 15.3 | 11.3 | 11.3 | 11.8 | 11.8 |
| Due to customers | 429.6 | 430.0 | 417.0 | 417.1 | 402.5 | 402.8 |
| Cash collateral on securities lent | 6.3 | 6.3 | 6.4 | 6.4 | 8.0 | 8.0 |
| Repurchase agreements | 8.0 | 8.0 | 6.5 | 6.5 | 9.7 | 9.7 |
| Cash collateral payables on derivative instruments | 36.4 | 36.4 | 36.7 | 36.7 | 38.3 | 38.3 |
| Debt issued | 86.0 | 87.2 | 87.9 | 89.4 | 82.2 | 84.4 |
| Other liabilities | 45.8 | 45.8 | 50.8 | 50.8 | 52.1 | 52.1 |
| Guarantees/Loan commitments ((assets)/liabilities) | | | | | | |
| Guarantees | 0.0 | (0.1) | 0.0 | (0.1) | 0.0 | (0.1) |
| Loan commitments | 0.0 | (0.3) | 0.0 | 0.1 | 0.0 | 0.0 |

The fair values included in the table above were calculated for disclosure purposes only. The fair value valuation techniques and assumptions relate only to the fair value of UBS's financial instruments not measured at fair value. Other institutions may use

different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another.

Note 10 Derivative instruments¹

| | Positive replacement values | Notional values related to positive replacement values ² | Negative replacement values | Notional values related to negative replacement values ² | Other notional values ³ |
|--|-----------------------------|---|-----------------------------|---|------------------------------------|
| <i>As of 30.6.16, CHF billion</i> | | | | | |
| Derivative instruments | | | | | |
| Interest rate contracts | 90 | 1,269 | 82 | 1,148 | 9,965 |
| Credit derivative contracts | 5 | 148 | 6 | 159 | |
| Foreign exchange contracts | 81 | 2,701 | 81 | 2,545 | 5 |
| Equity / index contracts | 19 | 260 | 23 | 317 | 40 |
| Commodity contracts | 3 | 43 | 3 | 37 | 9 |
| Unsettled purchases of non-derivative financial instruments ⁴ | 1 | 48 | 0 | 16 | |
| Unsettled sales of non-derivative financial instruments ⁴ | 0 | 20 | 1 | 41 | |
| Total derivative instruments, based on IFRS netting^{5,6} | 198 | 4,489 | 196 | 4,262 | 10,019 |

As of 31.3.16, CHF billion

| | | | | | |
|--|------------|--------------|------------|--------------|--------------|
| Derivative instruments | | | | | |
| Interest rate contracts | 84 | 1,388 | 78 | 1,226 | 9,591 |
| Credit derivative contracts | 6 | 175 | 6 | 186 | |
| Foreign exchange contracts | 70 | 2,603 | 72 | 2,489 | 8 |
| Equity / index contracts | 17 | 234 | 21 | 306 | 41 |
| Commodity contracts | 3 | 37 | 2 | 32 | 8 |
| Unsettled purchases of non-derivative financial instruments ⁴ | 0 | 30 | 0 | 21 | |
| Unsettled sales of non-derivative financial instruments ⁴ | 0 | 29 | 0 | 24 | |
| Total derivative instruments, based on IFRS netting^{5,6} | 181 | 4,496 | 179 | 4,284 | 9,647 |

As of 31.12.15, CHF billion

| | | | | | |
|--|------------|--------------|------------|--------------|--------------|
| Derivative instruments | | | | | |
| Interest rate contracts | 75 | 1,493 | 68 | 1,399 | 8,771 |
| Credit derivative contracts | 7 | 162 | 7 | 170 | |
| Foreign exchange contracts | 66 | 2,658 | 63 | 2,487 | 8 |
| Equity / index contracts | 17 | 230 | 21 | 306 | 43 |
| Commodity contracts | 3 | 30 | 3 | 25 | 8 |
| Unsettled purchases of non-derivative financial instruments ⁴ | 0 | 10 | 0 | 17 | |
| Unsettled sales of non-derivative financial instruments ⁴ | 0 | 20 | 0 | 6 | |
| Total derivative instruments, based on IFRS netting^{5,6} | 167 | 4,603 | 162 | 4,409 | 8,831 |

¹ Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. As of 30 June 2016, these derivatives amounted to a PRV of CHF 0.2 billion (related notional values of CHF 3.0 billion) and an NRV of CHF 0.1 billion (related notional values of CHF 5.5 billion). As of 31 March 2016, these derivatives amounted to a PRV of CHF 0.1 billion (related notional values of CHF 4.4 billion) and an NRV of CHF 0.0 billion (related notional values of CHF 3.8 billion). As of 31 December 2015, bifurcated embedded derivatives amounted to a PRV of CHF 0.1 billion (related notional values of CHF 0.6 billion) and an NRV of CHF 0.2 billion (related notional values of CHF 3.4 billion). ² In cases where replacement values are presented on a net basis on the balance sheet, the respective notional values of the netted replacement values are still presented on a gross basis. ³ Other notional values relate to derivatives which are cleared through either a central counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and was not material for all periods presented. ⁴ Changes in the fair value of purchased and sold non-derivative financial instruments between trade date and settlement date are recognized as replacement values. ⁵ Includes exchange-traded agency transactions and OTC cleared transactions entered into on behalf of clients with a combined PRV of CHF 9.5 billion as of 30 June 2016 (31 March 2016: CHF 8.1 billion; 31 December 2015: CHF 6.8 billion) and a combined NRV of CHF 9.2 billion as of 30 June 2016 (31 March 2016: CHF 7.9 billion; 31 December 2015: CHF 6.8 billion), for which notional values were not included in the table above due to their significantly different risk profile. ⁶ Refer to Note 11 for more information on netting arrangements.

Note 11 Offsetting financial assets and financial liabilities

UBS AG enters into netting agreements with counterparties to manage the credit risks associated primarily with repurchase and reverse repurchase transactions, securities borrowing and lending and over-the-counter and exchange-traded derivatives. These netting agreements and similar arrangements generally enable the counterparties to set-off liabilities against available assets received in the ordinary course of business and/or in the event that either counterparty to the transaction is unable to fulfill its contractual obligations. The right of set-off is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus reducing credit exposure.

Financial assets

The table below provides a summary of financial assets subject to

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

UBS AG engages in a variety of counterparty credit mitigation strategies in addition to netting and collateral arrangements. Therefore, the net amounts presented in the tables on this and on the next page do not purport to represent actual credit exposure.

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

| | Assets subject to netting arrangements | | | | | | Assets not subject to netting arrangements ⁴ | Total assets | | |
|--|---|---|--|--|---------------------|---|---|--|---|--|
| | Netting recognized on the balance sheet | | | Netting potential not recognized on the balance sheet ³ | | | | Assets recognized on the balance sheet | Total assets after consideration of netting potential | Total assets recognized on the balance sheet |
| | Gross assets before netting | Netting with gross liabilities ² | Net assets recognized on the balance sheet | Financial liabilities | Collateral received | Assets after consideration of netting potential | | | | |
| <i>As of 30.6.16, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities borrowed | 27.3 | 0.0 | 27.3 | (3.3) | (24.0) | 0.0 | 2.0 | 2.0 | 29.4 | |
| Reverse repurchase agreements | 111.8 | (52.5) | 59.3 | (3.0) | (56.3) | 0.0 | 14.0 | 14.0 | 73.3 | |
| Positive replacement values | 190.1 | (2.7) | 187.5 | (147.3) | (28.6) | 11.5 | 11.0 | 22.5 | 198.4 | |
| Cash collateral receivables on derivative instruments ¹ | 57.4 | (30.4) | 27.0 | (17.3) | (1.2) | 8.5 | 3.0 | 11.4 | 30.0 | |
| Financial assets designated at fair value | 3.7 | 0.0 | 3.7 | 0.0 | (1.1) | 2.6 | 60.2 | 62.8 | 63.9 | |
| Total assets | 390.3 | (85.6) | 304.7 | (170.9) | (111.2) | 22.6 | 90.2 | 112.9 | 395.0 | |
| <i>As of 31.3.16, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities borrowed | 30.2 | 0.0 | 30.2 | (2.5) | (27.7) | 0.0 | 2.2 | 2.2 | 32.4 | |
| Reverse repurchase agreements | 114.9 | (54.6) | 60.3 | (1.7) | (58.6) | 0.0 | 13.3 | 13.3 | 73.6 | |
| Positive replacement values | 174.0 | (2.4) | 171.5 | (135.1) | (25.6) | 10.8 | 9.0 | 19.8 | 180.5 | |
| Cash collateral receivables on derivative instruments ¹ | 126.5 | (104.7) | 21.8 | (13.0) | (0.9) | 7.9 | 3.7 | 11.6 | 25.5 | |
| Financial assets designated at fair value | 2.5 | 0.0 | 2.5 | 0.0 | (1.6) | 0.9 | 38.1 | 39.0 | 40.7 | |
| Total assets | 448.0 | (161.7) | 286.3 | (152.2) | (114.5) | 19.6 | 66.3 | 85.9 | 352.6 | |
| <i>As of 31.12.15, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities borrowed | 23.9 | 0.0 | 23.9 | (3.1) | (20.9) | 0.0 | 1.6 | 1.6 | 25.6 | |
| Reverse repurchase agreements | 117.9 | (62.1) | 55.8 | (4.4) | (51.4) | 0.0 | 12.1 | 12.1 | 67.9 | |
| Positive replacement values | 161.9 | (2.5) | 159.3 | (123.0) | (25.5) | 10.8 | 8.1 | 18.9 | 167.4 | |
| Cash collateral receivables on derivative instruments ¹ | 85.9 | (66.3) | 19.6 | (10.9) | (1.5) | 7.2 | 4.1 | 11.3 | 23.8 | |
| Financial assets designated at fair value | 2.4 | 0.0 | 2.4 | 0.0 | (1.8) | 0.6 | 3.4 | 4.0 | 5.8 | |
| Total assets | 392.1 | (131.0) | 261.1 | (141.3) | (101.1) | 18.7 | 29.3 | 48.0 | 290.5 | |

¹ The net amount of Cash collateral receivables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32, interest rate swaps (IRS) with the London Clearing House (LCH) which are legally settled on a daily basis and ETD which are economically settled on a daily basis. Effective 30 June 2016, UBS elected to convert its IRS transacted with the LCH from the previous collateral model to a settlement model. As a result, gross assets and liabilities and corresponding netting decreased by CHF 93 billion as of 30 June 2016, with no change to net assets and liabilities recognized on the balance sheet. Refer to Note 1 for more information. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral pledged, reflected on the Negative replacement values line in the table presented on the following page. ² The logic of the table results in amounts presented in the "Netting with gross liabilities" column corresponding directly to the amounts presented in the "Netting with gross assets" column in the liabilities table presented on the following page. ³ For the purpose of this disclosure, the amounts of financial instruments and cash collateral presented have been capped by the relevant netting agreement so as not to exceed the net amount of financial assets presented on the balance sheet; i.e., over-collateralization, where it exists, is not reflected in the table. ⁴ Includes assets not subject to enforceable netting arrangements and other out-of-scope items.

Note 11 Offsetting financial assets and financial liabilities (continued)**Financial liabilities**

The table below provides a summary of financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements, as well as financial collateral pledged to mitigate credit exposures for these financial liabilities. The gross financial liabilities that are subject to offsetting, enforceable netting arrangements and similar agreements are reconciled to the net

amounts presented within the associated balance sheet line, after giving effect to financial assets with the same counterparties that have been offset on the balance sheet and other financial liabilities not subject to an enforceable netting arrangement or similar agreement. Further, related amounts for financial assets and collateral pledged that are not offset on the balance sheet are shown to arrive at financial liabilities after consideration of netting potential.

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

| | Liabilities subject to netting arrangements | | | | | | Liabilities not subject to netting arrangements ⁴ | Total liabilities | | |
|---|---|--|---|--|--------------------|--|--|---|--|---|
| | Netting recognized on the balance sheet | | | Netting potential not recognized on the balance sheet ² | | | | Liabilities recognized on the balance sheet | Total liabilities after consideration of netting potential | Total liabilities recognized on the balance sheet |
| | Gross liabilities before netting | Netting with gross assets ² | Net liabilities recognized on the balance sheet | Financial assets | Collateral pledged | Liabilities after consideration of netting potential | | | | |
| <i>As of 30.6.16, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities lent | 6.2 | 0.0 | 6.2 | (3.3) | (2.8) | 0.0 | 0.1 | 0.1 | 6.3 | |
| Repurchase agreements | 58.8 | (52.5) | 6.2 | (3.0) | (3.3) | 0.0 | 1.8 | 1.8 | 8.0 | |
| Negative replacement values | 185.5 | (2.7) | 182.8 | (147.3) | (21.0) | 14.6 | 13.2 | 27.7 | 196.0 | |
| Cash collateral payables on derivative instruments ¹ | 63.7 | (30.4) | 33.3 | (20.9) | (0.8) | 11.6 | 3.1 | 14.6 | 36.4 | |
| Financial liabilities designated at fair value | 3.4 | 0.0 | 3.4 | 0.0 | (0.6) | 2.7 | 56.3 | 59.0 | 59.7 | |
| Total liabilities | 317.4 | (85.6) | 231.9 | (174.5) | (28.5) | 28.9 | 74.5 | 103.4 | 306.4 | |
| <i>As of 31.3.16, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities lent | 6.3 | 0.0 | 6.3 | (2.5) | (3.8) | 0.0 | 0.1 | 0.1 | 6.4 | |
| Repurchase agreements | 59.9 | (54.6) | 5.3 | (1.7) | (3.7) | 0.0 | 1.2 | 1.2 | 6.5 | |
| Negative replacement values | 169.3 | (2.4) | 166.9 | (135.1) | (17.3) | 14.5 | 12.1 | 26.6 | 179.0 | |
| Cash collateral payables on derivative instruments ¹ | 137.1 | (104.7) | 32.4 | (19.3) | (1.6) | 11.5 | 4.3 | 15.8 | 36.7 | |
| Financial liabilities designated at fair value | 3.0 | 0.0 | 3.0 | 0.0 | (0.8) | 2.2 | 54.7 | 56.9 | 57.8 | |
| Total liabilities | 375.7 | (161.7) | 213.9 | (158.5) | (27.2) | 28.2 | 72.4 | 100.6 | 286.3 | |
| <i>As of 31.12.15, CHF billion</i> | | | | | | | | | | |
| Cash collateral on securities lent | 7.9 | 0.0 | 7.9 | (3.1) | (4.8) | 0.0 | 0.1 | 0.1 | 8.0 | |
| Repurchase agreements | 69.0 | (62.1) | 6.9 | (4.4) | (2.5) | 0.0 | 2.8 | 2.8 | 9.7 | |
| Negative replacement values | 154.2 | (2.5) | 151.7 | (123.0) | (17.4) | 11.3 | 10.7 | 22.1 | 162.4 | |
| Cash collateral payables on derivative instruments ¹ | 99.9 | (66.3) | 33.6 | (19.0) | (2.5) | 12.1 | 4.7 | 16.8 | 38.3 | |
| Financial liabilities designated at fair value | 3.9 | 0.0 | 3.9 | 0.0 | (0.7) | 3.1 | 59.1 | 62.3 | 63.0 | |
| Total liabilities | 334.9 | (131.0) | 203.9 | (149.4) | (28.0) | 26.5 | 77.4 | 104.0 | 281.4 | |

¹ The net amount of Cash collateral payables on derivative instruments recognized on the balance sheet includes certain OTC derivatives which are in substance net settled on a daily basis under IAS 32, interest rate swaps (IRS) with the London Clearing House (LCH) which are legally settled on a daily basis and ETD which are economically settled on a daily basis. Effective 30 June 2016, UBS elected to convert its IRS transacted with the LCH from the previous collateral model to a settlement model. As a result, gross assets and liabilities and corresponding netting decreased by CHF 93 billion as of 30 June 2016, with no change to net assets and liabilities recognized on the balance sheet. Refer to Note 1 for more information. In addition, this balance includes OTC and ETD cash collateral balances which correspond with the cash portion of collateral received, reflected on the Positive replacement values line in the table presented on the previous page. ² The logic of the table results in amounts presented in the "Netting with gross assets" column corresponding directly to the amounts presented in the "Netting with gross liabilities" column in the assets table presented on the previous page. ³ For the purpose of this disclosure, the amounts of financial instruments and cash collateral presented have been capped by the relevant netting agreement so as not to exceed the net amount of financial liabilities presented on the balance sheet; i.e., over-collateralization, where it exists, is not reflected in the table. ⁴ Includes liabilities not subject to enforceable netting arrangements and other out-of-scope items.

Note 12 Other assets and liabilities

| <i>CHF million</i> | 30.6.16 | 31.3.16 | 31.12.15 |
|--|----------------|---------|----------|
| Other assets | | | |
| Prime brokerage receivables ¹ | 11,695 | 11,754 | 11,341 |
| Recruitment loans to financial advisors | 3,161 | 3,128 | 3,184 |
| Other loans to financial advisors | 490 | 522 | 418 |
| Bail deposit ² | 1,220 | 1,229 | 1,221 |
| Accrued interest income | 473 | 547 | 462 |
| Accrued income – other | 1,139 | 926 | 844 |
| Prepaid expenses | 1,041 | 1,067 | 1,032 |
| Net defined benefit pension and post-employment assets | 99 | 0 | 50 |
| Settlement and clearing accounts | 374 | 499 | 402 |
| VAT and other tax receivables | 292 | 355 | 397 |
| Properties and other non-current assets held for sale | 126 | 135 | 134 |
| Assets of disposal group held for sale ³ | 5,380 | 264 | 279 |
| Other | 2,878 | 2,590 | 2,485 |
| Total other assets | 28,368 | 23,016 | 22,249 |
| Other liabilities | | | |
| Prime brokerage payables ¹ | 38,888 | 44,011 | 45,306 |
| Amounts due under unit-linked investment contracts | 8,973 | 15,100 | 15,718 |
| Compensation-related liabilities | 3,964 | 3,231 | 5,122 |
| <i>of which: accrued expenses</i> | 1,460 | 959 | 2,827 |
| <i>of which: other deferred compensation plans</i> | 1,468 | 1,414 | 1,559 |
| <i>of which: net defined benefit pension and post-employment liabilities</i> | 1,036 | 859 | 736 |
| Third-party interest in consolidated investment funds | 524 | 550 | 594 |
| Settlement and clearing accounts | 1,546 | 1,407 | 893 |
| Current and deferred tax liabilities | 1,011 | 933 | 810 |
| VAT and other tax payables | 441 | 462 | 446 |
| Deferred income | 243 | 217 | 210 |
| Accrued interest expenses | 1,032 | 1,279 | 1,438 |
| Other accrued expenses | 2,675 | 2,744 | 2,492 |
| Liabilities of disposal group held for sale ³ | 5,334 | 217 | 235 |
| Other | 1,088 | 838 | 1,343 |
| Total other liabilities | 65,719 | 70,988 | 74,606 |

¹ Prime brokerage services include clearance, settlement, custody, financing and portfolio reporting services for corporate clients trading across multiple asset classes. Prime brokerage receivables are mainly comprised of margin lending receivables. Prime brokerage payables are mainly comprised of client securities financing and deposits. ² Refer to item 1 in Note 15b for more information. ³ Refer to Note 17 for more information.

Note 13 Financial liabilities designated at fair value

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 |
|--|---------------|---------------|---------------|
| Non-structured fixed-rate bonds | 4,196 | 4,008 | 4,098 |
| of which: issued by UBS AG with original maturity greater than one year ^{1,2} | 3,622 | 3,433 | 3,542 |
| Structured debt instruments issued ³ | 49,342 | 47,899 | 52,436 |
| of which: issued by UBS AG with original maturity greater than one year ^{1,4} | 35,007 | 33,478 | 36,539 |
| Structured over-the-counter debt instruments | 5,254 | 4,728 | 5,493 |
| of which: issued by UBS AG with original maturity greater than one year ^{1,5} | 4,676 | 3,760 | 4,497 |
| Repurchase agreements | 799 | 1,036 | 849 |
| Loan commitments and guarantees ⁶ | 73 | 90 | 119 |
| Total | 59,664 | 57,761 | 62,995 |
| of which: life-to-date own credit (gain)/loss | (165) | (332) | (287) |

¹ Issued by UBS AG (standalone). Based on original contractual maturity without considering any early redemption features. ² 100% of the balance as of 30 June 2016 was unsecured (31 March 2016: 100% of the balance was unsecured; 31 December 2015: 100% of the balance was unsecured). ³ Includes non-structured rates-linked debt instruments issued. ⁴ More than 98% of the balance as of 30 June 2016 was unsecured (31 March 2016: more than 98% of the balance was unsecured; 31 December 2015: more than 98% of the balance was unsecured). ⁵ More than 40% of the balance as of 30 June 2016 was unsecured (31 March 2016: more than 45% of the balance was unsecured; 31 December 2015: more than 35% of the balance was unsecured). ⁶ Loan commitments recognized as "Financial liabilities designated at fair value" until drawn and recognized as loans.

Note 14 Debt issued held at amortized cost

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 |
|---|---------------|---------------|---------------|
| Certificates of deposit | 21,731 | 17,689 | 11,967 |
| Commercial paper | 2,860 | 5,835 | 3,824 |
| Other short-term debt | 5,450 | 6,282 | 5,424 |
| Short-term debt¹ | 30,040 | 29,806 | 21,215 |
| Non-structured fixed-rate bonds | 29,293 | 29,566 | 31,240 |
| of which: issued by UBS AG with original maturity greater than one year ² | 29,136 | 29,403 | 31,078 |
| Covered bonds | 6,000 | 7,289 | 8,490 |
| Subordinated debt | 12,191 | 12,394 | 12,600 |
| of which: low-trigger loss-absorbing tier 2 capital | 10,462 | 10,239 | 10,346 |
| of which: phase-out tier 2 capital | 1,729 | 2,156 | 2,254 |
| Debt issued through the central bond institutions of the Swiss regional or cantonal banks | 8,116 | 8,196 | 8,237 |
| Other long-term debt | 290 | 545 | 577 |
| of which: issued by UBS AG with original maturity greater than one year ² | 259 | 257 | 278 |
| Long-term debt³ | 55,891 | 57,990 | 61,144 |
| Total debt issued held at amortized cost⁴ | 85,931 | 87,796 | 82,359 |

¹ Debt with an original maturity of less than one year. ² Issued by UBS AG (standalone). Based on original contractual maturity without considering any early redemption features. 100% of the balance as of 30 June 2016 was unsecured (31 March 2016: 100% of the balance was unsecured; 31 December 2015: 100% of the balance was unsecured). ³ Debt with original maturity greater than or equal to one year. ⁴ Net of bifurcated embedded derivatives with a net positive fair value of CHF 82 million as of 30 June 2016 (31 March 2016: net positive fair value of CHF 55 million; 31 December 2015: net negative fair value of CHF 130 million).

Note 15 Provisions and contingent liabilities

a) Provisions

| CHF million | Operational risks ¹ | Litigation, regulatory and similar matters ² | Restructuring | Loan commitments and guarantees | Real estate | Employee benefits ⁵ | Other | Total provisions |
|---|--------------------------------|---|------------------|---------------------------------|------------------|--------------------------------|-------|------------------|
| Balance as of 31 December 2015 | 47 | 2,983 | 624 | 35 | 157 | 198 | 120 | 4,163 |
| Balance as of 31 March 2016 | 41 | 2,876 | 536 | 36 | 148 | 192 | 131 | 3,961 |
| Increase in provisions recognized in the income statement | 7 | 135 | 101 | 5 | 0 | 1 | 23 | 273 |
| Release of provisions recognized in the income statement | 0 | (63) | (27) | 0 | 0 | (10) | (1) | (101) |
| Provisions used in conformity with designated purpose | (4) | (299) | (81) | 0 | (9) | (83) | (26) | (501) |
| Capitalized reinstatement costs | 0 | 0 | 0 | 0 | (7) | 0 | 0 | (7) |
| Reclassifications | 0 | 0 | 0 | 1 | (2) | 0 | 0 | (2) |
| Foreign currency translation / unwind of discount | (1) | 32 | 2 | 0 | 1 | (5) | 1 | 30 |
| Balance as of 30 June 2016 | 43 | 2,682 | 532 ³ | 42 | 132 ⁴ | 95 | 127 | 3,653 |

¹ Comprises provisions for losses resulting from security risks and transaction processing risks. ² Comprises provisions for losses resulting from legal, liability and compliance risks. ³ Includes personnel related restructuring provisions of CHF 117 million as of 30 June 2016 (31 March 2016: CHF 92 million; 31 December 2015: CHF 110 million) and provisions for onerous lease contracts of CHF 415 million as of 30 June 2016 (31 March 2016: CHF 444 million; 31 December 2015: CHF 514 million). ⁴ Includes reinstatement costs for leasehold improvements of CHF 84 million as of 30 June 2016 (31 March 2016: CHF 94 million; 31 December 2015: CHF 94 million) and provisions for onerous lease contracts of CHF 47 million as of 30 June 2016 (31 March 2016: CHF 55 million; 31 December 2015: CHF 62 million). ⁵ Includes provisions for sabbatical and anniversary awards as well as provisions for severance which are not part of restructuring provisions.

Restructuring provisions primarily relate to onerous lease contracts and severance payments. The utilization of onerous lease provisions is driven by the maturities of the underlying lease contracts. Severance-related provisions are utilized within a short time period, usually within six months, but potential changes in amount may be triggered when natural staff attrition reduces the

number of people affected by a restructuring and therefore the estimated costs.

Information on provisions and contingent liabilities in respect of Litigation, regulatory and similar matters, as a class, is included in Note 15b. There are no material contingent liabilities associated with the other classes of provisions.

b) Litigation, regulatory and similar matters

UBS operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. 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 matters are subject to many uncertainties and the outcome and the timing of resolution are often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. UBS makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that UBS has a present legal or construc-

tive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against UBS, but are nevertheless expected to be, based on UBS's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to select matters could be significant.

Specific litigation, regulatory and other matters are described below, including all such matters that management considers to be material and others that management believes to be of significance due to potential financial, reputational and other effects. The amount of damages claimed, the size of a transaction or other information is provided where available and appropriate in order to assist users in considering the magnitude of potential exposures.

Note 15 Provisions and contingent liabilities (continued)

In the case of certain matters below, we state that we have established a provision, and for the other matters we make no such statement. When we make this statement and we expect disclosure of the amount of a provision to prejudice seriously our position with other parties in the matter, because it would reveal what UBS believes to be the probable and reliably estimable outflow, we do not disclose that amount. In some cases we are subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which we do not state whether we have established a provision, either (a) we have not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard, or (b) we have established a provision but expect disclosure of that fact to prejudice seriously our position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

With respect to certain litigation, regulatory and similar matters for which we have established provisions, we are able to estimate the expected timing of outflows. However, the aggregate amount of the expected outflows for those matters for which we are able to estimate expected timing is immaterial relative to our current and expected levels of liquidity over the relevant time periods.

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in Note 15a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, which have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been quantified by the claimants. Although we therefore cannot provide a numerical estimate of

the future losses that could arise from litigation, regulatory and similar matters, we believe that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the Non-Prosecution Agreement (NPA) described in paragraph 5 of this Note, which we entered into with the US Department of Justice (DOJ), Criminal Division, Fraud Section in connection with our submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate (LIBOR), was terminated by the DOJ based on its determination that we had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG has pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, and has agreed to pay a USD 203 million fine and accept a three-year term of probation. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) could have material consequences for UBS. Resolution of regulatory proceedings may require us to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations and may permit financial market utilities to limit, suspend or terminate our participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining our capital requirements. Information concerning our capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of the UBS Group second quarter 2016 report.

Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit^{1,2}

| <i>CHF million</i> | Wealth Management | Wealth Management Americas | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
|---|-------------------|----------------------------|------------------------------|------------------|-----------------|---------------|----------------|------------------------------------|--------------|
| Balance as of 31 December 2015 | 245 | 459 | 83 | 16 | 585 | 310 | 0 | 1,284 | 2,983 |
| Balance as of 31 March 2016 | 242 | 427 | 81 | 13 | 557 | 307 | 0 | 1,248 | 2,876 |
| Increase in provisions recognized in the income statement | 10 | 23 | 0 | 0 | 27 | 2 | 0 | 23 | 85 |
| Release of provisions recognized in the income statement | (1) | (7) | 0 | (5) | 0 | 0 | 0 | 0 | (13) |
| Provisions used in conformity with designated purpose | (3) | (35) | (2) | (1) | (1) | (7) | 0 | (249) | (299) |
| Foreign currency translation / unwind of discount | (1) | 8 | 0 | 0 | 6 | (1) | 0 | 20 | 32 |
| Balance as of 30 June 2016 | 247 | 416 | 79 | 7 | 589 | 301 | 0 | 1,042 | 2,682 |

¹ Provisions, if any, for the matters described in this Note are recorded in Wealth Management (item 3), Wealth Management Americas (item 4), CC – Services (item 7) and CC – Non-core and Legacy Portfolio (item 2). Provisions, if any, for the matters described in this Note in items 1 and 6 are allocated between Wealth Management and Personal & Corporate Banking, and provisions, if any, for the matters described in this Note in item 5 are allocated between the Investment Bank, CC – Services and CC – Non-core and Legacy Portfolio. ² Provision movements are grouped by item for purposes of this table and may therefore differ from those shown in the table in Note 15a.

Note 15 Provisions and contingent liabilities (continued)

1. Inquiries regarding cross-border wealth management businesses

Tax and regulatory authorities in a number of countries have made inquiries, served requests for information or examined employees located in their respective jurisdictions relating to the cross-border wealth management services provided by UBS and other financial institutions. It is possible that implementation of automatic tax information exchange and other measures relating to cross-border provision of financial services could give rise to further inquiries in the future. UBS has received a disclosure order from the Swiss Federal Tax Administration (FTA) to transfer information based on a request for international administrative assistance in tax matters. The request concerns a number of UBS account numbers pertaining to current and former clients and is based on data from 2006 and 2008. UBS has taken steps to inform affected clients about the administrative assistance proceeding and their procedural rights, including the right to appeal. The request is based on data received from the German authorities, who seized certain data related to UBS clients booked in Switzerland during their investigations and have apparently shared this data with other European countries. UBS expects other countries to file similar requests.

As a result of investigations in France, in 2013, UBS (France) S.A. and UBS AG were put under formal examination (“mise en examen”) for complicity in having illicitly solicited clients on French territory, and were declared witness with legal assistance (“témoin assisté”) regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons. In 2014, UBS AG was placed under formal examination with respect to the potential charges of laundering of proceeds of tax fraud, and the investigating judges ordered UBS AG to provide bail (“caution”) of EUR 1.1 billion. UBS AG appealed the determination of the bail amount, but both the appeal court (“Cour d’Appel”) and the French Supreme Court (“Cour de Cassation”) upheld the bail amount and rejected the appeal in full in late 2014. UBS AG has filed and has had formally registered an application to the European Court of Human Rights to challenge various aspects of the French court’s decision. In September 2015, the former CEO of UBS Wealth Management was placed under formal examination in connection with these proceedings. In addition, the investigating judges have sought to issue arrest warrants against three Swiss-based former employees of UBS AG who did not appear when summoned by the investigating judge.

In 2015, UBS (France) S.A. was placed under formal examination for complicity regarding the laundering of proceeds of tax fraud and of banking and financial solicitation by unauthorized persons for the years 2004 until 2008 and declared witness with legal assistance for the years 2009 to 2012. A bail of EUR 40 million was imposed, and was subsequently reduced by the Court of Appeals to EUR 10 million.

In February 2016, the investigating judge notified UBS AG and UBS (France) S.A. that he has closed his investigation. In July

2016, UBS AG and UBS (France) S.A. received the National Financial Prosecutor’s recommendation (“réquisitoire”). The parties have 30 days to comment on the recommendation or to file additional submissions. The judge may then issue his final decree (“ordonnance de renvoi en correctionnelle”) which would set out any charges for which UBS AG and UBS (France) S.A. will be tried, both legally and factually.

UBS has been notified by the Belgian investigating judge that it is under formal investigation (“inculpé”) regarding the laundering of proceeds of tax fraud and of banking, financial solicitation by unauthorized persons and serious tax fraud.

In 2015, UBS received inquiries from the US Attorney’s Office for the Eastern District of New York and from the US Securities and Exchange Commission (SEC), which are investigating potential sales to US persons of bearer bonds and other unregistered securities in possible violation of the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) and the registration requirements of the US securities laws. UBS is cooperating with the authorities in these investigations.

UBS has, and reportedly numerous other financial institutions have, received inquiries from authorities concerning accounts relating to the Fédération Internationale de Football Association (FIFA) and other constituent soccer associations and related persons and entities. UBS is cooperating with authorities in these inquiries.

Our balance sheet at 30 June 2016 reflected provisions with respect to matters described in this item 1 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

2. Claims related to sales of residential mortgage-backed securities and mortgages

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter 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.

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.

Note 15 Provisions and contingent liabilities (continued)

We were 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.

RMBS-related lawsuits concerning disclosures: UBS is named as a defendant relating to its role as underwriter and issuer of RMBS in lawsuits related to approximately USD 2.6 billion in original face amount of RMBS underwritten or issued by UBS. Of the USD 2.6 billion in original face amount of RMBS that remains at issue in these cases, approximately USD 1.2 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 (UBS-sponsored RMBS). The remaining USD 1.4 billion of RMBS to which these cases relate was issued by third parties in securitizations in which UBS acted as underwriter (third-party RMBS).

In connection with certain of these lawsuits, UBS has indemnification rights against surviving third-party issuers or originators for losses or liabilities incurred by UBS, but UBS cannot predict the extent to which it will succeed in enforcing those rights.

UBS is a defendant in two lawsuits brought by the National Credit Union Administration (NCUA), as conservator for certain failed credit unions, asserting misstatements and omissions in the offering documents for RMBS purchased by the credit unions. Both lawsuits were filed in US District Courts, one in the District of Kansas and the other in the Southern District of New York (SDNY). The original principal balance at issue in the Kansas case is approximately USD 1.15 billion and the original principal balance at issue in the SDNY case is approximately USD 400 million. In February 2016, UBS made an offer of judgment to NCUA in the SDNY case, which NCUA accepted, pursuant to which UBS agreed to pay to NCUA approximately USD 33 million plus approximately USD 36.8 million in prejudgment interest, for a total of approximately USD 69.8 million, in addition to reasonable attorneys' fees incurred by NCUA. Judgment was entered by the Court on April 25, 2016.

Lawsuits related to contractual representations and warranties concerning mortgages and RMBS: When UBS acted as an RMBS sponsor or mortgage seller, we generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, we were in certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. UBS has received demands to repurchase US residential mortgage loans as to which UBS made certain representations at the time the loans were transferred to the securitization trust aggregating approximately USD 4.1 billion in original principal balance. Of this amount, UBS considers claims relating to approximately USD 2 billion in original principal bal-

ance to be resolved, including claims barred by the statute of limitations. Substantially all of the remaining claims are in litigation, including the matters described in the next paragraph. UBS believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

In 2012, certain RMBS trusts filed an action (Trustee Suit) in the SDNY seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations (Transactions) with an original principal balance of approximately USD 2 billion, for which Assured Guaranty Municipal Corp. (Assured Guaranty), a financial guaranty insurance company, had previously demanded repurchase. In January 2015, the court rejected plaintiffs' efforts to seek damages for all loans purportedly in breach of representations and warranties in any of the three Transactions and limited plaintiffs to pursuing claims based solely on alleged breaches for loans identified in the complaint or other breaches that plaintiffs can establish were independently discovered by UBS. In February 2015, the court denied plaintiffs' motion seeking reconsideration of its ruling. However, in April 2016, the Court ruled that, based on an intervening decision of an intermediate New York appellate court, it would allow plaintiffs to proceed with their claims at trial as to all loans purportedly in breach. With respect to the loans subject to the Trustee Suit that were originated by institutions still in existence, UBS intends to enforce its indemnity rights against those institutions. A bench trial in the SDNY adjourned in May 2016 and post-trial briefs are being submitted.

We also have tolling agreements with certain institutional purchasers of RMBS concerning their potential claims related to substantial purchases of UBS-sponsored or third-party RMBS.

Mortgage-related regulatory matters: In 2014, UBS received a subpoena from the US Attorney's Office for the Eastern District of New York issued pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), which seeks documents and information related to UBS's RMBS business from 2005 through 2007. In 2015, the Eastern District of New York identified a number of transactions that are currently the focus of their inquiry, as to which we are providing additional information. UBS continues to respond to the FIRREA subpoena and to subpoenas from the New York State Attorney General (NYAG) relating to its RMBS business. In addition, UBS has also been responding to inquiries from both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through the present. We are cooperating with the authorities in these matters. Numerous other banks reportedly are responding to similar inquiries from these authorities.

Note 15 Provisions and contingent liabilities (continued)

Provision for claims related to sales of residential mortgage-backed securities and mortgages

USD million

| | |
|--|--------------|
| Balance as of 31 December 2015 | 1,218 |
| Balance as of 31 March 2016 | 1,242 |
| Increase in provision recognized in the income statement | 0 |
| Release of provision recognized in the income statement | 0 |
| Provision used in conformity with designated purpose | (255) |
| Balance as of 30 June 2016 | 988 |

As reflected in the table “Provision for claims related to sales of residential mortgage-backed securities and mortgages,” our balance sheet at 30 June 2016 reflected a provision of USD 988 million with respect to matters described in this item 2. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

3. 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 the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in 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. UBS (Luxembourg) SA and certain other UBS subsidiaries are responding to inquiries by Luxembourg investigating authorities, without, however, being named as parties in those investigations. In 2009 and 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. The liquidators have filed supplementary claims for amounts that the funds may possibly be held liable to

pay the BMIS Trustee. These amounts claimed by the liquidator are approximately EUR 564 million and EUR 370 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 were filed by the claimants against the 2010 decisions of the court in which the claims in a number of test cases were held to be inadmissible. In 2014, the Luxembourg Court of Appeal dismissed one test case appeal in its entirety, which decision was appealed by the investor. In 2015, the Luxembourg Supreme Court found in favor of UBS and dismissed the investor’s appeal. In June 2016, the Luxembourg Court of Appeal dismissed the remaining test cases in their entirety. In the US, the BMIS Trustee filed claims in 2010 against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. Following a motion by UBS, in 2011, the SDNY dismissed all of the BMIS Trustee’s claims other than claims for recovery of fraudulent conveyances and preference payments that were allegedly transferred to UBS on the ground that the BMIS Trustee lacks standing to bring such claims. In 2013, the Second Circuit affirmed the District Court’s decision and, in 2014, the US Supreme Court denied the BMIS Trustee’s petition seeking review of the Second Circuit ruling. In 2014, several claims, including a purported class action, were filed in the US by BMIS customers against UBS entities, asserting claims similar to the ones made by the BMIS Trustee, seeking unspecified damages. One claim was voluntarily withdrawn by the plaintiff. In 2015, following a motion by UBS, the SDNY dismissed the two remaining claims on the basis that the New York courts did not have jurisdiction to hear the claims against the UBS entities. The plaintiff in one of those claims has appealed the dismissal. 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. In 2015, a court of appeal ordered UBS to pay EUR 49 million, plus interest (approximately EUR 15.3 million).

Note 15 Provisions and contingent liabilities (continued)**4. Puerto Rico**

Declines since August 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds (the funds) that are sole-managed and co-managed by UBS Trust Company of Puerto Rico and distributed by UBS Financial Services Incorporated of Puerto Rico (UBS PR) have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of approximately USD 1.8 billion, of which claims with aggregate claimed damages of approximately USD 642 million have been resolved through settlements, arbitration or withdrawal of the claim. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and/or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions of US dollars in losses in the funds. In 2015, defendants' motion to dismiss was denied. Defendants' requests for permission to appeal that ruling were denied by the Puerto Rico Court of Appeals and the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management, and the co-manager of certain of the funds seeking damages for investor losses in the funds during the period from May 2008 through May 2014. Defendants have moved to dismiss that complaint. In 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA in December 2013 based on plaintiffs' allegation that the loans are not valid. The trial court denied defendants' motion to dismiss the action based on a forum selection clause in the loan agreements; the Puerto Rico Supreme Court has stayed the action pending its review of defendants' appeal from that ruling.

In 2014, UBS reached a settlement with the Office of the Commissioner of Financial Institutions for the Commonwealth of Puerto Rico (OCFI) in connection with OCFI's examination of UBS's operations from January 2006 through September 2013, pursuant to which UBS is paying up to an aggregate of USD 7.7 million in investor education contributions and restitution.

In 2015, the SEC and the Financial Industry Regulatory Authority (FINRA) announced settlements with UBS PR of their separate investigations stemming from the 2013 market events. Without admitting or denying the findings in either matter, UBS PR agreed in the SEC settlement to pay USD 15 million and USD 18.5 million in the FINRA matter (which includes up to USD 11 million in resti-

tution to 165 UBS PR customers and a civil penalty of USD 7.5 million). We also understand that the DOJ is conducting a criminal inquiry into the impermissible reinvestment of non-purpose loan proceeds. We are cooperating with the authorities in this inquiry.

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS PR, which was named in connection with its underwriting and consulting services. Plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of approximately USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. Defendants' motion to dismiss is pending.

Also, in 2013, an SEC Administrative Law Judge dismissed a case brought by the SEC against two UBS executives, finding no violations. The charges had stemmed from the SEC's investigation of UBS's sale of closed-end funds in 2008 and 2009, which UBS settled in 2012. Beginning in 2012, two federal class action complaints, which were subsequently consolidated, were filed against various UBS entities, certain of the funds, and certain members of UBS PR senior management, seeking damages for investor losses in the funds during the period from January 2008 through May 2012 based on allegations similar to those in the SEC action. The Magistrate Judge for the consolidated case has recommended that plaintiffs' motion to certify the proposed class be denied.

In 2015, Puerto Rico's Governor stated that the Commonwealth was unable to meet its obligations. Certain agencies and public corporations of the Commonwealth have defaulted on certain interest payments beginning in August 2015 and additional payment defaults are expected to occur. In June 2016, federal legislation created an oversight board with power to oversee Puerto Rico's finances and to restructure its debt. These events, further defaults, any further legislative action to create a legal means of restructuring Commonwealth obligations or to impose additional oversight on the Commonwealth's finances, or any restructuring of the Commonwealth's obligations, may increase the number of claims against UBS concerning Puerto Rico securities, as well as potential damages sought.

Our balance sheet at 30 June 2016 reflected provisions with respect to matters described in this item 4 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that we have recognized.

Note 15 Provisions and contingent liabilities (continued)

5. Foreign exchange, LIBOR, and benchmark rates, and other trading practices

Foreign exchange-related regulatory matters: Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes our precious metals and related structured products businesses. Since then, various authorities have commenced investigations concerning possible manipulation of foreign exchange markets, including FINMA, the Swiss Competition Commission (WEKO), the DOJ, the SEC, the US Commodity Futures Trading Commission (CFTC), the Board of Governors of the Federal Reserve System (Federal Reserve Board), the UK Financial Conduct Authority (FCA) (to which certain responsibilities of the UK Financial Services Authority (FSA) have passed), the UK Serious Fraud Office (SFO), the Australian Securities and Investments Commission (ASIC), the Hong Kong Monetary Authority (HKMA), the Korea Fair Trade Commission (KFTC) and the Brazil Competition Authority (CADE). In addition, WEKO is, and a number of other authorities reportedly are, investigating potential manipulation of precious metals prices. UBS has taken and will continue to take appropriate action with respect to certain personnel as a result of its ongoing review.

In 2014, UBS reached settlements with the FCA and the CFTC in connection with their foreign exchange investigations, and FINMA issued an order concluding its formal proceedings with respect to UBS relating to its foreign exchange and precious metals businesses. UBS has paid a total of approximately CHF 774 million to these authorities, including GBP 234 million in fines to the FCA, USD 290 million in fines to the CFTC, and CHF 134 million to FINMA representing confiscation of costs avoided and profits. In 2015, the Federal Reserve Board and the Connecticut Department of Banking issued an Order to Cease and Desist and Order of Assessment of a Civil Monetary Penalty Issued upon Consent (Federal Reserve Order) to UBS AG. As part of the Federal Reserve Order, UBS AG paid a USD 342 million civil monetary penalty.

In 2015, the DOJ's Criminal Division (Criminal Division) terminated the December 2012 Non-Prosecution Agreement (NPA) with UBS AG related to UBS's submissions of benchmark interest rates. As a result, UBS AG entered into a plea agreement with the Criminal Division pursuant to which UBS AG agreed to and did plead guilty to a one-count criminal information filed in the US District Court for the District of Connecticut charging UBS AG with one count of wire fraud in violation of 18 USC Sections 1343 and 2. Under the plea agreement, UBS AG agreed to a sentence that includes a USD 203 million fine and a three-year term of probation. The criminal information charges that, between approximately 2001 and 2010, UBS AG engaged in a scheme to defraud counterparties to interest rate derivatives transactions by manipulating benchmark interest rates, including Yen LIBOR. Sentencing is currently scheduled for 29 November 2016. The Crimi-

nal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA, including fraudulent and deceptive currency trading and sales practices in conducting certain foreign exchange market transactions with clients and collusion with other participants in certain foreign exchange markets.

We have ongoing obligations to cooperate with these authorities and to undertake certain remediation, including actions to improve UBS's processes and controls.

UBS has been granted conditional immunity by the Antitrust Division of the DOJ (Antitrust Division) from prosecution for EUR/USD collusion and entered into a non-prosecution agreement covering other currency pairs. As a result, UBS AG will not be subject to prosecutions, fines or other sanctions for antitrust law violations by the Antitrust Division, subject to UBS AG's continuing cooperation. However, the conditional immunity grant does not bar government agencies from asserting other claims and imposing sanctions against UBS AG, as evidenced by the settlements and ongoing investigations referred to above. UBS has also been granted conditional leniency by authorities in certain jurisdictions, including WEKO, in connection with potential competition law violations relating to precious metals, and as a result, will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in those jurisdictions, subject to UBS AG's continuing cooperation.

In 2015, UBS AG settled charges with the SEC relating to structured notes issued by UBS AG that were linked to the UBS V10 Currency Index with Volatility Cap.

Investigations relating to foreign exchange and precious metals matters by numerous authorities, including the CFTC, remain ongoing notwithstanding these resolutions.

Foreign exchange-related civil litigation: Putative class actions have been filed since November 2013 in US federal courts and in other jurisdictions against UBS and other banks on behalf of putative classes of persons who engaged in foreign currency transactions with any of the defendant banks. They allege collusion by the defendants and assert claims under the antitrust laws and for unjust enrichment. In 2015, additional putative class actions were filed in federal court in New York against UBS and other banks on behalf of a putative class of persons who entered into or held any foreign exchange futures contracts and options on foreign exchange futures contracts since 1 January 2003. The complaints assert claims under the Commodity Exchange Act (CEA) and the US antitrust laws. In 2015, a consolidated complaint was filed on behalf of both putative classes of persons covered by the US federal court class actions described above. UBS has entered into a settlement agreement that would resolve all of these US federal court class actions. The agreement, which has been preliminarily approved by the court and is subject to final court approval, requires, among other things, that UBS pay an aggregate of USD 141 million and provide cooperation to the settlement classes.

Note 15 Provisions and contingent liabilities (continued)

A putative class action has been filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries, and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 (ERISA) for whom a defendant bank provided foreign currency exchange transactional services, exercised discretionary authority or discretionary control over management of such ERISA plan, or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA.

In 2015, a putative class action was filed in federal court against UBS and numerous other banks on behalf of a putative class of persons and businesses in the US who directly purchased foreign currency from the defendants and their co-conspirators for their own end use. That action has been transferred to federal court in New York.

In 2015, UBS was added to putative class actions pending against other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the antitrust laws and the CEA, and other claims.

LIBOR and other benchmark-related regulatory matters: Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the SFO, the Monetary Authority of Singapore (MAS), the HKMA, FINMA, the various state attorneys general in the US, and competition authorities in various jurisdictions have conducted or are continuing to conduct investigations regarding submissions with respect to LIBOR and other benchmark rates. These investigations focus on whether there were improper attempts by UBS, among others, either acting on our own or together with others, to manipulate LIBOR and other benchmark rates at certain times.

In 2012, UBS reached settlements with the FSA, the CFTC and the Criminal Division of the DOJ in connection with their investigations of benchmark interest rates. At the same time, FINMA issued an order concluding its formal proceedings with respect to UBS relating to benchmark interest rates. UBS has paid a total of approximately CHF 1.4 billion in fines and disgorgement – including GBP 160 million in fines to the FSA, USD 700 million in fines to the CFTC, USD 500 million in fines to the DOJ, and CHF 59 million in disgorgement to FINMA. UBS Securities Japan Co. Ltd. (UBSSJ) entered into a plea agreement with the DOJ under which it entered a plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR. UBS entered into an NPA with the DOJ, which (along with the plea agreement) covered conduct beyond the scope of the conditional leniency/immunity grants described below, required UBS to pay the USD 500 million fine to the DOJ after the sentencing of UBSSJ, and provided that any criminal penalties imposed on UBSSJ at sentencing be deducted from the USD 500 million fine. Under the NPA, we agreed, among other things, that for two years from

18 December 2012 UBS would not commit any US crime, and we would advise DOJ of any potentially criminal conduct by UBS or any of its employees relating to violations of US laws concerning fraud or securities and commodities markets. The term of the NPA was extended by one year to 18 December 2015. In 2015, the Criminal Division terminated the NPA based on its determination, in its sole discretion, that certain UBS AG employees committed criminal conduct that violated the NPA. As a result, UBS entered into a plea agreement with the DOJ under which it entered a guilty plea to one count of wire fraud relating to the manipulation of certain benchmark interest rates, including Yen LIBOR, and agreed to pay a fine of USD 203 million and accept a three-year term of probation. Sentencing is currently scheduled for 29 November 2016.

In 2014, UBS reached a settlement with the European Commission (EC) regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives and paid a EUR 12.7 million fine, which was reduced to this level based in part on UBS's cooperation with the EC. The MAS, HKMA and the Japan Financial Services Agency have also resolved investigations of UBS (and in some cases, other banks). We have ongoing obligations to cooperate with the authorities with whom we have reached resolutions and to undertake certain remediation with respect to benchmark interest rate submissions.

Investigations by the CFTC, ASIC and other governmental authorities remain ongoing notwithstanding these resolutions.

UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ, WEKO and the EC, in connection with potential antitrust or competition law violations related to submissions for Yen LIBOR and Euroyen TIBOR. WEKO has also granted UBS conditional immunity in connection with potential competition law violations related to submissions for CHF LIBOR and certain transactions related to CHF LIBOR. As a result of these conditional grants, we will not be subject to prosecutions, fines or other sanctions for antitrust or competition law violations in the jurisdictions where we have conditional immunity or leniency in connection with the matters covered by the conditional grants, subject to our continuing cooperation. However, the conditional leniency and conditional immunity grants we have received do not bar government agencies from asserting other claims and imposing sanctions against us, as evidenced by the settlements and ongoing investigations referred to above. In addition, as a result of the conditional leniency agreement with the DOJ, we are eligible for a limit on liability to actual rather than treble damages were damages to be awarded in any civil antitrust action under US law based on conduct covered by the agreement and for relief from potential joint and several liability in connection with such civil antitrust action, subject to our satisfying the DOJ and the court presiding over the civil litigation of our cooperation. The conditional leniency and conditional immunity grants do not otherwise affect the ability of private parties to assert civil claims against us.

Note 15 Provisions and contingent liabilities (continued)

LIBOR and other benchmark-related civil litigation: A number of putative class actions and other actions are pending in, or expected to be transferred to, the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives. Also pending are actions asserting losses related to various products whose interest rates were linked to USD LIBOR, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest-bearing instruments. All of the complaints allege manipulation, through various means, of various benchmark interest rates, including USD LIBOR, Euroyen TIBOR, Yen LIBOR, EURIBOR, CHF LIBOR, GBP LIBOR or USD ISDAFIX rates, and seek unspecified compensatory and other damages under varying legal theories. In 2013, the district court in the USD action dismissed the federal antitrust and racketeering claims of certain USD LIBOR plaintiffs and a portion of their claims brought under the CEA and state common law. Certain plaintiffs appealed the decision to the Second Circuit, which, in May 2016, vacated the district court's ruling finding no antitrust injury and remanded the case back to the district court for a further determination on whether plaintiffs have antitrust standing. In 2014, the court in one of the Euroyen TIBOR lawsuits dismissed certain of the plaintiff's claims, including federal antitrust claims. In 2015, the same court dismissed plaintiff's federal racketeering claims and affirmed its previous dismissal of plaintiff's antitrust claims. UBS and other defendants in other lawsuits including those related to EURIBOR, CHF LIBOR and GBP LIBOR have filed motions to dismiss.

Since September 2014, putative class actions have been filed in federal court in New York and New Jersey against UBS and other financial institutions, among others, on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The complaints, which have since been consolidated into an amended complaint, allege that the defendants conspired to manipulate ISDAFIX rates from 1 January 2006 through January 2014, in violation of US antitrust laws and certain state laws, and seek unspecified compensatory damages, including treble damages. In March 2016, the court in the ISDAFIX action denied in substantial part defendants' motion to dismiss, holding that plaintiffs have stated Sherman Act, breach-of-contract, and unjust-enrichment claims against defendants, including UBS AG.

Government bonds: Putative class actions have been filed in US federal courts against UBS and other banks on behalf of persons

who participated in markets for US Treasury securities since 2007. The complaints generally allege that the banks colluded with respect to, and manipulated prices of, US Treasury securities sold at auction. They assert claims under the antitrust laws and the CEA and for unjust enrichment. The cases have been consolidated in the SDNY. Following filing of these complaints, UBS and reportedly other banks are responding to investigations and requests for information from various authorities regarding US Treasury securities and other government bond trading practices. As a result of its review to date, UBS has taken appropriate action.

With respect to additional matters and jurisdictions not encompassed by the settlements and order referred to above, our balance sheet at 30 June 2016 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

6. Swiss retrocessions

The Federal Supreme Court of Switzerland ruled in 2012, in a test case against UBS, that distribution fees paid to a firm for distributing third-party and intra-group investment funds and structured products must be disclosed and surrendered to clients who have entered into a discretionary mandate agreement with the firm, absent a valid waiver.

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. The note sets forth the measures Swiss banks are to adopt, which include informing all affected clients about the Supreme Court decision and directing them to an internal bank contact for further details. UBS has met the FINMA requirements and has notified all potentially affected clients.

The Supreme Court decision has resulted, and may continue to result, in a number of client requests for UBS to disclose and potentially surrender retrocessions. Client requests are assessed on a case-by-case basis. Considerations taken into account when assessing these cases include, among others, the existence of a discretionary mandate and whether or not the client documentation contained a valid waiver with respect to distribution fees.

Note 15 Provisions and contingent liabilities (continued)

Our balance sheet at 30 June 2016 reflected a provision with respect to matters described in this item 6 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence, as in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information, and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

7. Banco UBS Pactual tax indemnity

Pursuant to the 2009 sale of Banco UBS Pactual S.A. (Pactual) by UBS to BTG Investments, LP (BTG), BTG has submitted contractual

indemnification claims that UBS estimates amount to approximately BRL 2.5 billion, including interest and penalties, which is net of liabilities retained by BTG. The claims pertain principally to several tax assessments issued by the Brazilian tax authorities against Pactual relating to the period from December 2006 through March 2009, when UBS owned Pactual. These assessments are being challenged in administrative and judicial proceedings. The majority of these assessments relate to the deductibility of goodwill amortization in connection with UBS's 2006 acquisition of Pactual and payments made to Pactual employees through various profit-sharing plans. In 2015, an intermediate administrative court issued a decision that was largely in favor of the tax authority with respect to the goodwill amortization assessment. In May 2016, the highest level of the administrative court agreed to review this decision on a number of the significant issues.

Note 16 Guarantees, commitments and forward starting transactions

The table below shows the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

| CHF million | 30.6.16 | | | 31.3.16 | | | 31.12.15 | | |
|--|---------------|--------------------|---------------|---------|--------------------|--------|----------|--------------------|--------|
| | Gross | Sub-participations | Net | Gross | Sub-participations | Net | Gross | Sub-participations | Net |
| Guarantees | | | | | | | | | |
| Credit guarantees and similar instruments | 6,393 | (448) | 5,945 | 6,525 | (439) | 6,086 | 6,708 | (315) | 6,393 |
| Performance guarantees and similar instruments | 3,111 | (763) | 2,347 | 3,029 | (643) | 2,386 | 3,035 | (699) | 2,336 |
| Documentary credits | 6,376 | (1,626) | 4,750 | 6,073 | (1,602) | 4,471 | 6,276 | (1,707) | 4,569 |
| Total guarantees | 15,880 | (2,837) | 13,043 | 15,627 | (2,684) | 12,942 | 16,019 | (2,721) | 13,298 |
| Loan commitments | 49,582 | (1,454) | 48,128 | 51,918 | (1,480) | 50,438 | 56,072 | (1,559) | 54,513 |
| Forward starting transactions¹ | | | | | | | | | |
| Reverse repurchase agreements | 14,373 | | | 18,695 | | | 6,577 | | |
| Securities borrowing agreements | 88 | | | 43 | | | 6 | | |
| Repurchase agreements | 11,188 | | | 13,098 | | | 6,323 | | |

¹ Cash to be paid in the future by either UBS or the counterparty.

Note 17 Changes in organization and disposals

Restructuring expenses

Restructuring expenses arise from programs that materially change either the scope of business undertaken by UBS AG or the manner in which such business is conducted. Restructuring expenses are temporary costs that are necessary to effect such programs and include items such as severance and other personnel-related expenses, duplicate headcount costs, impairment and

accelerated depreciation of assets, contract termination costs, consulting fees, and related infrastructure and system costs. These costs are presented in the income statement according to the underlying nature of the expense. As the costs associated with restructuring programs are temporary in nature, and in order to provide a more thorough understanding of business performance, such costs are separately presented below.

Net restructuring expenses by business division and Corporate Center unit

| CHF million | For the quarter ended | | | Year-to-date | |
|---|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Wealth Management | 86 | 79 | 69 | 165 | 115 |
| Wealth Management Americas | 38 | 33 | 24 | 71 | 48 |
| Personal & Corporate Banking | 31 | 23 | 17 | 55 | 33 |
| Asset Management | 34 | 20 | 4 | 54 | 22 |
| Investment Bank | 163 | 117 | 66 | 280 | 136 |
| Corporate Center | 22 | (8) | 12 | 15 | 143 |
| of which: Services | 18 | (9) | 0 | 8 | 118 |
| of which: Non-core and Legacy Portfolio | 5 | 2 | 13 | 6 | 24 |
| Total net restructuring expenses | 373 | 263 | 191 | 636 | 496 |
| of which: personnel expenses | 187 | 126 | 110 | 313 | 178 |
| of which: general and administrative expenses | 187 | 136 | 80 | 323 | 306 |
| of which: depreciation and impairment of property, equipment and software | 0 | 1 | 1 | 0 | 11 |
| of which: amortization and impairment of intangible assets | 0 | 0 | 0 | 0 | 0 |

Net restructuring expenses by personnel expense category

| CHF million | For the quarter ended | | | Year-to-date | |
|---|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Salaries and variable compensation | 197 | 114 | 129 | 311 | 197 |
| Contractors | 16 | 11 | 9 | 28 | 14 |
| Social security | 1 | 2 | 1 | 3 | 2 |
| Pension and other post-employment benefit plans | (30) | (4) | (33) | (34) | (41) |
| Other personnel expenses | 2 | 4 | 4 | 6 | 5 |
| Total net restructuring expenses: personnel expenses | 187 | 126 | 110 | 313 | 178 |

Net restructuring expenses by general and administrative expense category

| CHF million | For the quarter ended | | | Year-to-date | |
|--|-----------------------|---------|---------|--------------|---------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 |
| Occupancy | 41 | 29 | 9 | 70 | 19 |
| Rent and maintenance of IT and other equipment | 34 | 10 | (6) | 44 | 24 |
| Administration | 6 | 3 | 1 | 10 | 4 |
| Travel and entertainment | 4 | 2 | 4 | 6 | 6 |
| Professional fees | 36 | 34 | 42 | 70 | 73 |
| Outsourcing of IT and other services | 74 | 74 | 47 | 148 | 70 |
| Other ¹ | (8) | (17) | (16) | (25) | 110 |
| Total net restructuring expenses: general and administrative expenses | 187 | 136 | 80 | 323 | 306 |

¹ Mainly comprised of onerous real estate lease contracts.

Note 17 Changes in organization and disposals (continued)**Disposal group held for sale**

In the second quarter of 2016, UBS AG agreed to sell a life insurance subsidiary within Wealth Management, which resulted in the recognition of a loss of CHF 23 million. This sale is expected to

close in the second half of 2016 subject to customary closing conditions. As of 30 June 2016, the assets and liabilities of this business are presented as a disposal group held for sale within *Other assets* and *Other liabilities* and amounted to CHF 5,380 million and CHF 5,334 million, respectively.

Note 18 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of UBS AG's foreign operations into Swiss francs.

| | Spot rate | | | | Average rate ¹ | | | | | |
|---------|-----------|---------|----------|---------|---------------------------|---------|---------|--------------|---------|--|
| | As of | | | | For the quarter ended | | | Year-to-date | | |
| | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.15 | 30.6.16 | 31.3.16 | 30.6.15 | 30.6.16 | 30.6.15 | |
| 1 USD | 0.98 | 0.96 | 1.00 | 0.94 | 0.98 | 0.99 | 0.94 | 0.99 | 0.94 | |
| 1 EUR | 1.08 | 1.09 | 1.09 | 1.04 | 1.10 | 1.10 | 1.04 | 1.10 | 1.04 | |
| 1 GBP | 1.30 | 1.38 | 1.48 | 1.47 | 1.37 | 1.42 | 1.45 | 1.39 | 1.44 | |
| 100 JPY | 0.95 | 0.85 | 0.83 | 0.76 | 0.92 | 0.86 | 0.77 | 0.89 | 0.78 | |

¹ Monthly income statement items of foreign operations with a functional currency other than Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a quarter represent an average of three month-end rates, weighted according to the income and expense volumes of all foreign operations with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for UBS AG.

Note 19 Supplemental guarantor information required under SEC regulations

Guarantee of PaineWebber securities

Prior to its acquisition by UBS in 2000, Paine Webber Group Inc. (PaineWebber) was an SEC registrant. Upon acquisition, PaineWebber was merged into UBS Americas Inc., a wholly owned indirect subsidiary of UBS AG. Following the acquisition, UBS AG entered into a full and unconditional guarantee of the senior notes (Debt Securities) issued by PaineWebber. 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 AG without first proceeding against UBS Americas Inc.

As of 30 June 2016, the amount of outstanding senior notes of UBS Americas Inc. was approximately CHF 136 million. These senior notes mature in 2017 and 2018.

Guarantee of other securities

Certain US-domiciled entities that are 100% legally owned by UBS AG had, through the second quarter of 2016, outstanding trust preferred securities, which were registered under the US Securities Act. These entities, UBS Preferred Funding Trust IV and UBS Preferred Funding Trust V, were not consolidated by UBS AG

as UBS AG did not absorb any variability from the performance of these entities. However, UBS AG had fully and unconditionally guaranteed these securities. The non-consolidated issuing US-domiciled entities are presented in a separate column in the supplemental guarantor information provided in the following tables. Amounts presented in this column are eliminated in the Elimination entries column, as these entities are not consolidated.

In the second quarter of 2016, the securities issued by these entities were called, and as of 30 June 2016 these entities had no balances outstanding.

Joint liability of UBS Switzerland AG

In June 2015, the Personal & Corporate and Wealth Management businesses booked in Switzerland were transferred from UBS AG to UBS Switzerland AG through an asset transfer in accordance with the Swiss Merger Act. Under the terms of the asset transfer agreement, UBS Switzerland AG assumed joint liability for contractual obligations of UBS AG existing on the asset transfer date, including the existing guarantee of abovementioned PaineWebber and other securities. To reflect this joint liability, UBS Switzerland AG is presented in a separate column as a subsidiary co-guarantor since the asset transfer.

Note 19 Supplemental guarantor information required under SEC regulations (continued)**Supplemental guarantor consolidated income statement**

CHF million

For the six months ended 30 June 2016

| | UBS AG (standalone) ¹ | UBS Switzerland AG (standalone) ¹ | UBS Americas Inc. ² | UBS Preferred Funding Trust IV & V | Other subsidiaries ² | Elimination entries | UBS AG (consolidated) |
|---|-------------------------------------|--|--------------------------------------|--|------------------------------------|------------------------|--------------------------|
| Operating income | | | | | | | |
| Interest income | 4,175 | 2,069 | 1,102 | 25 | 528 | (946) | 6,953 |
| Interest expense | (3,705) | (328) | (515) | | (453) | 913 | (4,088) |
| Net interest income | 471 | 1,741 | 587 | 25 | 75 | (33) | 2,866 |
| Credit loss (expense)/recovery | (6) | 4 | (4) | | (3) | 0 | (9) |
| Net interest income after credit loss expense | 464 | 1,745 | 583 | 25 | 72 | (33) | 2,857 |
| Net fee and commission income | 768 | 1,659 | 3,758 | | 2,040 | (17) | 8,208 |
| Net trading income | 2,533 | 337 | 187 | | 126 | (281) | 2,902 |
| Other income | 814 | 471 | 304 | | (711) | (590) | 288 |
| Total operating income | 4,580 | 4,212 | 4,832 | 25 | 1,527 | (922) | 14,254 |
| Operating expenses | | | | | | | |
| Personnel expenses | 2,910 | 1,036 | 3,127 | | 778 | 0 | 7,852 |
| General and administrative expenses | (206) | 1,681 | 1,333 | | 631 | (1) | 3,438 |
| Depreciation and impairment of property, equipment and software | 348 | 6 | 86 | | 42 | 0 | 481 |
| Amortization and impairment of intangible assets | 11 | 0 | 32 | | 4 | 0 | 47 |
| Total operating expenses | 3,063 | 2,723 | 4,578 | | 1,455 | (1) | 11,818 |
| Operating profit/(loss) before tax | 1,517 | 1,489 | 254 | 25 | 72 | (921) | 2,436 |
| Tax expense/(benefit) | 116 | 315 | 20 | | 187 | (4) | 634 |
| Net profit/(loss) | 1,401 | 1,174 | 234 | 25 | (116) | (916) | 1,802 |
| Net profit/(loss) attributable to preferred noteholders | 78 | 0 | 0 | 31 | 0 | (31) | 78 |
| Net profit/(loss) attributable to non-controlling interests | 0 | 0 | 0 | | 1 | 0 | 1 |
| Net profit/(loss) attributable to shareholders | 1,323 | 1,174 | 234 | (6) | (117) | (886) | 1,723 |

¹ Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the "UBS AG (standalone) financial and regulatory information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to the "Legal entity financial and regulatory information" section of the UBS Group second quarter 2016 report for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. ² Amounts presented in these columns serve as a basis for preparing UBS AG consolidated financial statements in accordance with IFRS.

Note 19 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of comprehensive income

CHF million

For the six months ended 30 June 2016

| | UBS AG (standalone) ¹ | UBS Switzerland AG (standalone) ¹ | UBS Americas Inc. ² | UBS Preferred Funding Trust IV & V | Other subsidiaries ² | Elimination entries | UBS AG (consolidated) |
|---|-------------------------------------|--|--------------------------------------|--|------------------------------------|------------------------|--------------------------|
| Comprehensive income attributable to shareholders | | | | | | | |
| Net profit/ (loss) | 1,323 | 1,174 | 234 | (6) | (117) | (886) | 1,723 |
| Other comprehensive income | | | | | | | |
| Other comprehensive income that may be reclassified to the income statement | | | | | | | |
| Foreign currency translation, net of tax | 141 | 0 | (380) | | (597) | 345 | (491) |
| Financial assets available for sale, net of tax | (109) | (21) | 66 | | (21) | 178 | 93 |
| Cash flow hedges, net of tax | 342 | 333 | 0 | | 0 | 18 | 694 |
| Total other comprehensive income that may be reclassified to the income statement, net of tax | 374 | 312 | (314) | 0 | (618) | 542 | 296 |
| Other comprehensive income that will not be reclassified to the income statement | | | | | | | |
| Defined benefit plans, net of tax | (227) | 10 | (99) | | (55) | (10) | (381) |
| Own credit on financial liabilities designated at fair value, net of tax | (105) | | | | | | (105) |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | (332) | 10 | (99) | 0 | (55) | (10) | (486) |
| Total other comprehensive income | 42 | 322 | (413) | 0 | (673) | 531 | (190) |
| Total comprehensive income attributable to shareholders | 1,366 | 1,496 | (179) | (6) | (790) | (355) | 1,533 |
| Total comprehensive income attributable to preferred noteholders | 357 | 0 | 0 | 313 | 0 | (313) | 357 |
| Total comprehensive income attributable to non-controlling interests | 0 | 0 | 0 | | 1 | 0 | 1 |
| Total comprehensive income | 1,722 | 1,496 | (179) | 307 | (789) | (668) | 1,890 |

¹ Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the "UBS AG (standalone) financial and regulatory information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to the "Legal entity financial and regulatory information" section of the UBS Group second quarter 2016 report for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. ² Amounts presented in these columns serve as a basis for preparing UBS AG consolidated financial statements in accordance with IFRS.

Note 19 Supplemental guarantor information required under SEC regulations (continued)**Supplemental guarantor consolidated balance sheet**

CHF million

| As of 30 June 2016 | UBS AG (standalone) ¹ | UBS Switzerland AG (standalone) ¹ | UBS Americas Inc. ² | Other subsidiaries ² | Elimination entries | UBS AG (consolidated) |
|--|-------------------------------------|--|-----------------------------------|------------------------------------|------------------------|--------------------------|
| Assets | | | | | | |
| Cash and balances with central banks | 34,215 | 46,418 | 4,093 | 9,519 | 0 | 94,246 |
| Due from banks | 38,672 | 4,118 | 9,312 | 27,631 | (66,862) | 12,870 |
| Loans | 92,061 | 185,182 | 47,059 | 33,132 | (49,574) | 307,860 |
| Cash collateral on securities borrowed | 37,928 | 5,656 | 45,324 | 7,704 | (67,244) | 29,367 |
| Reverse repurchase agreements | 59,749 | 25,595 | 31,764 | 9,457 | (53,274) | 73,289 |
| Trading portfolio assets | 75,074 | 1,871 | 7,290 | 23,788 | (6,660) | 101,364 |
| <i>of which: assets pledged as collateral which may be sold or repledged by counterparties</i> | <i>41,298</i> | <i>0</i> | <i>3,455</i> | <i>2,604</i> | <i>(16,578)</i> | <i>30,778</i> |
| Positive replacement values | 196,228 | 7,858 | 11,649 | 34,792 | (52,087) | 198,441 |
| Cash collateral receivables on derivative instruments | 26,069 | 1,443 | 3,022 | 12,250 | (12,829) | 29,955 |
| Financial assets designated at fair value | 41,500 | 13,662 | 5,263 | 6,812 | (3,315) | 63,922 |
| Financial assets available for sale | 10,372 | 4,484 | 5,821 | 1,870 | (4,336) | 18,211 |
| Financial assets held to maturity | 0 | 4,798 | 0 | 0 | 0 | 4,798 |
| Investments in subsidiaries and associates | 48,108 | 14 | 1 | 1 | (47,174) | 950 |
| Property, equipment and software | 6,720 | 21 | 991 | 209 | 0 | 7,941 |
| Goodwill and intangible assets | 311 | 0 | 4,955 | 1,168 | (32) | 6,402 |
| Deferred tax assets | 2,184 | 642 | 7,535 | 1,826 | (38) | 12,150 |
| Other assets | 13,279 | 1,855 | 9,446 | 7,630 | (3,842) | 28,368 |
| Total assets | 682,469 | 303,618 | 193,524 | 177,789 | (367,266) | 990,135 |
| Liabilities | | | | | | |
| Due to banks | 31,279 | 17,418 | 20,947 | 21,818 | (76,203) | 15,259 |
| Due to customers | 114,700 | 242,362 | 72,679 | 45,256 | (45,442) | 429,555 |
| Cash collateral on securities lent | 33,811 | 2,900 | 34,061 | 2,772 | (67,244) | 6,301 |
| Repurchase agreements | 30,430 | 9,216 | 10,404 | 11,268 | (53,274) | 8,043 |
| Trading portfolio liabilities | 21,276 | 243 | 4,706 | 9,674 | (6,285) | 29,614 |
| Negative replacement values | 192,223 | 7,506 | 11,397 | 36,967 | (52,087) | 196,006 |
| Cash collateral payables on derivative instruments | 31,901 | 388 | 3,324 | 13,568 | (12,829) | 36,352 |
| Financial liabilities designated at fair value | 59,107 | 0 | 13 | 4,072 | (3,528) | 59,664 |
| Debt issued | 76,242 | 8,144 | 1,605 | (634) | 574 | 85,931 |
| Provisions | 1,507 | 178 | 1,643 | 303 | 21 | 3,653 |
| Other liabilities | 32,990 | 2,770 | 15,973 | 17,865 | (3,879) | 65,719 |
| Total liabilities | 625,465 | 291,126 | 176,751 | 162,930 | (320,176) | 936,096 |
| Equity attributable to shareholders | | | | | | |
| Equity attributable to preferred noteholders | 649 | 0 | 0 | 0 | 0 | 649 |
| Equity attributable to non-controlling interests | 0 | 0 | 0 | 37 | 0 | 37 |
| Total equity | 57,005 | 12,492 | 16,773 | 14,859 | (47,090) | 54,039 |
| Total liabilities and equity | 682,469 | 303,618 | 193,524 | 177,789 | (367,266) | 990,135 |

¹ Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the "UBS AG (standalone) financial and regulatory information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to the "Legal entity financial and regulatory information" section of the UBS Group second quarter 2016 report for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. ² Amounts presented in these columns serve as a basis for preparing UBS AG consolidated financial statements in accordance with IFRS.

Note 19 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million

For the six months ended 30 June 2016

| | UBS AG ¹ | UBS Switzerland AG ¹ | UBS Americas Inc. ¹ | Other subsidiaries ¹ | UBS AG (consolidated) |
|---|---------------------|------------------------------------|-----------------------------------|------------------------------------|----------------------------|
| Net cash flow from/(used in) operating activities | (38,125) | (5,369) | 2,215 | 1,743 | (39,536) |
| Cash flow from/(used in) investing activities | | | | | |
| Purchase of subsidiaries, associates and intangible assets | 0 | 0 | 0 | (23) | (23) |
| Disposal of subsidiaries, associates and intangible assets ² | 71 | 0 | 0 | 0 | 72 |
| Purchase of property, equipment and software | (742) | (11) | (145) | (35) | (934) |
| Disposal of property, equipment and software | 173 | 0 | 3 | 17 | 193 |
| Purchase of financial assets available for sale | (4,059) | (522) | (1,200) | (1,582) | (7,363) |
| Disposal and redemption of financial assets available for sale | 25,740 | 19,134 | 715 | 5,523 | 51,112 |
| Net (purchase)/redemption of financial assets held to maturity | 0 | (4,878) | 0 | 0 | (4,878) |
| Net cash flow from/(used in) investing activities | 21,183 | 13,722 | (627) | 3,899 | 38,177 |
| Cash flow from/(used in) financing activities | | | | | |
| Net short-term debt issued/(repaid) | 11,124 | (9) | (1,319) | 0 | 9,797 |
| Distributions paid on UBS shares | (3,434) | 0 | 0 | 0 | (3,434) |
| Issuance of long-term debt, including financial liabilities designated at fair value | 17,906 | 233 | 0 | 718 | 18,857 |
| Repayment of long-term debt, including financial liabilities designated at fair value | (15,796) | (354) | (7) | (1,208) | (17,365) |
| Dividends paid and repayments of preferred notes | (1,366) | 0 | 0 | 0 | (1,366) |
| Net changes of non-controlling interests | 0 | 0 | 0 | (5) | (5) |
| Net activity in investments in subsidiaries | (1,655) | 0 | 0 | 1,655 | 0 |
| Net cash flow from/(used in) financing activities | 6,779 | (129) | (1,326) | 1,160 | 6,484 |
| Effects of exchange rate differences on cash and cash equivalents | (726) | (53) | (351) | (163) | (1,293) |
| Net increase/(decrease) in cash and cash equivalents | (10,888) | 8,170 | (89) | 6,640 | 3,832 |
| Cash and cash equivalents at the beginning of the period | 47,902 | 40,246 | 7,084 | 7,731 | 102,962 |
| Cash and cash equivalents at the end of the period | 37,014 | 48,416 | 6,995 | 14,370 | 106,795 |
| Cash and cash equivalents comprise: | | | | | |
| Cash and balances with central banks | 34,150 | 46,418 | 4,093 | 9,519 | 94,181 |
| Due from banks | 2,291 | 1,795 | 2,793 | 4,734 | 11,613 |
| Money market paper ³ | 572 | 203 | 108 | 117 | 1,001 |
| Total | 37,014 | 48,416 | 6,995 | 14,370 | 106,795⁴ |

¹ Cash flows generally represent a third-party view from a UBS AG (consolidated) perspective. As a consequence, the non-consolidated UBS Preferred Funding Trusts IV and V are not presented in this table. During the six months ended 30 June 2016, these trusts redeemed all of the preferred notes issued by them entailing cash outflows of CHF 1,317 million for principal and dividend amounts paid to preferred note holders and equivalent cash inflows from onward lending activities to UBS AG. ² Includes dividends received from associates. ³ Money market paper is included in the balance sheet under Trading portfolio assets. Financial assets available for sale and Financial assets designated at fair value. ⁴ Comprises balances with an original maturity of three months or less. CHF 3,631 million of cash and cash equivalents were restricted.

Note 19 Supplemental guarantor information required under SEC regulations (continued)**Supplemental guarantor consolidated income statement**

| <i>CHF million</i> | UBS AG (standalone) ¹ | UBS Switzerland AG (standalone) ¹ | UBS Americas Inc. ² | UBS Preferred Funding Trust IV & V | Other subsidiaries ² | Elimination entries | UBS AG (consolidated) |
|---|-------------------------------------|--|--------------------------------------|--|------------------------------------|------------------------|--------------------------|
| For the six months ended 30 June 2015 | | | | | | | |
| Operating income | | | | | | | |
| Interest income | 5,056 | 1,121 | 824 | 31 | 745 | (1,193) | 6,583 |
| Interest expense | (3,311) | (286) | (320) | | (674) | 1,137 | (3,454) |
| Net interest income | 1,745 | 835 | 504 | 31 | 71 | (57) | 3,129 |
| Credit loss (expense)/recovery | (26) | (5) | 4 | | 3 | (6) | (29) |
| Net interest income after credit loss expense | 1,719 | 830 | 507 | 31 | 75 | (62) | 3,100 |
| Net fee and commission income | 2,094 | 873 | 3,721 | | 2,193 | (49) | 8,832 |
| Net trading income | 4,064 | 233 | 142 | | 152 | (851) | 3,741 |
| Other income | (624) | 208 | 378 | | (601) | 1,612 | 972 |
| Total operating income | 7,253 | 2,144 | 4,747 | 31 | 1,819 | 650 | 16,644 |
| Operating expenses | | | | | | | |
| Personnel expenses | 3,851 | 534 | 3,193 | | 719 | 0 | 8,297 |
| General and administrative expenses | 491 | 769 | 1,435 | | 774 | 0 | 3,470 |
| Depreciation and impairment of property, equipment and software | 313 | 4 | 75 | | 38 | 0 | 429 |
| Amortization and impairment of intangible assets | 11 | 0 | 41 | | 6 | 0 | 58 |
| Total operating expenses | 4,666 | 1,307 | 4,743 | | 1,537 | 0 | 12,254 |
| Operating profit/(loss) before tax | 2,587 | 837 | 4 | 31 | 282 | 650 | 4,391 |
| Tax expense/(benefit) | 690 | 207 | (1) | | 213 | 3 | 1,112 |
| Net profit/(loss) | 1,897 | 630 | 5 | 31 | 68 | 647 | 3,278 |
| Net profit/(loss) attributable to preferred noteholders | 76 | 0 | 0 | 31 | 0 | (31) | 76 |
| Net profit/(loss) attributable to non-controlling interests | 0 | 0 | 0 | | 1 | 0 | 1 |
| Net profit/(loss) attributable to shareholders | 1,821 | 630 | 5 | 0 | 67 | 678 | 3,201 |

¹ Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the "UBS AG (standalone) financial and regulatory information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to the "Legal entity financial and regulatory information" section of the UBS Group second quarter 2016 report for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. ² Amounts presented in these columns serve as a basis for preparing UBS AG (consolidated) financial statements in accordance with IFRS.

Note 19 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of comprehensive income

CHF million

| For the six months ended 30 June 2015 | UBS AG (standalone) ¹ | UBS Switzerland AG (standalone) ¹ | UBS Americas Inc. ² | UBS Preferred Funding Trust IV & V | Other subsidiaries ² | Elimination entries | UBS AG (consolidated) |
|---|-------------------------------------|--|--------------------------------------|--|------------------------------------|------------------------|--------------------------|
| Comprehensive income attributable to shareholders | | | | | | | |
| Net profit/(loss) | 1,821 | 630 | 5 | 0 | 67 | 678 | 3,201 |
| Other comprehensive income | | | | | | | |
| Other comprehensive income that may be reclassified to the income statement | | | | | | | |
| Foreign currency translation, net of tax | (225) | 0 | (90) | | (595) | (666) | (1,577) |
| Financial assets available for sale, net of tax | (60) | 3 | (8) | | (5) | 2 | (67) |
| Cash flow hedges, net of tax | (402) | (156) | 0 | | 0 | 29 | (530) |
| Total other comprehensive income that may be reclassified to the income statement, net of tax | (687) | (153) | (98) | 0 | (600) | (635) | (2,173) |
| Other comprehensive income that will not be reclassified to the income statement | | | | | | | |
| Defined benefit plans, net of tax | 476 | (348) | 8 | | 20 | (18) | 138 |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | 476 | (348) | 8 | 0 | 20 | (18) | 138 |
| Total other comprehensive income | (211) | (501) | (89) | 0 | (580) | (654) | (2,035) |
| Total comprehensive income attributable to shareholders | 1,610 | 129 | (84) | 0 | (513) | 24 | 1,166 |
| Total comprehensive income attributable to preferred noteholders | (98) | 0 | 0 | (47) | 0 | 47 | (98) |
| Total comprehensive income attributable to non-controlling interests | 0 | 0 | 0 | | (2) | 0 | (2) |
| Total comprehensive income | 1,513 | 129 | (84) | (47) | (515) | 71 | 1,066 |

¹ Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the "UBS AG (standalone) financial and regulatory information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to the "Legal entity financial and regulatory information" section of the UBS Group second quarter 2016 report for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. ² Amounts presented in these columns serve as a basis for preparing UBS AG (consolidated) financial statements in accordance with IFRS.

Note 19 Supplemental guarantor information required under SEC regulations (continued)**Supplemental guarantor consolidated balance sheet**

| CHF million | UBS AG (standalone) ¹ | UBS Switzerland AG (standalone) ¹ | UBS Americas Inc. ² | UBS Preferred Funding Trust IV & V | Other subsidiaries ² | Elimination entries | UBS AG (consolidated) |
|--|-------------------------------------|--|--------------------------------------|--|------------------------------------|------------------------|--------------------------|
| As of 31 December 2015 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with central banks | 45,125 | 38,701 | 4,971 | | 2,509 | 0 | 91,306 |
| Due from banks | 29,225 | 3,224 | 12,776 | | 27,510 | (60,868) | 11,866 |
| Loans | 89,052 | 186,872 | 47,054 | | 14,554 | (24,809) | 312,723 |
| Cash collateral on securities borrowed | 27,925 | 7,414 | 38,007 | | 6,506 | (54,268) | 25,584 |
| Reverse repurchase agreements | 61,253 | 16,258 | 21,039 | | 14,586 | (45,243) | 67,893 |
| Trading portfolio assets | 94,132 | 1,736 | 5,931 | 1,310 | 30,132 | (9,194) | 124,047 |
| <i>of which: assets pledged as collateral which may be sold or repledged by counterparties</i> | <i>53,708</i> | <i>0</i> | <i>3,038</i> | | <i>2,264</i> | <i>(7,066)</i> | <i>51,943</i> |
| Positive replacement values | 175,943 | 6,033 | 21,463 | | 28,921 | (64,925) | 167,435 |
| Cash collateral receivables on derivative instruments | 19,026 | 1,056 | 5,964 | | 12,678 | (14,962) | 23,763 |
| Financial assets designated at fair value | 6,303 | 0 | 199 | | 2,628 | (3,322) | 5,808 |
| Financial assets available for sale | 32,044 | 23,184 | 5,360 | | 5,996 | (4,042) | 62,543 |
| Investments in subsidiaries and associates | 45,689 | 14 | 1 | | 1 | (44,751) | 954 |
| Property, equipment and software | 6,499 | 15 | 972 | | 197 | 0 | 7,683 |
| Goodwill and intangible assets | 347 | 0 | 5,112 | | 1,139 | (30) | 6,568 |
| Deferred tax assets | 2,332 | 845 | 7,766 | | 1,890 | 0 | 12,833 |
| Other assets | 12,108 | 1,255 | 10,041 | | 3,111 | (4,266) | 22,249 |
| Total assets | 647,006 | 286,608 | 186,654 | 1,310 | 152,359 | (330,680) | 943,256 |
| Liabilities | | | | | | | |
| Due to banks | 31,725 | 18,948 | 26,320 | 4 | 5,782 | (70,944) | 11,836 |
| Due to customers | 102,483 | 231,252 | 53,633 | | 34,002 | (18,848) | 402,522 |
| Cash collateral on securities lent | 34,094 | 2,493 | 23,437 | | 2,274 | (54,268) | 8,029 |
| Repurchase agreements | 20,658 | 6,505 | 11,490 | | 16,244 | (45,243) | 9,653 |
| Trading portfolio liabilities | 21,193 | 128 | 3,919 | | 11,317 | (7,420) | 29,137 |
| Negative replacement values | 170,718 | 5,655 | 21,109 | | 29,877 | (64,928) | 162,430 |
| Cash collateral payables on derivative instruments | 31,399 | 374 | 6,438 | | 15,033 | (14,962) | 38,282 |
| Financial liabilities designated at fair value | 61,630 | 0 | 288 | | 4,675 | (3,598) | 62,995 |
| Debt issued | 70,792 | 8,274 | 3,126 | | 321 | (153) | 82,359 |
| Provisions | 1,680 | 179 | 1,969 | | 319 | 17 | 4,163 |
| Other liabilities | 40,255 | 1,806 | 16,683 | 1 | 20,179 | (4,318) | 74,606 |
| Total liabilities | 586,628 | 275,611 | 168,411 | 4 | 140,023 | (284,664) | 886,013 |
| Equity attributable to shareholders | 58,423 | 10,997 | 18,243 | 4 | 12,296 | (44,714) | 55,248 |
| Equity attributable to preferred noteholders | 1,954 | 0 | 0 | 1,302 | 0 | (1,302) | 1,954 |
| Equity attributable to non-controlling interests | 0 | 0 | 0 | 0 | 41 | 0 | 41 |
| Total equity | 60,378 | 10,997 | 18,243 | 1,306 | 12,336 | (46,016) | 57,243 |
| Total liabilities and equity | 647,006 | 286,608 | 186,654 | 1,310 | 152,359 | (330,680) | 943,256 |

¹ Amounts presented for UBS AG (standalone) and UBS Switzerland AG (standalone) represent IFRS-standalone information. Refer to the "UBS AG (standalone) financial and regulatory information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to the "Legal entity financial and regulatory information" section of the UBS Group second quarter 2016 report for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. ² Amounts presented in these columns serve as a basis for preparing UBS AG consolidated financial statements in accordance with IFRS.

Note 19 Supplemental guarantor information required under SEC regulations (continued)

Supplemental guarantor consolidated statement of cash flows

CHF million

For the six months ended 30 June 2015

| | UBS AG ¹ | UBS Switzerland AG ¹ | UBS Americas Inc. ¹ | Other subsidiaries ¹ | UBS AG (consolidated) |
|---|---------------------|------------------------------------|-----------------------------------|------------------------------------|--------------------------|
| Net cash flow from/(used in) operating activities | (6,610) | (1,556) | (4,625) | 2,383 | (10,408) |
| Cash flow from/(used in) investing activities | | | | | |
| Purchase of subsidiaries, associates and intangible assets | (37) | 0 | 1 | 0 | (38) |
| Disposal of subsidiaries, associates and intangible assets ² | 172 | 0 | 12 | 5 | 190 |
| Purchase of property, equipment and software | (606) | 0 | (134) | (55) | (795) |
| Disposal of property, equipment and software | 504 | 0 | 4 | 13 | 520 |
| Net (investment in)/divestment of financial investments available-for-sale | (17,562) | 1,794 | 72 | 147 | (15,549) |
| Net cash flow from/(used in) investing activities | (17,529) | 1,794 | (48) | 110 | (15,673) |
| Cash flow from/(used in) financing activities | | | | | |
| Net short-term debt issued/(repaid) | 4,438 | 0 | 881 | 33 | 5,353 |
| Distributions paid on UBS shares | (1,632) | 0 | 0 | 0 | (1,632) |
| Issuance of long-term debt, including financial liabilities designated at fair value | 32,649 | 328 | 0 | 228 | 33,204 |
| Repayment of long-term debt, including financial liabilities designated at fair value | (23,982) | (46) | (18) | (998) | (25,044) |
| Dividends paid and repayments of preferred notes | (77) | 0 | 0 | 0 | (77) |
| Net changes of non-controlling interests | 0 | 0 | 0 | (5) | (5) |
| Net activity in investments in subsidiaries ³ | (33,111) | 33,283 | 0 | (172) | 0 |
| Net cash flow from/(used in) financing activities | (21,715) | 33,564 | 863 | (914) | 11,799 |
| Effects of exchange rate differences on cash and cash equivalents | (4,320) | (4) | (583) | (689) | (5,595) |
| Net increase/(decrease) in cash and cash equivalents | (50,173) | 33,798 | (4,392) | 891 | (19,876) |
| Cash and cash equivalents at the beginning of the period | 100,662 | 0 | 8,960 | 7,093 | 116,715 |
| Cash and cash equivalents at the end of the period | 50,489 | 33,798 | 4,568 | 7,983 | 96,838 |
| Cash and cash equivalents comprise: | | | | | |
| Cash and balances with central banks | 47,542 | 31,195 | 1,947 | 3,961 | 84,646 |
| Due from banks | 2,577 | 2,601 | 2,526 | 4,016 | 11,720 |
| Money market paper ⁴ | 370 | 2 | 95 | 6 | 473 |
| Total | 50,489 | 33,798 | 4,568 | 7,983 | 96,838 ⁵ |

¹ Cash flows generally represent a third-party view from a UBS AG (consolidated) perspective. As a consequence, the non-consolidated UBS Preferred Funding Trusts IV and V are not presented in this table. For the six months ended 30 June 2015, these trusts had cash inflows of CHF 77 million from operating activities and an equivalent cash outflow for dividends paid to preferred note holders. ² Includes dividends received from associates. ³ Includes transfer of cash and cash equivalents from UBS AG to UBS Switzerland AG of CHF 33,283 million. Refer to "Changes in legal structure" in the "Financial information" section of the UBS Group second quarter 2015 report for more information on the business transfer from UBS AG to UBS Switzerland AG. ⁴ Money market paper is included in the balance sheet under Trading portfolio assets and Financial investments available for sale. ⁵ CHF 3,404 million of cash and cash equivalents were restricted.

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UBS AG (standalone) financial and regulatory information

Unaudited

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UBS AG (standalone)

Income statement

| CHF million | For the quarter ended | | | % change from | | Year-to-date | |
|--|-----------------------|-------------|--------------|---------------|------|--------------|----------------------|
| | 30.6.16 | 31.3.16 | 30.6.15 | 1Q16 | 2Q15 | 30.6.16 | 30.6.15 ¹ |
| Interest and discount income | 1,377 | 1,405 | 1,493 | (2) | (8) | 2,781 | 3,602 |
| Interest and dividend income from trading portfolio | 637 | 574 | 805 | 11 | (21) | 1,211 | 1,455 |
| Interest and dividend income from financial investments | 46 | 38 | 46 | 21 | 0 | 84 | 99 |
| Interest expense | (2,085) | (1,485) | (1,915) | 40 | 9 | (3,570) | (3,377) |
| Gross interest income | (26) | 532 | 430 | | | 506 | 1,778 |
| Credit loss (expense)/recovery | 8 | (23) | (5) | | | (14) | (35) |
| Net interest income | (18) | 509 | 425 | | | 492 | 1,743 |
| Fee and commission income from securities and investment business | 486 | 546 | 756 | (11) | (36) | 1,032 | 2,376 |
| Credit-related fees and commissions | 60 | 50 | 87 | 20 | (31) | 110 | 192 |
| Other fee and commission income | (6) | (5) | 23 | 20 | | (11) | 150 |
| Fee and commission expense | (212) | (198) | (307) | 7 | (31) | (410) | (596) |
| Net fee and commission income | 328 | 393 | 560 | (17) | (41) | 721 | 2,123 |
| Net trading income | 1,584 | 999 | 548 | 59 | 189 | 2,584 | 2,745 |
| Net income from disposal of financial investments | 44 | 52 | 34 | (15) | 29 | 96 | 128 |
| Dividend income from investments in subsidiaries and other participations | 408 | 36 | 134 | | 204 | 445 | 412 |
| Income from real estate holdings | 162 | 119 | 122 | 36 | 33 | 282 | 294 |
| Sundry ordinary income | 1,311 | 1,353 | 1,261 | (3) | 4 | 2,665 | 1,985 |
| Sundry ordinary expenses | (107) | (94) | (133) | 14 | (20) | (201) | (272) |
| Other income from ordinary activities | 1,820 | 1,466 | 1,418 | 24 | 28 | 3,286 | 2,547 |
| Total operating income | 3,714 | 3,368 | 2,950 | 10 | 26 | 7,082 | 9,157 |
| Personnel expenses | 1,629 | 1,553 | 1,367 | 5 | 19 | 3,182 | 3,716 |
| General and administrative expenses | 1,342 | 1,294 | 1,249 | 4 | 7 | 2,636 | 2,618 |
| Subtotal operating expenses | 2,971 | 2,847 | 2,616 | 4 | 14 | 5,818 | 6,334 |
| Impairment of investments in subsidiaries and other participations | 210 | 373 | 550 | (44) | (62) | 583 | 1,536 |
| Depreciation and impairment of property, equipment and software | 171 | 178 | 149 | (4) | 15 | 349 | 314 |
| Amortization and impairment of goodwill and other intangible assets | 6 | 6 | 6 | 0 | 0 | 11 | 11 |
| Changes in provisions and other allowances and losses | 26 | (3) | (25) | | | 23 | 25 |
| Total operating expenses | 3,383 | 3,401 | 3,295 | (1) | 3 | 6,784 | 8,220 |
| Operating profit | 331 | (33) | (345) | | | 298 | 937 |
| Extraordinary income | 1,197 | 65 | 77 | | | 1,262 | 613 |
| <i>of which: reversal of impairments of investments in subsidiaries and other participations</i> | 1,075 | 65 | 32 | | | 1,140 | 49 |
| Extraordinary expenses | 1 | 0 | 5 | | (80) | 2 | 6 |
| Tax expense / (benefit) | 37 | 49 | 89 | (24) | (58) | 85 | 211 |
| Net profit / (loss) for the period | 1,491 | (18) | (362) | | | 1,473 | 1,334 |

¹ Comparative amounts presented for year-to-date 30 June 2015 include the results of the Personal & Corporate Banking and Wealth Management businesses booked in Switzerland, which were transferred from UBS AG to UBS Switzerland AG in the second quarter of 2015. Refer to "Establishment of UBS Switzerland AG" in the "Legal entity financial and regulatory information" section of our Annual Report 2015 for more information.

Balance sheet

| CHF million | 30.6.16 | 31.3.16 | 31.12.15 | % change from | |
|--|----------------|----------------|----------------|---------------|------------|
| | | | | 31.3.16 | 31.12.15 |
| Assets | | | | | |
| Cash and balances with central banks | 34,260 | 48,770 | 45,125 | (30) | (24) |
| Due from banks | 50,572 | 49,059 | 40,611 | 3 | 25 |
| Receivables from securities financing transactions | 98,755 | 101,796 | 90,479 | (3) | 9 |
| of which: cash collateral on securities borrowed | 37,928 | 33,363 | 27,925 | 14 | 36 |
| of which: reverse repurchase agreements | 60,827 | 68,433 | 62,553 | (11) | (3) |
| Due from customers | 104,399 | 93,749 | 97,401 | 11 | 7 |
| Mortgage loans | 4,399 | 4,563 | 4,679 | (4) | (6) |
| Trading portfolio assets | 75,142 | 76,436 | 94,210 | (2) | (20) |
| Positive replacement values | 23,975 | 20,136 | 20,987 | 19 | 14 |
| Financial investments | 41,364 | 34,242 | 27,528 | 21 | 50 |
| Accrued income and prepaid expenses | 1,914 | 1,730 | 1,708 | 11 | 12 |
| Investments in subsidiaries and other participations | 46,187 | 43,399 | 43,791 | 6 | 5 |
| Property, equipment and software | 6,721 | 6,579 | 6,503 | 2 | 3 |
| Goodwill and other intangible assets | 24 | 30 | 36 | (20) | (33) |
| Other assets | 3,559 | 3,808 | 3,986 | (7) | (11) |
| Total assets | 491,269 | 484,296 | 477,045 | 1 | 3 |
| of which: subordinated assets | 7,160 | 6,555 | 5,752 | 9 | 24 |
| of which: subject to mandatory conversion and/or debt waiver | 4,521 | 4,500 | 4,020 | 0 | 12 |
| Liabilities | | | | | |
| Due to banks | 36,164 | 39,092 | 36,669 | (7) | (1) |
| Payables from securities financing transactions | 64,883 | 59,322 | 55,457 | 9 | 17 |
| of which: cash collateral on securities lent | 33,811 | 28,961 | 34,094 | 17 | (1) |
| of which: repurchase agreements | 31,072 | 30,361 | 21,363 | 2 | 45 |
| Due to customers | 148,463 | 145,607 | 144,842 | 2 | 2 |
| Trading portfolio liabilities | 21,253 | 23,405 | 21,179 | (9) | 0 |
| Negative replacement values | 26,798 | 25,463 | 24,669 | 5 | 9 |
| Financial liabilities designated at fair value | 55,601 | 52,754 | 58,104 | 5 | (4) |
| Bonds issued and loans from central mortgage institutions | 76,333 | 75,655 | 72,750 | 1 | 5 |
| Accrued expenses and deferred income | 3,445 | 3,414 | 4,356 | 1 | (21) |
| Other liabilities | 7,037 | 6,266 | 5,505 | 12 | 28 |
| Provisions | 1,523 | 1,608 | 1,786 | (5) | (15) |
| Total liabilities | 441,501 | 432,585 | 425,316 | 2 | 4 |
| Equity | | | | | |
| Share capital | 386 | 386 | 386 | 0 | 0 |
| General reserve | 38,149 | 33,669 | 33,669 | 13 | 13 |
| of which: statutory capital reserve | 38,149 | 38,149 | 38,149 | 0 | 0 |
| of which: capital contribution reserve | 38,149 | 38,149 | 38,149 | 0 | 0 |
| of which: statutory earnings reserve ¹ | 0 | (4,480) | (4,480) | (100) | (100) |
| Voluntary earnings reserve ¹ | 9,760 | 5,689 | 5,689 | 72 | 72 |
| Retained earnings / (loss) carried forward ¹ | 0 | 11,984 | 0 | (100) | |
| Net profit / (loss) for the period | 1,473 | (18) | 11,984 | | (88) |
| Total equity | 49,768 | 51,711 | 51,728 | (4) | (4) |
| Total liabilities and equity | 491,269 | 484,296 | 477,045 | 1 | 3 |
| of which: subordinated liabilities | 15,275 | 16,840 | 16,139 | (9) | (5) |
| of which: subject to mandatory conversion and/or debt waiver | 12,849 | 12,689 | 11,858 | 1 | 8 |

¹ During the second quarter of 2016, the 2015 net profit of CHF 11,984 million was appropriated to the statutory earnings reserve (CHF 4,480 million) and to the voluntary earnings reserve (CHF 4,070 million) and a payment of a cash dividend of CHF 3,434 million was made out of retained earnings to UBS Group AG, as approved at the Annual General Meeting of shareholders held on 4 May 2016.

Basis of accounting

UBS AG standalone financial statements are prepared in accordance with Swiss GAAP (FINMA Circular 2015/1 and the Banking Ordinance).

The accounting policies are principally the same as the IFRS-based accounting policies for the consolidated financial statements outlined in Note 1 to the consolidated financial statements of UBS AG in the Annual Report 2015. Major differences between the Swiss GAAP requirements and IFRS are described in Note 38 to the consolidated financial statements of UBS AG in the Annual Report 2015. Further information on the accounting policies

applied for the standalone financial statements of UBS AG is provided in Note 2 to the UBS AG standalone financial statements in the Annual Report 2015.

In preparing the interim financial information for UBS AG, the same accounting policies and methods of computation have been applied as in the annual financial statements as of 31 December 2015. This interim financial information is unaudited and should be read in conjunction with the audited financial statements of UBS AG included in the Annual Report 2015.

Recent developments

In the second quarter of 2016, UBS AG transferred several subsidiaries into UBS Asset Management AG, a direct subsidiary of UBS AG, through a contribution in kind. These transfers were made at a value of CHF 1.5 billion and resulted in a gain of CHF 1.1 billion

that was recognized in the income statement of UBS AG, largely as extraordinary income, and which increased the value of UBS AG's investment in UBS Asset Management AG.

Joint and several liability

In June 2015, the Personal & Corporate Banking and Wealth Management businesses booked in Switzerland were transferred from UBS AG to UBS Switzerland AG through an asset transfer in accordance with the Swiss Merger Act. Under the Swiss Merger Act, UBS AG assumed joint liability for obligations existing on the asset transfer date, 14 June 2015, that were transferred to UBS Switzerland AG.

As of the asset transfer date, UBS AG assumed joint liability for approximately CHF 260 billion of obligations of UBS Switzerland AG, excluding the collateralized portion of secured contractual

obligations. UBS AG has no liability for new obligations incurred by UBS Switzerland AG after the asset transfer date.

→ Refer to "Establishment of UBS Switzerland AG" in the "Legal entity financial and regulatory information" section of our Annual Report 2015 for more information

The joint liability amount declines as obligations mature, terminate or are novated following the asset transfer date. As of 30 June 2016, the joint liability amounted to approximately CHF 1 billion.

UBS AG (standalone) regulatory information

This section contains information related to capital adequacy, the leverage ratio and the liquidity coverage ratio, as required by the revised FINMA Circular 2008/22 “Disclosure – banks.” Information in this document is supplementary to UBS AG (standalone) information provided in the “Legal entity financial information” section of the UBS Group second quarter 2016 report.

Swiss SRB capital requirements and capital information

UBS AG is considered a systemically relevant bank (SRB) under Swiss banking law and is subject to capital regulations on a standalone basis.

Under Swiss SRB regulations, article 125 “Reliefs for financial groups and individual institutions” of the Swiss Capital Ordinance (CAO) stipulates that the Swiss Financial Market Supervisory

Authority (FINMA) may grant, under certain conditions, capital relief to individual institutions, to ensure that an individual institution’s compliance with the capital requirements does not lead to a de facto overcapitalization of the group of which it is part.

FINMA granted relief concerning the regulatory capital requirements of UBS AG on a standalone basis by means of a decree issued on 20 December 2013, which became effective on 1 January 2014.

The tables in this section provide UBS AG standalone capital information under Swiss SRB regulations, as per the abovementioned FINMA decree. In addition to the 14.0% total capital requirement set by the decree, UBS AG is required to comply with countercyclical buffer requirements on a standalone basis. The effect of the countercyclical buffer capital requirement was immaterial as of 30 June 2016, 31 March 2016 and 31 December 2015.

Swiss SRB capital ratio requirements and information (phase-in)

| | Capital ratio (%) | | | | Capital | | | | |
|--|-------------------|-------------|---------|--------|---------------|---------------|---------|---------|----------|
| | Requirement | 30.6.16 | 30.6.16 | Actual | 31.12.15 | Requirement | 30.6.16 | 30.6.16 | Eligible |
| <i>CHF million, except where indicated</i> | | | | | | | | | |
| Common equity tier 1 capital | 10.0 | 14.2 | 14.3 | 14.4 | 24,076 | 34,128 | 33,678 | 32,656 | |
| Common equity tier 1 capital and high-trigger loss-absorbing capital | 11.6 | 14.2 | 14.3 | 14.4 | 27,913 | 34,128 | 33,678 | 32,656 | |
| Total capital | 14.0 | 14.2 | 14.3 | 14.4 | 33,707 | 34,128 | 33,678 | 32,656 | |

Swiss SRB capital information (phase-in)

| | | | |
|--|----------------|----------|----------|
| <i>CHF million, except where indicated</i> | 30.6.16 | 31.3.16 | 31.12.15 |
| Common equity tier 1 capital | | | |
| Total common equity tier 1 capital | 34,128 | 33,678 | 32,656 |
| Additional tier 1 capital | | | |
| High-trigger loss-absorbing capital | 2,688 | 2,643 | 1,252 |
| Net deductions | (2,688) | (2,643) | (1,252) |
| Total additional tier 1 capital | 0 | 0 | 0 |
| Total tier 1 capital | 34,128 | 33,678 | 32,656 |
| Tier 2 capital | | | |
| Low-trigger loss-absorbing capital | 10,441 | 10,217 | 10,325 |
| Net deductions | (10,441) | (10,217) | (10,325) |
| Total tier 2 capital | 0 | 0 | 0 |
| Total capital | 34,128 | 33,678 | 32,656 |
| Risk-weighted assets | 240,762 | 235,271 | 227,170 |
| Common equity tier 1 capital ratio (%) | 14.2 | 14.3 | 14.4 |
| Tier 1 capital ratio (%) | 14.2 | 14.3 | 14.4 |
| Total capital ratio (%) | 14.2 | 14.3 | 14.4 |

Leverage ratio information

Swiss SRB leverage ratio

The Swiss SRB leverage ratio requirement is equal to 24% of the capital ratio requirements (excluding the countercyclical buffer requirement).

As of 30 June 2016, the effective total leverage ratio requirement for UBS AG (standalone) was 3.4%, resulting from multiplying the total capital ratio requirement (excluding the countercyclical buffer requirement) of 14.0% by 24%.

Swiss SRB leverage ratio requirements and information (phase-in)

| | Swiss SRB leverage ratio (%) | | | | Swiss SRB leverage ratio capital | | | |
|--|------------------------------|----------------|---------|----------|----------------------------------|----------------|---------|----------|
| | Requirement ¹ | Actual | 31.3.16 | 31.12.15 | Requirement | Eligible | 31.3.16 | 31.12.15 |
| <i>CHF million, except where indicated</i> | 30.6.16 | 30.6.16 | 31.3.16 | 31.12.15 | 30.6.16 | 30.6.16 | 31.3.16 | 31.12.15 |
| Common equity tier 1 capital | 2.4 | 5.5 | 5.3 | 5.2 | 15,019 | 34,128 | 33,678 | 32,656 |
| Common equity tier 1 capital and high-trigger loss-absorbing capital | 2.8 | 5.5 | 5.3 | 5.2 | 17,412 | 34,128 | 33,678 | 32,656 |
| Total capital | 3.4 | 5.5 | 5.3 | 5.2 | 21,027 | 34,128 | 33,678 | 32,656 |

¹ Requirements for common equity tier 1 capital (24% of 10%), common equity tier 1 capital and high-trigger loss-absorbing capital (24% of 11.6%) and total capital (24% of 14%).

Swiss SRB leverage ratio (phase-in)

| | | | |
|--|------------------|-----------|-----------|
| <i>CHF million, except where indicated</i> | 30.6.16 | 31.3.16 | 31.12.15 |
| Swiss GAAP total assets | 491,269 | 484,296 | 477,045 |
| Difference between Swiss GAAP and IFRS total assets | 191,200 | 192,903 | 169,961 |
| Less derivative exposures and securities financing transactions ¹ | (332,732) | (330,549) | (295,490) |
| On-balance sheet exposures (excluding derivative exposures and securities financing transactions) | 349,737 | 346,651 | 351,516 |
| Derivative exposures | 114,567 | 117,869 | 124,079 |
| Securities financing transactions | 136,874 | 140,943 | 130,766 |
| Off-balance sheet items | 39,473 | 44,073 | 42,573 |
| Items deducted from Swiss SRB tier 1 capital | (14,862) | (13,021) | (14,948) |
| Total exposures (leverage ratio denominator) | 625,789 | 636,514 | 633,985 |
| Common equity tier 1 capital | 34,128 | 33,678 | 32,656 |
| Additional tier 1 capital | 0 | 0 | 0 |
| Tier 2 capital | 0 | 0 | 0 |
| Total capital | 34,128 | 33,678 | 32,656 |
| Swiss SRB leverage ratio (%) | 5.5 | 5.3 | 5.2 |

¹ Consists of positive replacement values, cash collateral receivables on derivative instruments, cash collateral on securities borrowed, reverse repurchase agreements, margin loans and prime brokerage receivables related to securities financing transactions, which are presented separately under derivative exposures and securities financing transactions in this table.

BIS Basel III leverage ratio

On 1 January 2015, disclosure requirements for the leverage ratio in accordance with BIS Basel III regulations came into effect in Switzerland, and UBS AG (standalone) is required to disclose BIS Basel III leverage ratio information on a quarterly basis. The table below provides BIS Basel III leverage ratio information according to the current disclosure requirements.

BIS Basel III leverage ratio (phase-in)

| | | | |
|--|----------------|---------|----------|
| <i>CHF million, except where indicated</i> | 30.6.16 | 31.3.16 | 31.12.15 |
| Total tier 1 capital | 34,128 | 33,678 | 32,656 |
| Total exposures (leverage ratio denominator) | 625,789 | 636,514 | 633,985 |
| BIS Basel III leverage ratio (%) | 5.5 | 5.3 | 5.2 |

Liquidity coverage ratio

BIS Basel III rules require disclosure of the liquidity coverage ratio (LCR). As a Swiss SRB, UBS AG (standalone) must maintain an LCR of at least 100% since 1 January 2015 and disclose LCR information on a quarterly basis. As of 30 June 2016, UBS AG (standalone) was above the 105% standalone LCR minimum communicated by FINMA.

Liquidity coverage ratio

| <i>CHF billion, except where indicated</i> | Weighted value¹ | | |
|--|-----------------------------------|--------------|--------------|
| | Average 2Q16 | Average 1Q16 | Average 4Q15 |
| High-quality liquid assets | 103 | 116 | 108 |
| Total net cash outflows | 79 | 88 | 93 |
| <i>of which: cash outflows</i> | 177 | 189 | 219 |
| <i>of which: cash inflows</i> | 98 | 101 | 125 |
| Liquidity coverage ratio (%) | 131 | 132 | 116 |

¹ Calculated after the application of haircuts and inflow and outflow rates.

Cautionary Statement Regarding Forward-Looking Statements | This report contains statements that constitute “forward-looking statements,” including but not limited to management’s outlook for the financial performance of UBS AG (which, for the purpose of this cautionary statement, refers to UBS AG and its subsidiaries) and statements relating to the anticipated effect of transactions and strategic initiatives on UBS AG’s business and future development. While these forward-looking statements represent UBS AG’s judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS AG’s expectations. These factors include, but are not limited to: (i) the degree to which UBS AG and the UBS Group are successful in executing the announced strategic plans, including cost reduction and efficiency initiatives and the targets for risk-weighted assets (RWA) and leverage ratio denominator (LRD), and the degree to which UBS AG and the UBS Group are successful in implementing changes to the wealth management businesses to meet changing market, regulatory and other conditions; (ii) the continuing low or negative interest rate environment, developments in the macroeconomic climate and in the markets in which UBS AG operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and geopolitical tensions on the financial position or creditworthiness of UBS AG’s clients and counterparties as well as on client sentiment and levels of activity; (iii) changes in the availability of capital and funding, including any changes in UBS AG’s credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC) requirements, or loss-absorbing capital; (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that may impose, or result in, more stringent capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration or other measures, and the effect this would have on UBS AG’s business activities; (v) uncertainty as to when and to what degree the Swiss Financial Market Supervisory Authority (FINMA) will approve a limited reduction of gone concern requirements due to measures to reduce resolvability risk; (vi) the degree to which UBS AG and the UBS Group are successful in implementing further changes to the Group’s legal structure to improve its resolvability and meet related regulatory requirements, including changes in legal structure and reporting required to implement US enhanced prudential standards, implementing a service company model, completing the transfer of the Asset Management business to a holding company, and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements relating to capital requirements, resolvability requirements and proposals in Switzerland and other countries for mandatory structural reform of banks and the extent to which such changes have the intended effects; (vii) the uncertainty arising from the UK referendum vote to withdraw from the EU and the potential need to make changes in UBS’s legal structure and operations as a result of a UK exit from the EU; (viii) changes in UBS AG’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS AG’s ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS AG may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational component of our RWA; (xi) the effects on UBS AG’s cross-border banking business of tax or regulatory developments and of possible changes in UBS AG’s policies and practices relating to this business; (xii) UBS AG’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters; (xiv) limitations on the effectiveness of UBS AG’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xv) whether UBS AG will be successful in keeping pace with competitors in updating its technology, particularly in trading businesses; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyber-attacks, and systems failures; (xvii) restrictions on the ability of UBS AG to make payments or distributions, including due to restrictions on the ability of subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA of its broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors, including methodology, assumptions and stress scenarios, may affect UBS Group’s ability to maintain its stated capital return objective; and (xix) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS Group AG and UBS AG and filings made by UBS Group AG and UBS AG with the SEC, including UBS Group AG’s and UBS AG’s Annual Report on Form 20-F for the year ended 31 December 2015. UBS AG is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

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

Tables | Within tables, blank fields generally indicate that the field is not applicable or not meaningful, or that information is not available as of the relevant date or for the relevant period. Zero values generally indicate that the respective figure is zero on an actual or rounded basis. Percentage changes are presented as a mathematical calculation of the change between periods.

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Zurich, 25 August 2016

UBS AG

By:

A handwritten signature in black ink, appearing to read 'M. Szelag', written over a horizontal line.

(signed by Martin Szelag)

By:

A handwritten signature in black ink, appearing to read 'S. Ganz', written over a horizontal line.

(signed by Stefanie Ganz)