



UBS Securities LLC
Statement of Financial Condition

June 30, 2018
(Unaudited)



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UBS Securities LLC
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June 30, 2018
(In Thousands)

Assets	
Cash and cash equivalents	\$ 388,177
Cash segregated and on deposit for federal and other regulations	84,710
Collateralized agreements:	
Securities borrowed	12,369,297
Securities purchased under agreements to resell (Includes \$656,859 at fair value)	15,626,047
Securities received as collateral	1,014,383
Receivables from brokers, dealers and clearing organizations	2,421,405
Receivables from customers	683,054
Financial Instruments owned, at fair value	\$ 9,568,510
Financial Instruments, pledged as collateral, at fair value	<u>1,722,909</u>
Total Financial Instruments, at fair value	11,291,419
Financial assets designated at fair value, prime brokerage receivables	3,848,931
Dividends and interest receivable	238,712
Other assets	951,963
	<u>\$ 48,918,098</u>
Liabilities and members' equity	
Short-term borrowings	\$ 8,729,744
Collateralized agreements:	
Securities loaned	3,301,653
Securities sold under agreements to repurchase (Includes \$555,556 at fair value)	11,251,368
Obligation to return securities received as collateral	1,014,383
Payables to brokers, dealers and clearing organizations	1,978,550
Payables to customers	1,402,916
Financial Instruments sold, not yet purchased, at fair value	4,687,660
Financial liabilities designated at fair value, prime brokerage payables	6,183,027
Dividends and interest payable	230,014
Other liabilities and accrued expenses	1,563,389
	<u>40,342,704</u>
Subordinated borrowings	4,875,000
Members' equity	3,700,394
	<u>\$ 48,918,098</u>

See accompanying notes.

UBS Securities LLC

Notes to the Statement of Financial Condition

(In Thousands, except share data)

1. Organization

UBS Securities LLC (the “Company”) is an indirect wholly-owned subsidiary of UBS Group AG (the “Parent”). The Company is a registered broker and dealer under the Securities Exchange Act of 1934 and is a member of the New York Stock Exchange, Inc. (“NYSE”), the Financial Industry Regulatory Authority (“FINRA”), NASDAQ, and other principal exchanges. In addition, the Company is a registered futures commission merchant and a member of certain major United States (“U.S.”) and foreign commodity exchanges. The Company is also a primary dealer in U.S. Government securities and provides a full range of investment banking services, including corporate finance, mergers and acquisitions, capital markets, trading and sales, fixed income, equity research and prime brokerage operations.

According to the terms of the Company's Fifth Amended and Restated Limited Liability Company Agreement, dated as of August 1, 2005, (the "LLC Agreement"), the Company will be dissolved on December 31, 2050, subject to vote of the Class B Members. It is management's current intention to request that the Class B Members vote to extend the duration of the Company prior to that date.

At June 30, 2018, the Company is owned by (i) UBS Americas Inc. holding 100% of the Class A Interests, 70% of the Class B Interests and 100% of the Preferred Interest; and (ii) UBS Americas Holding LLC holding 30% of the Class B Interests. See Note 10 for information regarding Members' Equity.

2. Significant Accounting Policies

Basis of Presentation

The statement of financial condition is prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP"), which requires management to make judgments and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Actual results could differ from those estimates. Management makes estimates regarding valuations of certain financial assets and liabilities, and probable losses from litigation.

Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments, with original maturities of less than three months, which are not held for sale in the ordinary course of business.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

2. Significant Accounting Policies (continued)

Collateralized Agreements

Securities purchased under agreements to resell (“resale agreements”) and securities sold under agreements to repurchase (“repurchase agreements”) generally are collateralized by U.S. Government, agency and mortgage-backed securities, although some agreements may be collateralized by other types of securities. Resale agreements and repurchase agreements are accounted for as financing transactions. Resale and repurchase agreements are recorded at the amounts at which the securities will be subsequently resold or repurchased. The Company nets certain repurchase agreements and resale agreements when the requirements of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 210-20-45-11 “Balance Sheet – Offsetting: Repurchase and Reverse Repurchase Agreements” are met. It is the Company’s policy to take possession of collateral under resale agreements. Collateral is valued daily and additional collateral is obtained from counterparties when appropriate, or refunded as necessary. Counterparties are principally primary dealers of U.S. Government securities and financial institutions.

Securities borrowed and securities loaned result from transactions with other brokers and dealers or financial institutions and are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. Securities loaned transactions require the borrower to deposit cash with the Company. To the extent that the Company receives securities collateral in exchange for securities lent, such transactions are included in securities received as collateral and obligation to return securities received as collateral on the statement of financial condition. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

Receivables and Payables - Brokers, Dealers and Clearing Organizations

Receivables from brokers, dealers and clearing organizations include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date, margin deposits, commissions, and net receivables arising from unsettled trades. Payables to brokers, dealers and clearing organizations include amounts payable for securities not received by the Company from a seller by the settlement date, payables to clearing organizations, and net payables arising from unsettled trades.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

2. Significant Accounting Policies (continued)

Receivables and Payables - Customers

Receivables from and payables to customers include amounts due on cash and margin transactions. Customers' securities and commodities transactions are recorded on a settlement date basis with related revenues and expenses recorded on a trade date basis. Securities owned by customers, including those that collateralize margin or similar transactions, are not reflected on the statement of financial condition.

Financial Instruments Owned and Securities Sold, not yet Purchased, at Fair Value

Financial Instruments owned and sold, not yet purchased are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 for further information regarding Financial Instruments owned and Financial Instruments Sold, not yet Purchased, at Fair Value.

Exchange Memberships

The Company's exchange memberships, which represent ownership interests in the exchanges and provide the Company with the right to conduct business on the exchanges, are recorded at cost net of impairments. These are recorded in Other assets.

Intangible Assets

Intangible assets with indefinite lives, totaling \$7,971 are not amortized; instead, these assets are subject to impairment tests on an annual basis and are included in other assets on the statement of financial condition. In accordance with FASB ASC Topic 350 "Intangibles – Goodwill and Other" the Company performs an annual qualitative assessment and more frequent assessments if an event occurs or circumstances change that would more likely than not reduce the fair value of the assets below their carrying amounts, to determine if an impairment of these assets is warranted.

Intangible assets with definite lives, consisting of customer relationships, totaling \$63,200 (less accumulated amortization of \$60,111) are amortized over ten years on a straight line basis and are reported at cost less accumulated amortization in other assets on the statement of financial condition. In addition, these intangible assets are assessed for impairment when events or changes in circumstances indicate that the carrying amount of these intangible assets may not be recoverable.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

2. Significant Accounting Policies (continued)

Fixed Assets

Fixed assets include furniture, equipment, and software, which are depreciated and amortized using the straight-line method over the useful lives of the assets, and leasehold improvements, which are amortized using the straight-line method over the shorter of the lease term or useful life. Fixed assets are reported at cost less accumulated depreciation and amortization in other assets on the statement of financial condition. Estimated useful lives are generally as follows: equipment – 3 to 5 years; software – up to 7 years.

Dividends and Interest

Interest revenue and expense, as applicable, are accrued on repurchase and resale contract amounts, securities borrowed and securities loaned contract amounts, margin financing balances, interest bearing trading assets and liabilities included in financial instruments owned, at fair value and securities sold, not yet purchased, at fair value, short term borrowings and subordinated debt. Dividends revenue and expense, as applicable, are accrued on equity financial instruments owned and financial instruments sold, not yet purchased on ex-dividend date. Interest and dividends are included in dividends and interest receivable, and dividends and interest payable on the statement of financial condition.

Investment Banking and Underwriting

Investment banking and underwriting revenues include gains, losses, and fees, net of syndicate expenses, arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing merger and acquisition and financial restructuring advisory services. Investment banking and underwriting fees are recorded on offering date, advisory fees on closing date and sales concessions on a trade date basis.

Commissions

Commissions are recorded on a trade date basis as transactions occur.

Translation of Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at year-end rates of exchange.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

2. Significant Accounting Policies (continued)

Income Taxes

The Company is treated as a partnership for U.S. federal, state and local income tax purposes. As such, the Company is not required to provide for or pay any U.S. federal income taxes. All income, expense, gain or loss of the Company flows through to its partners and is allocated in accordance with the LLC agreement and related tax law. The federal, state and local income tax on such income is the responsibility of the partners. The Company is itself subject to New York City Unincorporated Business Tax (“UBT”) for which it accrues current and deferred taxes. The Company may also be subject to other state and local taxes in jurisdictions in which it operates.

Additionally, the Company is treated as a corporation for Canadian tax purposes. As such, the Company accrues and pays corporate income tax on its Canadian operations.

In accordance with the provisions of FASB ASC 740 - “Income Taxes” (“ASC Topic 740”), deferred tax assets and liabilities are recognized for the future tax effect of differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to be in effect during the year in which the basis differences reverse. In the event it is more likely than not that a deferred tax asset will not be realized, a valuation allowance is recorded.

ASC Topic 740 sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. This interpretation uses a two-step approach wherein a tax benefit is recognized if a position is more likely than not to be sustained. The amount of the benefit is then measured to be the highest tax benefit that is greater than 50% likely to be realized.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

2. Significant Accounting Policies (continued)

Consolidation

U.S. GAAP requires a reporting entity to first assess the consolidation of entities on the basis of the reporting entity's ownership of a majority of voting interest. However, in certain situations, there are no voting rights, or ownership of a majority of voting interest is not a reliable indicator of control. If voting interests do not exist or if they differ significantly from economic interests or if holders of the equity investment at risk lack the power to direct activities of the entity, the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity, the entity is considered a Variable Interest Entity ("VIE") under FASB ASC Topic 810 – "Consolidations" ("ASC Topic 810") and control is based on a qualitative determination of which party has a controlling financial interest in the VIE (known as the primary beneficiary). See Note 14 for additional information.

Recent Accounting Developments

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers". Subsequently, the FASB has issued further ASUs (collectively, the "ASUs") for purposes of amending or clarifying that guidance. The ASUs establishes principles for revenue recognition that apply to all contracts with customers except those relating to financial instruments, leases and insurance contracts and requires an entity to recognize revenue as performance obligations are satisfied. In particular, the standard now specifies that variable consideration is only recognized to the extent that it is highly probable that a significant reversal will not occur when the uncertainty associated with the variable consideration is subsequently resolved. It also provides guidance on when revenues and expenses should be presented on a gross or net basis and establishes a cohesive set of disclosure requirements for information on the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. The Company adopted the standard as of its mandatory effective date on January 1, 2018 and applied it on a modified retrospective basis, recognizing the cumulative effect of initially applying the standard as an adjustment to retained earnings as of January 1, 2018. The ASU resulted in a deferral of certain research revenues, however this did not have a material impact on the Company's net income.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. This amendment addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments primarily affect the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements for financial instruments. The Company adopted the standard as of its mandatory effective date on January 1, 2018. ASU 2016-01 did not have any impact on the Company's statement of financial condition.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

2. Significant Accounting Policies (continued)

Recent Accounting Developments

In June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments. The amendment replaces existing incurred loss impairment guidance and introduces a new credit loss model; the Current Expected Credit Losses model (CECL), which requires earlier recognition of credit losses. The CECL model requires the measurement of all expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions and reasonable and supportable forecasts over the full remaining expected life of the financial assets. Given the nature of the balances in the Company, the impact of CECL is not expected to be material. The amendment is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The adoption of 2016-13 is part of the Company's key strategic initiative for adoption of an expected credit loss approach in provisioning for impairment. It is implemented under the joint sponsorship of the UBS Group's Chief Risk Officer and Chief Financial Officer. The implementation project structure is defined to address the critical requirements of the standard and to manage the appropriate involvement of key stakeholders, including Risk Control, Finance, Group Technology and the business divisions. The steering committee, operating committee, technical board and individual work streams continue to ensure a streamlined implementation with appropriate controls and governance over all key decisions. The program has identified the primary changes to existing systems, processes, data and models required for the purposes of meeting the requirements of the ASU and to allow for a sound front-to-back implementation.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory. This amendment requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The Company adopted the standard as of its mandatory effective date on January 1, 2018. There was not a material impact on its statement of financial condition.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

2. Significant Accounting Policies (continued)

Recent Accounting Developments

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendment requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalent, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end of period total amounts shown in the statement of cash flows. The amendment does not provide a definition of restricted cash or restricted cash equivalents.

The Company adopted the standard as of its mandatory effective date on January 1, 2018 and adoption will not have a material impact on the Company's statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The ASU clarifies the definition of a business by introducing a quantitative screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. If the screen is not met, in order to be considered a business, a set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. The Company adopted the standard as of its mandatory effective date on January 1, 2018. There was no material impact as the ASU was applied prospectively; however, the impact of the ASU will depend upon the acquisition and disposal activities of the Company.

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-09, Receivables—Compensation—Stock Compensation (Subtopic 718): Scope of Modification Accounting, which amends the accounting for modifications of share-based payment awards. The amendments require that modification accounting be applied when a change to the terms or conditions of an award is substantive.

The Company adopted the standard as of its mandatory effective date on January 1, 2018. The adoption of ASU 2017-09 did not have a material impact on the Company's statement of financial condition.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

2. Significant Accounting Policies (continued)

Recent Accounting Developments

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810): Interest Held through Related Parties That are Under Common Control. The amendment changes the evaluation of whether a reporting entity is the primary beneficiary of a VIE by changing how a reporting entity that is a single decision maker of a VIE treats indirect interests in the entity held through related parties that are under common control with the reporting entity. Under the amendment, the single decision maker will consider an indirect interest held by a related party under common control on a proportionate basis.

The Company has adopted ASU No. 2016-17 on January 1, 2017 and it did not have a material impact on the Company's statement of financial condition.

3. Cash Segregated Under Federal and Other Regulations

At June 30, 2018, \$84,710 of cash was segregated, secured and sequestered in accordance with federal and other regulations. At June 30, 2018, no amounts were required to be segregated for the Company to comply with Securities and Exchange Commission ("SEC") Rule 15c3-3.

At June 30, 2018, the Company was required to segregate \$5,380,379 secure \$1,504,036 and sequester (OTC cleared swaps) \$560,762 of cash or securities under the Commodity Exchange Act. The Company had \$5,882,383 segregated, \$1,878,055 secured, and \$823,349 sequestered (OTC cleared swaps) which represented funds deposited by clients, funds accruing to clients as a result of trades or contracts, and securities owned by clients. Securities owned by clients and segregated, secured, or sequestered by the Company are not reflected on the statement of financial condition.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

4. Receivables From and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations at June 30, 2018, consist of the following:

Receivables from brokers, dealers and clearing organizations	
Securities failed to deliver	\$ 1,228,467
Receivables related to commodities clearing activity	494,858
Deposits with clearing organizations	330,614
Foreign commodity affiliate brokers	201,843
Affiliate securities accounts	139,910
Other	25,713
Total	<u>\$ 2,421,405</u>
Payables to brokers, dealers and clearing organizations	
Securities failed to receive	\$ 1,212,149
Affiliate commodity accounts	562,123
Pending Trades (net)	117,805
Payables related to commodities clearing activity	83,102
Payables to clearing organizations	3,371
Total	<u>\$ 1,978,550</u>

Derecognition of exchange-traded derivative customer cash from the Statement of Financial Condition

In accordance with the Company's accounting policy, customer cash balances associated with derivatives clearing and execution services are not recognized on the Company's balance sheet if, through contractual agreement, regulation or practice, the Company does not obtain benefits from or control of the customer cash balances. These conditions are considered to have been met when (i) the Company is not permitted to reinvest customer cash balances; (ii) interest paid by central counterparties (CCPs), brokers or deposit banks on cash deposits forms part of the customer cash balances with deductions being made solely as compensation for clearing and execution services provided; (iii) the Company does not guarantee and is not liable to the customer for the performance of the CCP, broker or deposit bank; and (iv) the customer cash balances are legally isolated from the Company's operating cash reserves. The Company 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, resulting in decreases in Payables to customers by \$3,356,379, Receivables from brokers, dealers and clearing organizations of \$2,909,670, and Cash segregated and on deposit for federal and other regulations of \$447,345 as of June 30, 2018.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

5. Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction at the measurement date. In determining fair value, the Company uses various valuation approaches which often utilize certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and / or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable internal inputs. The Company utilizes valuation techniques that rely on observable and unobservable inputs.

The most frequently applied valuation techniques and pricing models include discounted cash flow models, relative value models and option pricing models. Discounted cash flow models determine the value by estimating the expected future cash flows from assets or liabilities discounted to their present value. Relative value models determine the value based on the market prices of similar assets or liabilities. Option pricing models use probability-based techniques that include binomial and Monte Carlo pricing. The output of a model is always an estimate or approximation of a value that cannot be estimated with certainty.

As a result, valuations are adjusted, where appropriate, to reflect liquidity adjustments, credit exposure, model-driven-valuation adjustments and trading restrictions when such factors would be considered by market participants.

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

The Company's fair value and valuation model governance structure includes numerous controls and procedural safeguards that are intended to maximize the quality of fair value measurements reported on the statement of financial condition. New products must be reviewed and approved by all stakeholders relevant to risk and financial control. Responsibility for the ongoing measurement of financial instruments at fair value resides with the business, but is independently validated by risk and valuation control. In carrying out their valuation responsibilities, the businesses are required to consider the availability and quality of external market information and to provide justification and rationale for their fair value estimates.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

5. Fair Value Measurement (continued)

Independent price verification of financial instruments measured at fair value is undertaken by the valuation control team, which is independent from the risk taking businesses. The objective of the independent price verification process is to independently corroborate the business' estimates of fair value against available market information. By benchmarking the business' fair value estimates with observable market prices or other independent sources, the degree of valuation uncertainty embedded in these measurements can be assessed and managed as required in the governance framework. A critical aspect of the independent price verification process is the evaluation of the accuracy of modeling approaches and input assumptions which yield fair value estimates derived from valuation models. The output of modeling approaches is also compared to observed prices and market levels for the specific instrument being priced if possible and appropriate. This calibration analysis is performed to assess the ability of the model and its inputs (which are frequently based upon a combination of price levels of observable hedge instruments and unobservable parameters) to price a specific product in its own specific market. An independent model review group reviews the Company's valuation models on a regular basis or if specific triggers occur and approves them for valuing specific products.

As a result of the valuation controls employed, valuation adjustments may be made to the business' estimate of fair value to either align with independent market information or financial accounting standards.

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

Level 1: Quoted market prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Valuation techniques for which all significant inputs are market observable, either directly or indirectly.

Level 3: Valuation techniques which include significant inputs that are not based on observable market data.

The following is a description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

5. Fair Value Measurement (continued)

U.S. Government and agency obligations

U.S. Government securities are generally actively traded and are valued using quoted market prices. Where market prices are not available, these securities are valued against yield curves implied from similar issuances. Agency obligations are composed of agency-issued debt. Non-callable agency-issued debt securities are generally valued using quoted market prices. Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities.

Mortgage-backed obligations

Mortgage-backed obligations represent agency mortgage pass-through pool securities and agency collateralized mortgage obligations (“CMO”). Pass-through pools are valued using quoted and/or traded market prices or prices on comparable securities after considering collateral characteristics, historical performance and also pricing benchmark securities. Agency CMO are structured deals backed by specified pool collateral and are valued based on available trades, market comparable securities, and fundamental methods of valuation. Both asset classes require a view around forward interest rates, prepayments and other macro variables.

Corporate debt, including convertible securities

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

Residential mortgage-backed securities (“RMBS”), commercial mortgage-backed securities (“CMBS”), and other asset-backed securities (“ABS”) are estimated via direct trade prices, market color or from observable prices on one or more securities with similar characteristics or indices through comparable analysis. Generally these securities are valued through industry standard valuation tools, including discounted cash flow analysis, by applying various input assumptions. The assumptions are further derived via proprietary models, fundamental analysis and/or market research. Key inputs to such models include management’s quantitative and qualitative assessment of current and future economic conditions, the securities’ projected performance under such conditions, as well as liquidity in the market, among other factors.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

5. Fair Value Measurement (continued)

Collateralized debt obligations (“CDO”) are valued independently using fundamental analysis and industry standard cash flow tools taking into consideration available comparable market levels, underlying collateral performance and pricing, deal structures, as well as liquidity. Key inputs to such models include current and future economic conditions, the securities’ projected performance, as well as liquidity in the market, among other factors. Collateral analysis is done based on techniques similar to those described for RMBS, CMBS and/or ABS.

Equities and warrants

Equity securities and warrants are primarily traded on public stock exchanges where quoted prices are readily and regularly available.

Unlisted equity securities and private equity investments are recorded initially at the acquisition cost, which is considered the best indication of fair value. Subsequent adjustments to recorded amounts are based on current and projected financial performance, recent financing activities, economic and market conditions, market comparable, market liquidity, sales restrictions, and other factors.

Fund units are generally marked to the exchange-traded price or net asset value (NAV).

Auction preferred securities (“APS”) are securities issued by closed-end mutual funds with an underlying portfolio of tax-exempt and taxable state and municipal obligations, or taxable corporate loans, ABS, RMBS, corporate and foreign sovereign debt securities. The dividend rate is set periodically through a series of auctions and, in the event of a failed auction, it is reset to a maximum rate as defined by each deal's prospectus. The APS portfolio is marked to market and price tested using external observable data such as issuer redemption and tender offer levels, trade data and broker-dealer price talk. Where market observable data is not available, model pricing if suitable may be used.

Options

Options are generally actively traded and are valued based on quoted prices from the exchange. Other equity options contracts not traded on an exchange are valued using market standard models or internally developed models that estimate the equity forward level, incorporate inputs for stock volatility and for correlation between stocks within a basket.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

5. Fair Value Measurement (continued)

State and municipal obligations

State and municipal obligations include auction rate municipal securities (“ARS MUNI”). ARS MUNI are mainly comprised of bonds issued by states and municipalities often wrapped by a municipal bond insurance. The floating rate is set periodically through auction mechanisms and, in the event of a failed auction; it is reset to a maximum rate as defined by each deal's prospectus. The ARC Muni portfolio is marked to market and price tested using external observable data such as issuer redemption and tender offer levels, trade data and broker-dealer price talk. Where market observable data is not available, model pricing if suitable may be used.

Money market, commercial paper, and certificates of deposit

Money market, commercial paper, and certificates of deposit have short-term maturities and carry interest rates that approximate market rates. Money market, commercial paper and certificates of deposit are valued based on pricing models. Typically, the credit quality of the issuers is high and the majority of exposure can be either directly or indirectly tested.

Derivatives

Derivatives are financial instruments whose value is based upon an underlying asset, index or reference rate. A derivative contract may be traded as a standardized contract on an exchange or an individually negotiated contract in an over the counter market. The Company’s derivative transactions are primarily in the form of options, futures, and forwards.

The Company enters into transactions in options, futures, and forward contracts with off-balance sheet risk in order to meet the financing and hedging needs of its customers, to reduce its own exposure to market and interest rate risk and in connection with its normal proprietary trading activities. Options are included in financial instruments owned, at fair value and financial instruments sold, not yet purchased, at fair value on the statement of financial condition.

Futures and forward contracts provide for the delayed delivery or purchase of financial instruments at a specified future date at a specified price or yield. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from unfavorable changes in interest rates, foreign currency exchange rates or the market values of the securities underlying the instruments. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

6. Financial Instruments Owned and Sold, Not Yet Purchased, at Fair Value

At June 30, 2018, financial instruments owned and sold, not yet purchased by the Company are illustrated in the following two tables:

Financial Instruments owned, at fair value	(Level 1)	(Level 2)	(Level 3)	Total fair value
U.S. Government and agency obligations	\$ 6,488,763	136,984	-	6,625,747
Mortgage-backed obligations	-	107,647	13,949	121,596
Corporate debt, including convertible securities	4,399	1,874,235	11,167	1,889,801
Equities and warrants	742,549	59,244	1,537,578	2,339,371
Options	70	-	-	70
State and municipal obligations	-	-	311,584	311,584
Money market and commercial paper	-	2,159	1,091	3,250
	\$ 7,235,781	\$2,180,269	\$ 1,875,369	\$ 11,291,419

Financial Instruments sold, not yet purchased, at fair value	(Level 1)	(Level 2)	(Level 3)	Total fair value
U.S. Government and agency obligations	\$ 2,969,173	3,517	-	2,972,690
Mortgage-backed obligations	11	3,616	-	3,627
Corporate debt, including convertible securities	960	1,098,419	2	1,099,381
Equities and warrants	605,575	5,678	161	611,414
Options	2	546	-	238
Money Market and Commercial Paper	-	-	-	-
	\$3,575,721	\$ 1,111,776	\$ 163	\$4,687,660

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

6. Financial Instruments Owned and Sold, Not Yet Purchased, at Fair Value (continued)

The tables on the following page provides information on the valuation techniques, significant unobservable inputs and the range of values for those inputs for each category of financial instruments owned, at fair value and financial instruments sold, not yet purchased, at fair value, categorized as Level 3 of the fair value hierarchy at June 30, 2018. The range of values presented in this table is representative of the highest and lowest level of input used to value the significant instruments within each category. The disclosure below also includes qualitative information on the sensitivity of the fair value measurements to changes in the significant unobservable inputs.

	Level 3 at fair value		Valuation technique(s)	Significant unobservable inputs ¹ / Sensitivity	Range of input values
	Financial Instruments owned	Securities sold, not yet purchased			
Corporate debt, including convertible securities	\$11,167	\$2			
Corporate bonds	11,008	2	Market Comparables	Price	93 - 109.75
ABS	159	-	Market Comparables	Price	0.89 - 1.24
Equities and warrants	\$1,537,578	\$161			
APS	1,535,949	-	Market Information	Price	76.58 - 97.50
Equities	1,629	161	-	-	-
Money Market and commercial paper	\$1,091	\$ -			
Certificate of Deposit	170	-	Market Comparables	Price	99.74 - 99.74
Commercial Paper	921	-	Market Comparables	Price	99.44 - 99.7
State and municipal obligations	\$311,584	\$ -			
ARS Muni	311,584	-	Market Comparables	Price	92.30 - 99.00
Mortgage-backed obligations	\$13,949	\$ -			
RMBS	13,949	-	Market Comparables and Cash Flow Analysis	Price CPR CDR Severity Yield	2.22 - 93.0 2.78 - 16.68 0.5 - 2.02 15.77 - 78.25 7.89 - 15.85
Total	\$1,875,369	\$163			

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

6. Financial Instruments Owned and Sold, Not Yet Purchased, at Fair Value (continued)

¹ Significant Unobservable inputs / Sensitivity to unobservable inputs:

CPR - Constant Prepayment Rate: A prepayment rate represents the amount of un-scheduled principal payment from a pool of loans. The prepayment estimate is based on a number of factors such as historical prepayment rates for previous loans that are similar to ones in the pool and on future economic outlook including, but not limited to future interest rates. In general, significant increase (decrease) in the unobservable input in isolation in general would result in a significantly higher (lower) fair value for bonds trading at a discount, however bonds trading at a premium would decrease in value with higher prepayments and vice versa. In addition, certain interest dependent bonds may be affected negatively by higher prepayments.

CDR - Constant Default Rate: An annualized rate of default on a group of mortgages or loans. The CDR represents the percentage of outstanding principal balances in the pool that are projected to default and liquidate. The CDR estimate is based on a number of factors such as collateral delinquency rates in the portfolio and on future economic outlook. In general, significant increase (decrease) in the unobservable input in isolation would result in significantly lower (higher) cash flows for the deal, however different parts of the capital structure can react differently to changes in the CDR rate. Generally subordinate bonds will decrease in value as CDR increases but for well protected senior bonds an increase in CDR may cause an increase in price. Also wrapped bonds in the lower part of the structure can benefit from higher default rates.

Severity - The projected loss severities on defaulted assets. The projected severity is applied to projected defaults during collateral analysis. Increases in severity levels will result in lower cash flows into a structure upon the disposal of defaulted assets. In general, significant decrease (increase) in the unobservable input in isolation would result in significantly higher (lower) fair value.

Yield - The discounting rates used to price an asset. Yields are fixed percentages that are used to discount cash flows for an asset. A significant decrease (increase) in the unobservable input in isolation would result in a significantly higher (lower) fair value.

Financial Instruments owned, pledged as collateral, represent proprietary positions which have been pledged as collateral to counterparties on terms which permit the counterparty to sell or repledge the securities to others. The Company also pledges financial instruments owned, at fair value as collateral to counterparties on terms that do not permit the counterparty to sell or repledge the securities, which amounted to \$1,123,072 at June 30, 2018 as follows:

Corporate debt, including convertible securities	\$ 299,935
U.S. Government and agency obligations	823,137
	<hr/>
	\$ 1,123,072
	<hr/> <hr/>

Securities sold, not yet purchased represent obligations of the Company to deliver the specified securities at contracted prices and, thereby, requires the Company to purchase the securities in the market at prevailing prices. The Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount reflected in the financial statement.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

7. Financial Instruments

Other financial instruments are recorded by the Company at contract amounts and include cash and cash equivalents, short-term borrowings, receivables from and payables to customers, receivables from and payables to brokers, dealers, and clearing organizations, securities borrowed and securities loaned, securities received as collateral and obligation to return securities received as collateral, exchange memberships, dividends and interest receivable, dividends and interest payable, and subordinated borrowings. All financial instruments carried at contract amounts either have short-term maturities (one year or less), or bear market interest rates and, accordingly, are carried at amounts approximating fair value.

The fair value of resale agreements and repurchase agreements are computed using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks, interest rate yield curves and option volatilities.

The table below represents the carrying value, fair value, and fair value hierarchy category of certain financial instruments that are not recorded at fair value in the Company's statement of financial condition. This table excludes all non-financial assets and liabilities.

	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Assets:					
Securities borrowed	\$ 12,369,297	\$ 12,369,297	\$ —	\$ 12,369,297	\$ —
Securities purchased under agreements to resell	14,969,188	15,061,237	—	15,061,237	—
Securities received as collateral	1,014,383	1,014,383	—	1,014,383	—
Receivables from brokers, dealers and clearing organizations	2,421,405	2,421,405	—	2,421,405	—
Receivables from customers	683,054	683,054	—	683,054	—
Exchange memberships	4,510	9,753	—	—	9,753
Dividends and interest receivable	238,712	238,712	—	238,712	—

UBS Securities LLC
Notes to the Statement of Financial Condition

(In Thousands, except share data)

7. Financial Instruments (continued)

	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
Financial Liabilities:					
Short-term borrowings	\$ 8,729,744	\$ 8,729,744	\$ —	\$ 8,729,744	\$ —
Securities loaned	3,301,653	3,301,653	—	3,301,653	—
Securities sold under agreements to repurchase	10,695,812	10,761,123	—	10,761,123	—
Obligation to return securities received as collateral	1,014,383	1,014,383	—	1,014,383	—
Payables to brokers, dealers and clearing organizations	1,978,550	1,978,550	—	1,978,550	—
Payables to customers	1,402,916	1,402,916	—	1,402,916	—
Dividends and interest payable	230,014	230,014	—	230,014	—
Subordinated borrowings	4,875,000	4,875,000	—	4,875,000	—

The Company's customer activities involve the execution, settlement and financing of various securities transactions. In addition, the Company executes and clears customer and affiliated customer transactions for the purchase and sale of commodity futures contracts and options on futures contracts. These activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased and the writing of options contracts. Such transactions may expose the Company to off-balance sheet risk in the event that margin requirements are not sufficient to fully cover losses that customers incur, or contra-brokers are unable to meet the terms of the contracted obligations.

In the event a customer or broker fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's or broker's obligations. The Company seeks to control the risk associated with these activities by requiring customers or brokers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and,

UBS Securities LLC
Notes to the Statement of Financial Condition

(In Thousands, except share data)

7. Financial Instruments (continued)

pursuant to such guidelines, requires customers or brokers to deposit additional collateral or reduce positions, when necessary.

The Company enters into collateralized resale and repurchase agreements and securities borrowing and lending transactions that may result in credit exposure in the event the counterparty to the transaction is unable to fulfill its contractual obligations. The Company minimizes credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned by the Company when deemed necessary. In addition, the Company manages credit risk by entering into netting agreements with counterparties. These netting agreements generally enable the counterparties to offset liabilities against available assets received – in the ordinary course of business and/or in the event that the counterparty to the transaction is unable to fulfill its contractual obligation. The Company offsets these financial assets and financial liabilities on statement of financial condition only when it has an enforceable legal right to offset the respective recognized amounts and meets other offsetting requirements.

The following table presents information regarding the offsetting of these financial assets and financial liabilities:

	Gross Amounts	Amounts Offset on the Statement of Financial Condition ¹	Net Amounts Presented on the Statement of Financial Condition	Cash or Financial Instruments Not Offset on the Statement of Financial Condition ²	Net Amount
Financial Assets					
Securities borrowed	\$ 12,369,297	\$ –	\$ 12,369,297	\$ (12,175,498)	\$ 193,799
Securities purchased under agreements to resell	42,998,736	(27,372,689)	15,626,047	(14,934,131)	691,916
Financial Liabilities					
Securities loaned	3,301,653	–	3,301,653	(3,276,948)	24,705
Securities sold under agreements to repurchase	38,624,057	(27,372,689)	11,251,368	(10,536,494)	714,874

¹ Amounts relate to master netting agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance ASC 210-20-45-11.

² Amounts relate to master netting agreements or collateral arrangements which have been determined by the Company to be legally enforceable in the event of default and where certain criteria are not met in accordance with applicable offsetting accounting guidance ASC 210-20-45-11.

UBS Securities LLC
Notes to the Statement of Financial Condition

(In Thousands, except share data)

7. Financial Instruments (continued)

In the normal course of business, the Company obtains securities under resale agreements, securities borrowed and custody agreements on terms that permit it to re-pledge or resell the securities to others. At June 30, 2018, the Company obtained securities with a fair value of approximately \$84,010,747 on such terms, of which substantially all have been either pledged or otherwise transferred to others in connection with the Company's financing activities or to satisfy its commitments under short sales.

Repurchase Financings and Disclosures

The tables below present gross obligations for repurchase agreements, securities loaned transactions and obligations to return securities received as collateral by remaining contractual maturity and class of collateral pledged.

	At June 30, 2018				Total
	Less than 30 days	30-90 days	Remaining Contractual Maturity Over 90 days	Open	
Repurchase Agreements	\$ 27,811,315	\$ 3,682,180	\$ 6,815,581	\$ 314,981	\$38,624,057
Securities loaned	-	-	-	3,301,653	3,301,653
Gross amount of secured financing included in the above offsetting disclosure	\$ 27,811,315	\$ 3,682,180	\$ 6,815,581	\$3,616,634	\$41,925,710
Obligation to return securities received as collateral	-	-	-	1,014,383	1,014,383
Total	\$ 27,811,315	\$ 3,682,180	\$ 6,815,581	\$ 4,631,017	\$ 42,940,093

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

7. Financial Instruments (continued)

Repurchase Financings and Disclosures (continued)

	Securities sold under repurchase agreements	Securities Loaned	Obligation to return securities received as collateral	Total
U.S. Treasury and government agencies	\$ 32,827,676	\$ 321,161	\$ -	\$ 33,148,837
Equities	-	2,901,063	1,014,383	3,915,446
Asset-back securities	5,033,162	-	-	5,033,162
Corporate debt and securities	22,245	28,350	-	50,595
Other	740,974	51,079	-	792,053
Total	\$ 38,624,057	\$ 3,301,653	\$ 1,014,383	\$ 42,940,093

Concentration of Credit Risk

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

8. Employee Benefit Plans

The Company participates with affiliates in a non-contributory defined benefit pension plan (including a Supplemental Executive Retirement plan), which is sponsored by the Parent and provides retirement benefits to eligible employees.

Effective December 2, 2001, the defined benefit pension plan was closed to new employees, and new employees were automatically enrolled into the new retirement contribution feature of the defined contribution 401(k) plan (as discussed below) and began earning retirement contributions, beginning January 1, 2002. In addition, existing employees as of December 1, 2001 made an election either to participate in the retirement contribution feature of the defined contribution 401(k) plan as of January 1, 2002 or to remain in the defined benefit pension plan.

UBS Securities LLC
Notes to the Statement of Financial Condition

(In Thousands, except share data)

8. Employee Benefit Plans (continued)

The Company also participates in a Parent sponsored post-retirement medical and dental insurance plan. Retiree premiums are adjusted annually and deductibles, coinsurance, and/or copays apply. Retiree medical and dental premiums are subsidized for eligible employees who retired prior to January 1, 2014. Effective January 1, 2017, retirees who retired between and including January 1, 1999 and December 31, 2013, will be required to pay the full cost for dental coverage. Eligible employees who retire on or after January 1, 2014 pay the full cost of medical and dental coverage. With respect to the post-retirement medical and dental plan, the Parent's policy is to fund benefits on a pay-as-you-go basis.

The Company also participates in a defined contribution 401(k) plan of the Parent that provides retirement benefits to eligible employees. Under the defined contribution 401(k) plan, participants may contribute a portion of their eligible compensation on a pre-tax basis, and on a Roth 401(k) and after-tax basis, with the Company matching some portion of those contributions, subject to certain limitations prescribed by the Internal Revenue Code. The Company's matching contributions to each participant is limited to an annual amount of \$4.5 effective from January 1, 2018 (limit was increased from \$3 in 2017). Eligible participants may also receive a retirement contribution under the defined contribution 401(k) plan. A participant is 100% vested in the Company's retirement and matching contribution plus earnings thereon after the earlier of three years of service, attaining age 65 while still an employee, becoming totally and permanently disabled, or upon death.

Generally, to receive a retirement contribution and/or retain the Company's matching contributions for the year, a participant must be an active employee on the last business day of that year.

9. Equity Participation and Other Compensation Plans

UBS Group AG operates several equity participation and other compensation plans to align the interests of Group Executive Board (GEB) members, Key Risk Takers and other employees with the interests of investors while continuously meeting regulatory requirements. UBS Group AG operates compensation plans on a mandatory, discretionary and voluntary basis.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

9. Equity Participation and Other Compensation Plans (continued)

Equity Ownership Plan ("EOP")

Certain employees receive a portion of their annual performance-related compensation above a certain threshold in the form of EOP notional shares or EOP performance shares (i.e. notional shares which are subject to performance conditions).

Notional shares represent a promise to receive UBS shares at vesting and do not carry voting rights during the vesting period. Notional shares granted before February 2014 have no rights to dividends, whereas awards granted since February 2014 carry a dividend equivalent which may be paid in notional shares or cash and which vests on the same terms and conditions as the awards. However, awards that have been granted to Material Risk Takers (MRTs) or UK Senior Management Function holders (UK SMFs) in February 2018 for the performance year 2017 do not carry such a dividend equivalent.

For employees other than GEB members, EOP awards generally vest in equal instalments in years two and three. The plan includes provisions that enable the firm to trigger forfeiture of some, or all, of any unvested award or portion of an award (a) if an employee commits certain harmful acts and (b) in most cases of terminated employment. EOP expense is recognized in the performance year if the employee meets the retirement eligibility requirements at the date of grant. Otherwise, the expense of each vesting portion of deferred compensation is recognized from the grant date to the earlier of the vesting date or the retirement eligibility date of the employee, on a straight line basis. All EOP expense recognized is subject to an expected forfeiture rate, which was 6.17% at June 30, 2018.

Key Risk Takers (Globally defined as those employees who, by the nature of their role, have been determined to materially set, commit or control significant amounts of the firm's resources and / or exert significant influence over its risk profile), Group Managing Directors or employees whose total compensation exceeds a certain threshold, receive performance shares under EOP. These performance shares only vest in full if certain performance requirements are met. Such performance requirements are currently based on UBS Group's adjusted return on tangible equity and the divisional return on attributed equity over the defined financial years during vesting.

Certain awards, such as replacement awards, may take the form of deferred cash under the EOP rules.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

9. Equity Participation and Other Compensation Plans (continued)

Deferred Contingent Capital Plan ("DCCP")

Similar to EOP awards, certain employees receive a portion of their annual performance-related compensation above a certain threshold in the form of a notional additional tier 1 (AT1) capital instrument.

DCCP awards vest in full five years from grant and are forfeited if UBS's common equity tier 1 (CET1) capital ratio falls below 7% (for employees other than the Group Executive Board). In addition, awards are also forfeited if a viability event occurs (that is, if the Swiss Financial Market Supervisory Authority ("FINMA") provides a written notice to UBS that the DCCP awards must be written down to prevent an insolvency, bankruptcy or failure of UBS, or if UBS receives a commitment of extraordinary support from the public sector that is necessary to prevent such an event). Under the DCCP, employees may receive discretionary annual interest payments. However, no interest is paid on awards that have been granted to MRTs or UK SMFs in February 2018 for the performance year 2017.

Provisions for forfeiture of awarded DCCP and recognition of associated expense are the same as with EOP

Voluntary share-based compensation plans

Equity Plus Plan ("Equity Plus")

Equity Plus is a voluntary plan that provides eligible employees with the opportunity to purchase UBS Group AG shares at market value and receive, at no additional cost, one notional UBS Group AG share for every three shares purchased, up to a maximum annual limit. Share purchases may be made annually from the performance award and / or monthly through deductions from salary. If the shares purchased are held for maximum three years, and in general if the employee remains in employment, the notional shares vest. For notional shares granted since April 2014, employees are entitled to receive a dividend equivalent which may be paid in either notional shares and / or cash.

At June 30, 2018, the amount of non-vested awards not yet recognized in 2018, was \$5 which is expected to be recognized over a weighted average period of 1.54 years.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

10. Members' Equity

At June 30, 2018, members' equity reported on the statement of financial condition includes Class A Interests, Class B Interests and Preferred Interest all of which were held as specified in Note 1. The Preferred Interest is non-voting and has preference over the payment of dividends of the Company's Class A Interest and Class B Interests. Dividends on the Preferred Interest are cumulative and payable quarterly at the London Interbank Offered Rate ("LIBOR"). During 2018, the Company paid Preferred Interest dividends in the amount of \$11,761. The Company, with prior written approval of FINRA, may redeem at any time, any or all of the Preferred Interest at par value plus an amount equal to accrued and unpaid dividends through redemption date.

11. Commitments and Contingencies

Underwriting Commitments

In the normal course of business, the Company enters into underwriting commitments. There were open commitments at June 30, 2018.

Guarantees

The Company is a member of various exchanges and clearinghouses that trade and clear securities and/or derivative contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange or the clearinghouse. While the rules governing different exchange or clearinghouse memberships vary, in general the Company's guarantee obligations would arise only if the exchange or clearinghouse had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the statement of financial condition for these agreements and believes that any potential requirement to make payments under these agreements is remote.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

11. Commitments and Contingencies (continued)

Legal Proceedings

The Company 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, the Company 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 is often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Company 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 Company 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 Company makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, an unfavorable outcome against the Company is determined to be probable and the amount can be reasonably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against the Company but are nevertheless expected to be, based on the Company's experience with similar asserted claims.

Accrual would be inappropriate, but disclosure would be required, if an unfavorable outcome is determined to be reasonably possible but not probable, or if the amount of loss cannot be reasonably estimated. Accordingly, no provision is established in such cases 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.

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 the class of

UBS Securities LLC
Notes to the Statement of Financial Condition

(In Thousands, except share data)

11. Commitments and Contingencies (continued)

Legal Proceedings

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") which the Parent entered into with the U.S. 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 the Parent 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 paid a \$203 million fine and accepted a three-year term of probation. A guilty plea to, or conviction of, a crime (including as a result of termination of the NPA) by the Company, the Parent or another affiliated entity could have material consequences for the Parent or the Company.

Resolution of regulatory proceedings may require the Parent or the Company 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 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 the Parent or the Company.

Auction Rate Securities. The Company and an affiliate have been named in several arbitration and litigation claims asserted by issuers of auction rate securities ("ARS") arising out of the February 2008 ARS market dislocation. As of June 30, 2018, all but one of the actions have been dismissed or resolved. The remaining claim (which is presently tolled pursuant to agreement) seeks damages based on allegations of violations of state and federal securities law.

Residential Mortgage-backed Securities and Mortgages. From 2002 through 2007, prior to the crisis in the U.S. residential loan market, the Company was a substantial underwriter of U.S. RMBS. The Company has been named as a defendant in lawsuits relating to its role as underwriter of RMBS.

In 2014, the U.S. Attorney's Office for the Eastern District of New York issued a subpoena to the Parent pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), seeking documents and information related to its RMBS business from 2005 through 2007. In 2015, the Eastern District of New York identified a number of transactions that are the focus of its inquiry, and subsequently provided a revised list of transactions.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

11. Commitments and Contingencies (continued)

Legal Proceedings

The Parent has provided information in response to this subpoena. The Parent and the Company also received and responded to subpoenas from the New York State Attorney General ("NYAG") and other state attorneys general relating to its RMBS business. In April 2018, the Company and an affiliate entered into a settlement with the NYAG related to this investigation, pursuant to which the Company paid USD 41 million to the NYAG and agreed to provide USD 189 million of consumer relief credits in New York.

In addition, the Company responded to inquiries from both the Special Inspector General for the Troubled Asset Relief Program ("SIGTARP") (who is working in conjunction with the U.S. Attorney's Office for Connecticut and the Department of Justice) and the SEC relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through 2014. The Company has not heard from SIGTARP or the SEC about these matters for some time. Unless that changes, the Company will not include these matters in future disclosures.

Equities Trading Systems and Practices. The Company has responded to inquiries concerning its securities order routing and execution practices from various authorities, including the SEC and the NYAG, who reportedly are pursuing similar investigations industry-wide. The Company has not heard from the SEC and the NYAG about these matters for some time. Unless that changes, the Company will not include these matters in future disclosures

Government Bonds. Putative class actions have been filed in US federal courts against the Company, the Parent 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 treasury securities sold at auction. They assert claims under the antitrust laws and the Commodity Exchange Act and for unjust enrichment. The cases have been consolidated in the Southern District of New York. Additionally, the Company, the Parent and reportedly other banks have received requests for information from various authorities regarding US treasury securities and government bond trading practices. As a result of its review to date, UBS has taken appropriate action and is cooperating with the authorities.

Interest rate swaps and CDS matters. In 2016, putative class action plaintiffs filed consolidated amended complaints in the Southern District of New York against numerous financial institutions and others, including the Company and the Parent, alleging violations of the US Sherman Antitrust Act and common law.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

11. Commitments and Contingencies (continued)

Legal Proceedings

Plaintiffs allege that the defendants unlawfully conspired to restrain competition in the market for Interest Rate Swap ("IRS") trading. Plaintiffs assert claims on behalf of all purchasers and sellers of IRS that transacted directly with any of the dealer defendants since January 1, 2008, and seek unspecified trebled compensatory damages and other relief. The operators of two swap execution facilities ("SEFs") filed complaints raising similar allegations. In July 2017, the court granted in part and denied in part defendants' motions to dismiss, limiting the claims to the time period 2013-2016, and dismissing certain state-law claims and claims against certain other defendants. In June 2018, a third SEF filed a complaint alleging conduct similar to the conduct alleged by the other SEF plaintiffs but continuing into 2018. Defendants have moved to dismiss that complaint. Following the filing of the litigation, the Parent was served with a subpoena from the U.S. Commodity Futures Trading Commission ("CFTC") seeking documents and information regarding UBS's swap trading and Futures Commission Merchant businesses going back to 2008. In June 2017, one of the SEF plaintiffs filed a complaint raising allegations similar to those in the IRS litigation with respect to the trading of credit default swaps.

12. Related Party Transactions

The related party balances set forth in the tables below resulted from transactions between the Company and affiliates in the normal course of the business as part of its trading, clearing, financing and general operations. Allocations between the Company, Parent and affiliates are subject to Service Level Agreements.

As of June 30, 2018, amounts from and to Parent and affiliates are set forth below:

Assets:

Cash and cash equivalents	\$	119,220
Cash segregated and on deposit for federal and other regulations		4,343
Collateralized agreements:		
Securities borrowed		3,747,895
Securities purchased under agreements to resell (Includes \$77,066 at fair value)		198,742
Securities received as collateral		1,014,383
Receivables from brokers, dealers and clearing organizations		766,193
Receivables from customers		1,169
Dividends and interest receivable		16,671
Other assets		96,512

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

12. Related Party Transactions (continued)

Liabilities:

Short-term borrowings	\$	8,721,989
Collateralized agreements:		
Securities loaned		2,741,766
Securities sold under agreements to repurchase (Includes \$161,032 at fair value)		7,664,591
Obligation to return securities received as collateral		1,014,383
Payables to brokers, dealers and clearing organizations		1,320,057
Payables to customers		3,999
Dividends and interest payable		78,396
Other liabilities and accrued expenses		75,279

Banking Activities

The Company maintains certain bank accounts at affiliated banks to segregate customer funds for regulatory purposes and to settle certain transactions in foreign currencies. Certain amounts are held at affiliated banks to segregate customer funds are reported in cash segregated and on deposit for federal and other regulations on the statement of financial condition. As of June 30, 2018, segregated customer funds were held at affiliated UBS Stamford Branch. Other bank balances at affiliated banks are reported in cash and cash equivalents or short-term borrowings on the statement of financial condition. Outstanding balances at June 30, 2018 are as reflected in the table above.

Brokerage Activities

The Company clears customer and proprietary commodity transactions primarily for UBS London Branch. Receivables and payables in connection with these services are reported in receivable from and payable to brokers, dealers and clearing organizations on the statement of financial condition. At June 30, 2018, receivables and payables related commodity transactions totaled \$201,843 and \$83,102 respectively. A commission is either earned or charged related to these transactions.

The Company also provides securities and futures execution, clearance and custody services primarily for UBS London Branch. Receivables and payables in connection with these services are reported in receivable from and payable to brokers, dealers and clearing organizations on the statement of financial condition. At June 30, 2018, receivables and payables related securities and futures execution totaled \$139,910 and \$562,123 respectively.

UBS Securities LLC
Notes to the Statement of Financial Condition

(In Thousands, except share data)

12. Related Party Transactions (continued)

Brokerage Activities

At times, affiliates, primarily UBS London Branch and UBS Limited, are counterparties to trades executed by the Company. In the event these trades fail to settle on contractual settlement date, outstanding receivables or payables are reported in receivable from and payable to brokers, dealers and clearing organizations on the statement of financial condition. At June 30, 2018, receivables and payables related to fails totaled \$424,440 and \$674,832, respectively.

SEC Rule 15a-6 Transactions

Sec LLC acts as chaperoning broker with respects to trades between certain foreign affiliates and their US clients in accordance with SEC Rule 15a-6. These transactions need not be included on balance sheet. In this capacity, the Company may be exposed to the risk of the foreign affiliates' non- performance. This risk is considered to be remote. The revenues and expenses associated with this arrangement are included in Service fees from Affiliates and Service charges from Affiliates.

Collateralized Financing Activities

The Company enters into resale and repurchase agreements primarily with UBS Financial Services Inc. as well as other affiliates under master repurchase agreements. Resale agreements, which are entered into primarily to facilitate client activities and to cover short sales, are reported in securities purchased under agreement to resell on the statement of financial condition and are as set forth in the table above. Repurchase agreements, which are entered into for financing purpose, are reported in securities sold under agreements to repurchase on the statement of financial condition and are as set forth on the table above.

The Company enters into securities borrow and securities loan transactions primarily with UBS London Branch under securities lending agreements. Securities borrow activities, which are entered into for short sales and other financing activities are reported in securities borrowed on the statement of financial condition and are as set forth above. Securities loan activities, which are entered into for financing purposes, are reported in securities loaned on the statement of financial condition and are as set forth in the table above.

The Company enters into unsecured short-term lending agreements with UBS Americas Holding LLC and UBS Americas Inc. Short-term borrowings are due on demand and bear interest based on variable rates ranging from 1.95% to 2.60% as of June 30, 2018.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

12. Related Party Transactions (continued)

Collateralized Financing Activities

Balances related to these agreements are reported as short-term borrowings on the statement of financial condition and are represented in the table above.

The Company also enters into term subordinated lending agreements with UBS Americas Holding LLC and UBS Americas Inc. This subordinated debt is reported in the Liabilities and Members' Equity section of the statement of financial condition. See Note 13.

Affiliate Arrangements

Pursuant to various service fee arrangements, the Company provides and receives services to and from affiliates. The related receivable and payable are included in other assets and other liabilities and accrued expenses on the statement of financial condition.

The Company primarily uses office space leased by the UBS AG New York Branch, and is charged accordingly under the aforementioned service fee arrangements.

The Company is provided technical, operational and computer service support primarily through UBS Business Solutions LLC, an affiliated entity, in the normal course of business.

In addition, other costs were initially expensed in UBS affiliated companies and allocated back to the Company on a regular basis through the use of service level agreements.

13. Subordinated Borrowings

The Company has subordinated loans with UBS Americas Holding LLC, consisting of term loans of \$525,000 maturing on December 29, 2020, \$750,000 maturing on November 30, 2022, \$750,000 maturing on April 30, 2023 and \$500,000 maturing on January 31, 2024.

The Company also has a revolving subordinated loans agreement with UBS Americas Inc. which has a credit line of \$6,000,000 with a final maturity at December 31, 2019. As of June 30, 2018, the Company has drawn down \$2,350,000 of the \$6,000,000.

Loans with UBS Americas Holding LLC and UBS Americas Inc. bear interest at rates that reset at variable intervals as determined by the Parent, based upon similar funding costs charged by the Parent, which approximated one month LIBOR at June 30, 2018.

These subordinated borrowings are available in computing regulatory net capital. See Note 15.

UBS Securities LLC
Notes to the Statement of Financial Condition

(In Thousands, except share data)

14. Asset-Backed Securitization Vehicles

The Company is in the business of underwriting securitizations (i.e., helped transform financial assets into securities through sales transactions) of securities and other financial assets, principally mortgage-backed and asset-backed securities, acting as lead or co-manager. The Company's continuing involvement in these securitization transactions was primarily limited to the temporary retention of various securities.

At June 30, 2018, the Company retained \$101,080 in CMBS and \$13,764 in non-agency residential mortgage securities related to securitizations in which the Company acted as underwriter, and either the Company or an affiliate acted as transferor. These retained interests are generally valued using observable market prices and, when available, are verified by external pricing sources. In addition to positions retained at primary issuance, retained interests include positions acquired in secondary markets subsequent to securitizations. The majority of the retained interests in securities are rated investment grade or higher. Retained interests are included in financial instruments owned, at fair value on the statement of financial condition.

The Company and its affiliates sponsored securitizations utilize special purpose entities (SPEs) as part of the securitization process. The Company is involved with various entities in the normal course of business that may be deemed to be VIEs. The Company's variable interests in such VIEs predominately include debt and equity interests. At June 30, 2018, the Company did not have any material VIEs that had to be consolidated.

The Company does not have any explicit or implicit incremental arrangements that could require it to provide financial support (for example, liquidity arrangements and obligations to purchase assets) to such VIEs, including events and circumstances that could expose the Company to loss.

The Company has not provided financial or other support during the period to such VIEs that it was not previously contractually required to provide.

15. Net Capital Requirements and Other Regulatory Matters

As a registered broker-dealer with the SEC, the Company is subject to the SEC's net capital rule (Rule 15c3-1). The Company computes its net capital requirements under the alternative method provided for in Rule 15c3-1, which requires that the Company maintain net capital equal to the greater of 2% of aggregate customer-related debit items, as defined, or the risk based capital requirement under the Commodity Exchange Act. At June 30, 2017, the Company had net capital of \$5,646,246 which was \$5,094,881 in excess of the required net capital of \$551,365. The Company's ratio of net capital to aggregate debit items was 23%.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

15. Net Capital Requirements and Other Regulatory Matters (continued)

Advances to affiliates, repayment of subordinated liabilities, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rule of the SEC and other regulatory bodies.

The Company is also subject to certain conditions imposed by the Federal Reserve Board, including limitations on certain activities with affiliates.

16. Income Taxes

New tax legislation, commonly referred to as the Tax Cuts and Jobs Act (“the Act”), was enacted on December 22, 2017. The Act reduces the federal corporate income tax rate to 21%, creates a territorial tax system (with a one-time mandatory tax on previously deferred foreign earnings), broadens the tax base and allows for immediate capital expensing of certain qualified property, requires companies to pay minimum taxes on certain foreign earnings, subjects certain payments from corporations to foreign related parties to a minimum tax and limits deductions related to compensation and meals and entertainment. ASC 740, *Accounting for Income Taxes*, requires companies to recognize the effect of tax law changes in the period of enactment.

Given the significance of the legislation, the SEC staff issued Staff Accounting Bulletin No. 118 (SAB 118), which allows registrants to record provisional amounts during a one year “measurement period.” The measurement period is deemed to end earlier when the registrant has obtained, prepared and analyzed the information necessary to finalize its accounting. During the measurement period, impacts of the law are expected to be recorded at the time a reasonable estimate for all or a portion of the effects can be made, and provisional amounts can be recognized and adjusted as information becomes available, prepared or analyzed. The FASB staff would not object to the application of SAB 118 to private companies. The Company has applied the provisions of SAB 118.

SAB 118 summarizes a three-step process to be applied at each reporting period to account for and qualitatively disclose: (1) the effects of the change in tax law for which accounting is complete; (2) provisional amounts (or adjustments to provisional amounts) for the effects of the tax law where accounting is not complete, but that a reasonable estimate has been determined; and (3) a reasonable estimate cannot yet be made and therefore taxes are reflected in accordance with law prior to the enactment of the Act.

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

16. Income Taxes (continued)

As the Company's income tax provision is based on information available at this time and may change upon the issuance of clarifying guidance and/or the discovery of additional information, the accounting for the impact of the Act is considered provisional. As of June 30, 2018, management does not believe that the impact of the Act will materially impact the Company's financial statements.

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. For financial reporting purposes, net deferred tax assets are included in the assets in the statement of financial condition and are reflected with a reduction for a valuation allowance.

In accordance with ASC Topic 740, if it is more likely than not that the ultimate realization of deferred tax assets is not going to be recognized, a valuation allowance should be recorded. In assessing the recoverability of the deferred tax assets, the Company considered all available positive and negative evidence, including history of earnings as well as all possible tax planning strategies.

After consideration of all relevant evidence, the Company believes that it is more likely than not that a benefit will not be realized for any of its deferred tax assets, and accordingly, a valuation allowance of \$866,673 has been recorded. Since December 31, 2017, the valuation allowance decreased by \$10,792.

The components of the Company's deferred tax assets and liabilities as of June 30, 2018 were as follows:

Net Operating Loss Carry forwards	\$ 842,461
Employee Benefits	22,795
Other Deferred Tax Assets	<u>3,518</u>
Total Deferred Tax Assets	868,774
Less: Valuation Allowance	<u>(866,673)</u>
Deferred Tax Assets Net of Valuation Allowance	2,101
Less: Deferred Tax Liabilities	<u>(2,101)</u>
Total Net Deferred Tax Assets	<u><u>\$ -</u></u>

UBS Securities LLC
Notes to the Statement of Financial Condition (continued)

(In Thousands, except share data)

16. Income Taxes (continued)

At June 30, 2018 the Company had UBT net operating loss carryforwards of \$21,463,354 that will begin to expire in 2028. For UBT purposes, there is generally no carryback allowed.

At June 30, 2018 the Company had UBT net operating loss carryforwards of \$21,463,354 that will begin to expire in 2028. For UBT purposes, there is generally no carryback allowed.

The Company files U.S. federal, state and local income tax returns as a partnership. As of June 30, 2018, the Company is under examination by the IRS for the tax years 2012 through 2014 and tax years 2015 and 2016 are open for examination. For New York City UBT purposes, tax years 2014 through 2016 are open to examination. The Company files Canadian corporate tax returns and the 2014 through 2017 tax years are open for examination.

In the next twelve months, the Company believes that unrecognized tax benefits will decrease by \$5,000.

17. Subsequent Event

The Company has evaluated its subsequent event disclosure through September 13, 2018, the date that the Company's statement of financial condition was issued, and has determined that there are no events that would have a material impact on the statement of financial condition.