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

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**FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934**

**Date: July 27, 2018**

**UBS AG**  
**Commission File Number: 1-15060**

(Registrant's Name)

Bahnhofstrasse 45, Zurich, Switzerland and  
Aeschenvorstadt 1, Basel, Switzerland  
(Address of principal executive offices)

Indicate by check mark whether the registrants file or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F

Form 40-F

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This Form 6-K consists of the Second Quarter 2018 Report of UBS AG, which appears immediately following this page.



# UBS AG

**Second** quarter 2018 report



## Corporate calendar UBS AG

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Publication of the third quarter 2018 report: Wednesday, 31 October 2018

Publication dates of further quarterly and annual reports and results will be made available as part of the corporate calendar of UBS AG at [www.ubs.com/investors](http://www.ubs.com/investors)

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# UBS AG consolidated key figures

## UBS AG (consolidated) key figures

CHF million, except where indicated	As of or for the quarter ended				As of or year-to-date	
	30.6.18	31.3.18	31.12.17	30.6.17	30.6.18	30.6.17
<b>Results</b>						
Operating income	7,641	7,823	7,242	7,398	15,464	14,958
Operating expenses	6,089	6,040	6,487	5,957	12,128	11,876
Operating profit / (loss) before tax	1,553	1,783	755	1,441	3,336	3,082
Net profit / (loss) attributable to shareholders	1,183	1,370	(2,412)	1,123	2,553	2,354
<b>Key performance indicators<sup>1</sup></b>						
<b>Profitability and growth</b>						
Return on tangible equity (%)	10.9	12.5	(21.0)	10.0	11.7	10.4
Cost / income ratio (%)	79.4	77.0	88.5	80.0	78.2	79.2
Net profit growth (%)	5.3	11.3		11.3	8.5	36.6
<b>Resources</b>						
Common equity tier 1 capital ratio (%) <sup>2</sup>	13.4	13.2	14.0	13.8	13.4	13.8
Common equity tier 1 leverage ratio (%) <sup>2</sup>	3.73	3.78	3.75	3.78	3.73	3.78
Going concern leverage ratio (%) <sup>2</sup>	4.5	4.6	4.2	4.2	4.5	4.2
<b>Additional information</b>						
<b>Profitability</b>						
Return on equity (%)	9.4	10.8	(18.6)	8.7	10.1	9.0
Return on risk-weighted assets, gross (%) <sup>3</sup>	12.1	12.8	12.4	13.0	12.5	13.3
Return on leverage ratio denominator, gross (%) <sup>3</sup>	3.4	3.5	3.3	3.4	3.5	3.4
<b>Resources</b>						
Total assets	945,296	920,280	916,363	891,763	945,296	891,763
Equity attributable to shareholders	49,961	50,788	50,718	51,735	49,961	51,735
Common equity tier 1 capital <sup>2</sup>	33,686	33,424	33,240	32,558	33,686	32,558
Risk-weighted assets <sup>2</sup>	251,648	253,784	236,606	236,552	251,648	236,552
Going concern capital ratio (%) <sup>2</sup>	16.2	15.9	15.6	15.3	16.2	15.3
Total loss-absorbing capacity ratio (%) <sup>2</sup>	31.7	30.7	31.4	29.7	31.7	29.7
Leverage ratio denominator <sup>2</sup>	903,467	883,676	887,189	861,919	903,467	861,919
Total loss-absorbing capacity leverage ratio (%) <sup>2</sup>	8.8	8.8	8.4	8.1	8.8	8.1
<b>Other</b>						
Invested assets (CHF billion) <sup>4</sup>	3,242	3,155	3,179	2,911	3,242	2,911
Personnel (full-time equivalents) <sup>5</sup>	46,597	46,433	46,009	48,476	46,597	48,476

<sup>1</sup> Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. <sup>2</sup> Based on the Swiss systemically relevant bank framework as of 1 January 2020. Refer to the "Capital management" section of the UBS Group second quarter 2018 report for more information. <sup>3</sup> Calculated as operating income before credit loss (annualized as applicable) / average risk-weighted assets and average leverage ratio denominator, respectively. <sup>4</sup> Includes invested assets for Personal & Corporate Banking. <sup>5</sup> As of 30 June 2018, the breakdown of personnel by business division and Corporate Center unit was: Global Wealth Management: 23,402; Personal & Corporate Banking: 5,057; Asset Management: 2,300; Investment Bank: 4,562; Corporate Center – Services: 11,082; Corporate Center – Group ALM: 148; Corporate Center – Non-core and Legacy Portfolio: 47.

# Introduction

## Structure of this report

Following the establishment of UBS Group AG as the holding company for the UBS Group and the parent company of UBS AG, UBS Group AG is the primary financial reporting entity for the UBS Group. 100% of UBS AG's issued shares are held by UBS Group AG. Financial information for UBS AG consolidated does not differ materially from that for UBS Group AG consolidated.

This report includes risk and capital management information for UBS AG consolidated and the interim consolidated financial statements, as well as UBS AG standalone financial information for the quarter ended 30 June 2018. Regulatory information for UBS AG standalone is provided in the 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August 2018 under "Pillar 3 disclosures" at [www.ubs.com/investors](http://www.ubs.com/investors).

→ **Refer to the UBS Group second quarter 2018 report under "Quarterly reporting" at [www.ubs.com/investors](http://www.ubs.com/investors) for more information**

## Comparison UBS Group AG consolidated vs UBS AG consolidated

The table on the following page contains a comparison of selected financial and capital information between UBS Group AG consolidated and UBS AG consolidated.

The accounting policies applied under International Financial Reporting Standards (IFRS) to both UBS Group AG and UBS AG consolidated financial statements are identical. However, there are certain scope and presentation differences as noted below:

- Assets, liabilities, operating income, operating expenses and operating profit before tax relating to UBS Group AG and its directly held subsidiaries, including UBS Business Solutions AG, are reflected in the consolidated financial statements of UBS Group AG but not of UBS AG. UBS AG's assets, liabilities, operating income and operating expenses related to transactions with UBS Group AG and its directly held subsidiaries, including UBS Business Solutions AG and other shared services subsidiaries, are not subject to elimination in the UBS AG consolidated financial statements, but are eliminated in the UBS Group AG consolidated financial statements. UBS Business Solutions AG and other shared services subsidiaries of UBS Group charge other legal entities within the Group for services provided, including a markup on costs incurred.

- UBS Group AG consolidated equity was CHF 0.8 billion higher compared to the equity of UBS AG consolidated, mainly driven by higher dividends paid by UBS AG to UBS Group AG compared with the dividend distributions of UBS Group AG, as well as higher retained earnings in the UBS Group AG consolidated financial statements, largely related to the aforementioned markup charged by shared services subsidiaries of UBS Group AG to other legal entities within the Group. UBS Group AG is also the grantor of the majority of the compensation plans of the Group and recognizes share premium for equity-settled awards granted, largely offset by the treasury shares held to hedge the related share delivery obligation and those acquired as part of our share repurchase program. These effects were partly offset by additional share premium recognized at the UBS AG consolidated level related to the establishment of UBS Group AG and UBS Business Solutions AG, a wholly owned subsidiary of UBS Group AG.
- Going concern capital of UBS AG consolidated was CHF 4.1 billion lower than going concern capital of UBS Group AG consolidated as of 30 June 2018, reflecting lower additional tier 1 (AT1) capital of CHF 4.0 billion and lower common equity tier 1 (CET1) capital of CHF 0.1 billion.
- CET1 capital of UBS AG consolidated was CHF 0.1 billion lower than that of UBS Group AG consolidated, primarily due to the aforementioned lower equity of UBS AG consolidated, as well as a higher dividend accrual at the UBS AG level. These effects were largely offset by deductions for compensation-related regulatory capital components that are only reflected at the level of UBS Group AG consolidated.
- Going concern loss-absorbing AT1 capital of UBS AG consolidated was CHF 4.0 billion lower than that of UBS Group AG consolidated and relates to AT1 capital notes issued by UBS Group Funding (Switzerland) AG, a direct subsidiary of UBS Group AG, as well as Deferred Contingent Capital Plan awards.
  - **Refer to "Holding company and significant regulated subsidiaries and sub-groups" at [www.ubs.com/investors](http://www.ubs.com/investors) for an illustration of the consolidation scope differences between UBS AG and UBS Group AG**
  - **Refer to the "Capital management" section of this report for more information on differences in the loss-absorbing capacity between UBS Group AG consolidated and UBS AG consolidated**



**Substitution of UBS Group AG as issuer of loss-absorbing AT1 capital instruments with UBS Group Funding (Switzerland) AG**

Effective as of 25 May 2018, UBS has substituted UBS Group AG as issuer of certain outstanding loss-absorbing additional tier 1 capital instruments with UBS Group Funding (Switzerland) AG. The amount presented in UBS AG consolidated balance sheet in the line *Funding from UBS Group AG and its subsidiaries* for 30 June 2018 relates entirely to balances outstanding with UBS Group Funding (Switzerland) AG.

**Dividend payment to UBS Group AG**

During the second quarter of 2018, a cash dividend of CHF 3,065 million was paid by UBS AG out of retained earnings to UBS Group AG, as approved at the Annual General Meeting of Shareholders held on 26 April 2018.

**Comparison UBS Group AG consolidated versus UBS AG consolidated**

CHF million, except where indicated	As of or for the quarter ended 30.6.18		
	UBS Group AG (consolidated)	UBS AG (consolidated)	Difference (absolute)
<b>Income statement</b>			
Operating income	7,554	7,641	(88)
Operating expenses	5,875	6,089	(213)
Operating profit / (loss) before tax	1,679	1,553	126
<i>of which: Global Wealth Management</i>	1,037	1,027	9
<i>of which: Personal &amp; Corporate Banking</i>	368	368	0
<i>of which: Asset Management</i>	101	101	0
<i>of which: Investment Bank</i>	569	549	20
<i>of which: Corporate Center</i>	(396)	(492)	96
<i>of which: Services</i>	(172)	(260)	88
<i>of which: Group ALM</i>	(206)	(214)	8
<i>of which: Non-core and Legacy Portfolio</i>	(18)	(18)	0
Net profit / (loss)	1,285	1,184	101
<i>of which: net profit / (loss) attributable to shareholders</i>	1,284	1,183	101
<i>of which: net profit / (loss) attributable to preferred noteholders</i>			
<i>of which: net profit / (loss) attributable to non-controlling interests</i>	1	1	0
<b>Statement of comprehensive income</b>			
Other comprehensive income	1,057	1,066	(8)
<i>of which: attributable to shareholders</i>	1,060	1,068	(8)
<i>of which: attributable to preferred noteholders</i>			
<i>of which: attributable to non-controlling interests</i>	(2)	(2)	0
Total comprehensive income	2,342	2,250	92
<i>of which: attributable to shareholders</i>	2,343	2,251	92
<i>of which: attributable to preferred noteholders</i>			
<i>of which: attributable to non-controlling interests</i>	(1)	(1)	0
<b>Balance sheet</b>			
Total assets	944,482	945,296	(813)
Total liabilities	893,649	895,275	(1,626)
Total equity	50,834	50,021	813
<i>of which: equity attributable to shareholders</i>	50,774	49,961	813
<i>of which: equity attributable to non-controlling interests</i>	60	60	0
<b>Capital information</b>			
Common equity tier 1 capital	33,817	33,686	132
Going concern capital	44,956	40,823	4,133
Risk-weighted assets	252,373	251,648	724
Common equity tier 1 capital ratio (%)	13.4	13.4	0.0
Going concern capital ratio (%)	17.8	16.2	1.6
Total loss-absorbing capacity ratio (%)	32.3	31.7	0.6
Leverage ratio denominator	902,408	903,467	(1,058)
Common equity tier 1 leverage ratio (%)	3.75	3.73	0.02
Going concern leverage ratio (%)	5.0	4.5	0.5
Total loss-absorbing capacity leverage ratio (%)	9.0	8.8	0.2

As of or for the quarter ended 31.3.18			As of or for the quarter ended 31.12.17		
UBS Group AG (consolidated)	UBS AG (consolidated)	Difference (absolute)	UBS Group AG (consolidated)	UBS AG (consolidated)	Difference (absolute)
7,698	7,823	(125)	7,122	7,242	(120)
5,725	6,040	(315)	6,266	6,487	(221)
1,973	1,783	190	855	755	100
1,129	1,117	12	782	778	4
419	420	(1)	392	393	(1)
106	106	0	238	238	0
589	577	12	49	50	(1)
(270)	(437)	167	(605)	(704)	99
(35)	(210)	175	(155)	(252)	97
(222)	(214)	(8)	(214)	(217)	3
(12)	(13)	1	(236)	(236)	0
1,516	1,371	144	(2,310)	(2,385)	75
1,514	1,370	144	(2,336)	(2,412)	76
1	1	0	27	0	(26)
					27
(819)	(732)	(87)	184	187	(3)
(820)	(732)	(88)	(124)	(122)	(2)
0	0	0	309	307	(307)
696	639	57	2	2	307
695	638	57	(2,125)	(2,198)	73
1	1	0	(2,461)	(2,534)	73
				333	(333)
			336	3	333
919,361	920,280	(919)	915,642	916,363	(721)
868,056	869,430	(1,374)	864,371	865,588	(1,217)
51,305	50,850	455	51,271	50,775	496
51,243	50,788	455	51,214	50,718	496
62	62	0	57	57	0
33,151	33,424	(273)	32,671	33,240	(569)
44,026	40,335	3,691	41,911	36,906	5,005
253,753	253,784	(32)	237,494	236,606	888
13.1	13.2	(0.1)	13.8	14.0	(0.2)
17.3	15.9	1.5	17.6	15.6	2.0
31.2	30.7	0.5	33.0	31.4	1.6
882,469	883,676	(1,207)	886,116	887,189	(1,073)
3.76	3.78	(0.03)	3.69	3.75	(0.06)
5.0	4.6	0.4	4.7	4.2	0.5
9.0	8.8	0.2	8.8	8.4	0.4



# Risk and capital management

Management report

# Risk management and control

## **UBS AG consolidated risk profile**

The risk profile of UBS AG consolidated does not differ materially from that of UBS Group AG consolidated and risk information provided in the UBS Group second quarter 2018 report is equally applicable to UBS AG consolidated.

The credit risk profile of UBS AG consolidated differs from that of UBS Group AG consolidated primarily in relation to

receivables of UBS AG and UBS Switzerland AG from UBS Group AG. As a result of these receivables, total banking products exposure of UBS AG consolidated as of 30 June 2018 was CHF 2.3 billion or 0.5% higher than the exposure of UBS Group, compared with CHF 2.4 billion or 0.5% as of 31 March 2018.

→ **Refer to the “Risk management and control” section of the UBS Group second quarter 2018 report for more information**

# Capital management

## Going and gone concern requirements and information

UBS is considered a systemically relevant bank (SRB) under Swiss banking law and, on a consolidated basis, both UBS Group AG and UBS AG are required to comply with regulations based on the Basel III framework as applicable for Swiss SRBs.

The Swiss SRB framework and requirements applicable to UBS AG consolidated are consistent with those applicable to UBS Group AG consolidated and are described in the "Capital management" section of our Annual Report 2017, available under "Annual reporting" at [www.ubs.com/investors](http://www.ubs.com/investors).

UBS AG is subject to going concern requirements on a standalone basis. Capital and other regulatory information for UBS AG standalone is provided in the 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August under "Pillar 3 disclosures" at [www.ubs.com/investors](http://www.ubs.com/investors).

The table below provides the risk-weighted assets (RWA)- and leverage ratio denominator (LRD)-based requirements and information as of 30 June 2018 for UBS AG consolidated.

## Swiss SRB going and gone concern requirements and information<sup>1</sup>

As of 30.6.18	Swiss SRB, including transitional arrangements				Swiss SRB as of 1.1.20			
CHF million, except where indicated	RWA		LRD		RWA		LRD	
	in %		in %		in %		in %	
<b>Required loss-absorbing capacity</b>								
<b>Common equity tier 1 capital</b>	9.72	24,457	2.90	26,201	10.26	25,816	3.50	31,621
of which: minimum capital	5.40	13,589	1.90	17,166	4.50	11,324	1.50	13,552
of which: buffer capital	4.06	10,217	1.00	9,035	5.50	13,841	2.00	18,069
of which: countercyclical buffer <sup>2</sup>	0.26	651			0.26	651		
<b>Maximum additional tier 1 capital</b>	3.40	8,556	1.10	9,938	4.30	10,821	1.50	13,552
of which: high-trigger loss-absorbing additional tier 1 minimum capital	2.60	6,543	1.10	9,938	3.50	8,808	1.50	13,552
of which: high-trigger loss-absorbing additional tier 1 buffer capital	0.80	2,013			0.80	2,013		
<b>Total going concern capital</b>	13.12	33,013	4.00	36,139	14.56 <sup>3</sup>	36,636	5.00 <sup>3</sup>	45,173
Base gone concern loss-absorbing capacity, including applicable add-ons and rebate	7.65 <sup>4</sup>	19,261	2.58 <sup>4</sup>	23,309	12.30 <sup>5</sup>	30,948	4.30 <sup>5</sup>	38,849
<b>Total gone concern loss-absorbing capacity</b>	7.65	19,261	2.58	23,309	12.30	30,948	4.30	38,849
<b>Total loss-absorbing capacity</b>	20.77	52,274	6.58	59,448	26.86	67,584	9.30	84,022
<b>Eligible loss-absorbing capacity</b>								
<b>Common equity tier 1 capital</b>	13.39	33,686	3.73	33,686	13.39	33,686	3.73	33,686
<b>High-trigger loss-absorbing additional tier 1 capital<sup>6</sup></b>	5.36	13,477	1.49	13,477	2.84	7,138	0.79	7,138
of which: high-trigger loss-absorbing additional tier 1 capital	2.84	7,138	0.79	7,138	2.84	7,138	0.79	7,138
of which: low-trigger loss-absorbing tier 2 capital	2.52	6,339	0.70	6,339				
<b>Total going concern capital</b>	18.74	47,163	5.22	47,163	16.22	40,823	4.52	40,823
<b>Gone concern loss-absorbing capacity</b>	12.94	32,552	3.60	32,552	15.45	38,892	4.30	38,892
of which: TLAC-eligible debt	11.57	29,123	3.22	29,123	11.57	29,123	3.22	29,123
<b>Total gone concern loss-absorbing capacity</b>	12.94	32,552	3.60	32,552	15.45	38,892	4.30	38,892
<b>Total loss-absorbing capacity</b>	31.68	79,715	8.82	79,715	31.68	79,715	8.82	79,715
<b>Risk-weighted assets / leverage ratio denominator</b>								
Risk-weighted assets		251,648				251,648		
Leverage ratio denominator				903,467				903,467

## Risk-weighted assets / leverage ratio denominator

Risk-weighted assets	251,648		251,648
Leverage ratio denominator		903,467	903,467

<sup>1</sup> This table includes a rebate equal to 35% of the maximum rebate on the gone concern requirements, which was granted by FINMA and will be phased in until 1 January 2020. This table does not include a rebate for the usage of low-trigger loss-absorbing additional tier 1 or tier 2 capital instruments to meet the gone concern requirements. <sup>2</sup> Going concern capital ratio requirements include countercyclical buffer requirements of 0.26%. <sup>3</sup> Includes applicable add-ons of 1.44% for risk-weighted assets (RWA) and 0.5% for leverage ratio denominator (LRD). <sup>4</sup> Includes applicable add-ons of 0.72% for RWA and 0.25% for LRD and a rebate of 1.25% for RWA and 0.42% for LRD. <sup>5</sup> Includes applicable add-ons of 1.44% for RWA and 0.5% for LRD and a rebate of 2% for RWA and 0.7% for LRD. <sup>6</sup> Includes outstanding low-trigger loss-absorbing tier 2 capital instruments, which are available under the transitional rules of the Swiss SRB framework to meet the going concern requirements until the earlier of (i) their maturity or first call date or (ii) 31 December 2019, and to meet gone concern requirements thereafter. Outstanding low-trigger loss-absorbing tier 2 capital instruments are subject to amortization starting five years prior to their maturity, with the amortized portion qualifying as gone concern loss-absorbing capacity. Instruments available to meet gone concern requirements are eligible until one year before maturity, with a haircut of 50% applied in the last year of eligibility.

## Swiss SRB going and gone concern information

CHF million, except where indicated	Swiss SRB, including transitional arrangements			Swiss SRB as of 1.1.20		
	30.6.18	31.3.18	31.12.17 <sup>1</sup>	30.6.18	31.3.18	31.12.17
<b>Going concern capital</b>						
<b>Common equity tier 1 capital</b>	<b>33,686<sup>2</sup></b>	33,424 <sup>2</sup>	36,042	<b>33,686<sup>2</sup></b>	33,424 <sup>2</sup>	33,240
High-trigger loss-absorbing additional tier 1 capital	<b>7,138</b>	6,911	2,371 <sup>3</sup>	<b>7,138</b>	6,911	3,666
<b>Total loss-absorbing additional tier 1 capital</b>	<b>7,138</b>	6,911	2,371	<b>7,138</b>	6,911	3,666
<b>Total tier 1 capital</b>	<b>40,823</b>	40,335	38,412	<b>40,823</b>	40,335	36,906
Low-trigger loss-absorbing tier 2 capital <sup>4</sup>	<b>6,339</b>	7,698	7,874			
<b>Total tier 2 capital</b>	<b>6,339</b>	7,698	7,874			
<b>Total going concern capital</b>	<b>47,163</b>	48,033	46,286	<b>40,823</b>	40,335	36,906
<b>Gone concern loss-absorbing capacity<sup>5</sup></b>						
Low-trigger loss-absorbing additional tier 1 capital <sup>6</sup>	<b>2,357</b>	2,340	1,183	<b>2,357</b>	2,340	1,183
<b>Total tier 1 capital</b>	<b>2,357</b>	2,340	1,183	<b>2,357</b>	2,340	1,183
Low-trigger loss-absorbing tier 2 capital <sup>4</sup>	<b>376</b>	365	378	<b>6,716</b>	8,063	8,252
Non-Basel III-compliant tier 2 capital <sup>7</sup>	<b>696</b>	684	689	<b>696</b>	684	689
<b>Total tier 2 capital</b>	<b>1,072</b>	1,049	1,067	<b>7,412</b>	8,747	8,941
<b>TLAC-eligible debt</b>	<b>29,123</b>	26,431	27,233	<b>29,123</b>	26,431	27,233
<b>Total gone concern loss-absorbing capacity</b>	<b>32,552</b>	29,819	29,483	<b>38,892</b>	37,517	37,357
<b>Total loss-absorbing capacity</b>						
<b>Total loss-absorbing capacity</b>	<b>79,715</b>	77,852	75,769	<b>79,715</b>	77,852	74,263
<b>Risk-weighted assets / leverage ratio denominator</b>						
Risk-weighted assets	<b>251,648<sup>2</sup></b>	253,784 <sup>2</sup>	237,456	<b>251,648<sup>2</sup></b>	253,784 <sup>2</sup>	236,606
Leverage ratio denominator	<b>903,467</b>	883,676	888,687	<b>903,467</b>	883,676	887,189
<b>Capital and loss-absorbing capacity ratios (%)</b>						
Going concern capital ratio	<b>18.7</b>	18.9	19.5	<b>16.2</b>	15.9	15.6
<i>of which: common equity tier 1 capital ratio</i>	<b>13.4</b>	13.2	15.2	<b>13.4</b>	13.2	14.0
Gone concern loss-absorbing capacity ratio	<b>12.9</b>	11.7	12.4	<b>15.5</b>	14.8	15.8
Total loss-absorbing capacity ratio	<b>31.7</b>	30.7	31.9	<b>31.7</b>	30.7	31.4
<b>Leverage ratios (%)</b>						
Going concern leverage ratio	<b>5.2</b>	5.4	5.2	<b>4.5</b>	4.6	4.2
<i>of which: common equity tier 1 leverage ratio</i>	<b>3.73</b>	3.78	4.06	<b>3.73</b>	3.78	3.75
Gone concern leverage ratio	<b>3.6</b>	3.4	3.3	<b>4.3</b>	4.2	4.2
Total loss-absorbing capacity leverage ratio	<b>8.8</b>	8.8	8.5	<b>8.8</b>	8.8	8.4

<sup>1</sup> As of 31 December 2017, phase-in deduction applied for the purpose of the CET1 capital calculation was 80%. These effects are fully phased in from 1 January 2018. Prudential filters applied to RWA and LRD are also fully phased in from 1 January 2018. <sup>2</sup> IFRS 9 expected credit loss adoption effects for exposures treated under the standardized approach are fully deducted from our CET1 capital. The associated classification and measurement changes are considered based on the FINMA consultation paper, which will be superseded by final FINMA guidance, issued 16 July 2018. We expect to implement any changes related to the final guidance by the effective date 1 January 2019. Refer to "Introduction and basis for preparation" of our 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August 2018 under "Pillar 3 disclosures" at [www.ubs.com/investors](http://www.ubs.com/investors) for more information. <sup>3</sup> High-trigger loss-absorbing additional tier 1 capital of CHF 3,666 million was partly offset by required deductions for goodwill of CHF 1,296 million. <sup>4</sup> Under the transitional rules of the Swiss SRB framework, outstanding low-trigger loss-absorbing tier 2 capital instruments are subject to amortization starting five years prior to their maturity, with the amortized portion qualifying as gone concern loss-absorbing capacity. <sup>5</sup> Instruments available to meet gone concern requirements are eligible until one year before maturity, with a haircut of 50% applied in the last year of eligibility. <sup>6</sup> The relevant capital instruments were issued after the new Swiss SRB framework had been implemented and therefore qualify as gone concern loss-absorbing capacity. <sup>7</sup> Non-Basel III-compliant tier 2 capital instruments qualify as gone concern instruments.



## UBS Group AG vs UBS AG consolidated loss-absorbing capacity and leverage ratio information

### Swiss SRB going and gone concern information (UBS Group AG vs UBS AG consolidated)

As of 30.6.18	Swiss SRB, including transitional arrangements			Swiss SRB as of 1.1.20		
<i>CHF million, except where indicated</i>	UBS Group AG (consolidated)	UBS AG (consolidated)	Differences	UBS Group AG (consolidated)	UBS AG (consolidated)	Differences
<b>Going concern capital</b>						
Common equity tier 1 capital <sup>1</sup>	33,817	33,686	132	33,817	33,686	132
High-trigger loss-absorbing additional tier 1 capital	8,780	7,138	1,642	8,780	7,138	1,642
Low-trigger loss-absorbing additional tier 1 capital	2,359		2,359	2,359		2,359
<b>Total loss-absorbing additional tier 1 capital</b>	<b>11,139</b>	<b>7,138</b>	<b>4,001</b>	<b>11,139</b>	<b>7,138</b>	<b>4,001</b>
<b>Total tier 1 capital</b>	<b>44,956</b>	<b>40,823</b>	<b>4,133</b>	<b>44,956</b>	<b>40,823</b>	<b>4,133</b>
High-trigger loss-absorbing tier 2 capital	434		434			
Low-trigger loss-absorbing tier 2 capital <sup>2</sup>	6,339	6,339	0			
<b>Total tier 2 capital</b>	<b>6,773</b>	<b>6,339</b>	<b>434</b>			
<b>Total going concern capital</b>	<b>51,729</b>	<b>47,163</b>	<b>4,566</b>	<b>44,956</b>	<b>40,823</b>	<b>4,133</b>
<b>Gone concern loss-absorbing capacity<sup>3</sup></b>						
Low-trigger loss-absorbing additional tier 1 capital		2,357 <sup>4</sup>	(2,357)		2,357 <sup>4</sup>	(2,357)
<b>Total tier 1 capital</b>		<b>2,357</b>	<b>(2,357)</b>		<b>2,357</b>	<b>(2,357)</b>
Low-trigger loss-absorbing tier 2 capital <sup>2</sup>	376	376	0	6,716	6,716	0
Non-BaseI III-compliant tier 2 capital	696	696	0	696	696	0
<b>Total tier 2 capital</b>	<b>1,072</b>	<b>1,072</b>	<b>0</b>	<b>7,412</b>	<b>7,412</b>	<b>0</b>
<b>TLAC-eligible debt</b>	<b>29,123</b>	<b>29,123</b>	<b>0</b>	<b>29,123</b>	<b>29,123</b>	<b>0</b>
<b>Total gone concern loss-absorbing capacity</b>	<b>30,195</b>	<b>32,552</b>	<b>(2,357)</b>	<b>36,535</b>	<b>38,892</b>	<b>(2,357)</b>
<b>Total loss-absorbing capacity</b>						
<b>Total loss-absorbing capacity</b>	<b>81,924</b>	<b>79,715</b>	<b>2,209</b>	<b>81,491</b>	<b>79,715</b>	<b>1,776</b>
<b>Risk-weighted assets / leverage ratio denominator</b>						
Risk-weighted assets <sup>1</sup>	252,373	251,648	724	252,373	251,648	724
Leverage ratio denominator	902,408	903,467	(1,058)	902,408	903,467	(1,058)
<b>Capital and loss-absorbing capacity ratios (%)</b>						
Going concern capital ratio	20.5	18.7	1.8	17.8	16.2	1.6
<i>of which: common equity tier 1 capital ratio</i>	<i>13.4</i>	<i>13.4</i>	<i>0.0</i>	<i>13.4</i>	<i>13.4</i>	<i>0.0</i>
Gone concern loss-absorbing capacity ratio	12.0	12.9	(1.0)	14.5	15.5	(1.0)
<b>Total loss-absorbing capacity ratio</b>	<b>32.5</b>	<b>31.7</b>	<b>0.8</b>	<b>32.3</b>	<b>31.7</b>	<b>0.6</b>
<b>Leverage ratios (%)</b>						
Going concern leverage ratio	5.7	5.2	0.5	5.0	4.5	0.5
<i>of which: common equity tier 1 leverage ratio</i>	<i>3.75</i>	<i>3.73</i>	<i>0.02</i>	<i>3.75</i>	<i>3.73</i>	<i>0.02</i>
Gone concern leverage ratio	3.3	3.6	(0.3)	4.0	4.3	(0.3)
<b>Total loss-absorbing capacity leverage ratio</b>	<b>9.1</b>	<b>8.8</b>	<b>0.3</b>	<b>9.0</b>	<b>8.8</b>	<b>0.2</b>

<sup>1</sup> IFRS 9 expected credit loss adoption effects for exposures treated under the standardized approach are fully deducted from our CET1 capital. The associated classification and measurement changes are considered based on the FINMA consultation paper, which will be superseded by final FINMA guidance, issued 16 July 2018. We expect to implement any changes related to the final guidance by the effective date 1 January 2019. Refer to "Introduction and basis for preparation" of our 30 June 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which will be available as of 7 August 2018 under "Pillar 3 disclosures" at [www.ubs.com/investors](http://www.ubs.com/investors) for more information. <sup>2</sup> Under the transitional rules of the Swiss SRB framework, outstanding low-trigger loss-absorbing tier 2 capital instruments are subject to amortization starting five years prior to their maturity, with the amortized portion qualifying as gone concern loss-absorbing capacity. <sup>3</sup> Instruments available to meet gone concern requirements are eligible until one year before maturity, with a haircut of 50% applied in the last year of eligibility. <sup>4</sup> The relevant capital instruments were issued after the new Swiss SRB framework had been implemented and therefore qualify as gone concern loss-absorbing capacity.

**Reconciliation of IFRS equity to Swiss SRB common equity tier 1 capital (UBS Group AG vs UBS AG consolidated)**

As of 30.6.18

<i>CHF million</i>	UBS Group AG (consolidated)	UBS AG (consolidated)	Differences
<b>Total IFRS equity</b>	50,834	50,021	813
Equity attributable to preferred noteholders and non-controlling interests	(60)	(60)	0
Defined benefit plans	(61)	(61)	0
Deferred tax assets recognized for tax loss carry-forwards	(6,113)	(6,113)	0
Deferred tax assets on temporary differences, excess over threshold	(289)	(252)	(38)
Goodwill, net of tax	(6,508)	(6,508)	0
Intangible assets, net of tax	(176)	(176)	0
Compensation-related components (not recognized in net profit)	(1,805)		(1,805)
Expected losses on advanced internal ratings-based portfolio less provisions	(397)	(397)	0
Unrealized (gains) / losses from cash flow hedges, net of tax	264	264	0
Unrealized own credit related to financial liabilities designated at fair value, net of tax, and replacement values	(319)	(319)	0
Prudential valuation adjustments	(120)	(120)	0
Other <sup>1</sup>	(1,432)	(2,593)	1,161
<b>Total common equity tier 1 capital</b>	<b>33,817</b>	<b>33,686</b>	<b>132</b>

<sup>1</sup> Includes accruals for dividends to shareholders for the current year and other items.**Total loss-absorbing capacity and leverage ratio information under Swiss SRB rules applicable as of 1 January 2020**

Going concern capital of UBS AG consolidated was CHF 4.1 billion lower than going concern capital of UBS Group AG consolidated as of 30 June 2018, reflecting lower additional tier 1 (AT1) capital of CHF 4.0 billion and lower common equity tier 1 (CET1) capital of CHF 0.1 billion. The gone concern loss-absorbing capacity was CHF 2.4 billion higher, due to CHF 2.4 billion higher low-trigger loss-absorbing AT1 capital.

CET1 capital of UBS AG consolidated was CHF 0.1 billion lower than that of UBS Group AG consolidated, primarily due to the lower equity of UBS AG consolidated, as well as a higher dividend accrual at the UBS AG level. These effects were largely offset by deductions for compensation-related regulatory capital components that are only reflected at the level of UBS Group AG consolidated.

Going concern loss-absorbing AT1 capital of UBS AG consolidated was CHF 4.0 billion lower than that of UBS Group AG consolidated and relates to AT1 capital notes issued by UBS Group Funding (Switzerland) AG, a direct subsidiary of UBS Group AG, as well as Deferred Contingent Capital Plan awards granted to eligible employees for the performance years 2014 to 2017.

The difference of CHF 2.4 billion in gone concern low-trigger AT1 capital relates to capital instruments that were issued by UBS AG after the new Swiss SRB framework had been

implemented and are therefore not recognized within going concern capital but qualify as gone concern loss-absorbing capacity. Issuances of low-trigger AT1 capital from UBS Group AG were all made prior to implementation of the new Swiss SRB framework and therefore qualify as going concern capital.

Differences in capital between UBS Group AG consolidated and UBS AG consolidated related to employee compensation plans will reverse to the extent underlying services are performed by employees of, and are consequently charged to, UBS AG and its subsidiaries. Such reversal generally occurs over the service period of the employee compensation plans.

The leverage ratio framework for UBS AG consolidated is consistent with that of UBS Group AG consolidated. As of 30 June 2018, the going concern leverage ratio of UBS AG consolidated was 0.5 percentage points lower than that of UBS Group AG consolidated, mainly as the going concern capital of UBS AG consolidated was CHF 4.1 billion lower.

- Refer to the **“Capital management”** section of the **UBS Group second quarter 2018 report under “Quarterly reporting”** at **[www.ubs.com/investors](http://www.ubs.com/investors)** for information on the developments of loss-absorbing capacity, risk-weighted assets and leverage ratio denominator for UBS Group AG consolidated
- Refer to the **“Introduction”** section of this report for more information on the differences in equity between UBS AG consolidated and UBS Group AG

# Consolidated financial statements

Unaudited

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# UBS AG interim consolidated financial statements (unaudited)

## Income statement

CHF million	Note	For the quarter ended			Year-to-date	
		30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
Interest income from financial instruments measured at amortized cost and fair value through other comprehensive income		2,473	2,253	2,495	4,726	4,932
Interest expense from financial instruments measured at amortized cost		(1,583)	(1,330)	(1,297)	(2,913)	(2,491)
Interest income from financial instruments measured at fair value through profit or loss		1,715	1,594	1,095	3,309	2,050
Interest expense from financial instruments measured at fair value through profit or loss		(1,637)	(790)	(890)	(2,426)	(1,399)
Net interest income		967	1,727	1,404	2,694	3,092
Other net income from fair value changes on financial instruments		2,182	1,466	1,459	3,648	2,900
Credit loss (expense) / recovery	8	(28)	(25)	(46)	(53)	(46)
Fee and commission income		4,799	4,900	4,745	9,699	9,552
Fee and commission expense		(416)	(409)	(449)	(825)	(885)
Net fee and commission income	3	4,383	4,491	4,296	8,874	8,667
Other income	4	137	164	285	301	345
Total operating income		7,641	7,823	7,398	15,464	14,958
Personnel expenses	5	3,524	3,556	3,611	7,080	7,654
General and administrative expenses	6	2,308	2,236	2,111	4,544	3,712
Depreciation and impairment of property, equipment and software		241	232	220	473	473
Amortization and impairment of intangible assets		16	16	16	32	37
Total operating expenses		6,089	6,040	5,957	12,128	11,876
Operating profit / (loss) before tax		1,553	1,783	1,441	3,336	3,082
Tax expense / (benefit)	7	369	411	317	780	681
Net profit / (loss)		1,184	1,371	1,124	2,556	2,401
Net profit / (loss) attributable to preferred noteholders				0		46
Net profit / (loss) attributable to non-controlling interests		1	1	1	3	1
<b>Net profit / (loss) attributable to shareholders</b>		<b>1,183</b>	<b>1,370</b>	<b>1,123</b>	<b>2,553</b>	<b>2,354</b>

**Statement of comprehensive income**

CHF million	For the quarter ended			Year-to-date	
	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
<b>Comprehensive income attributable to shareholders</b>					
<b>Net profit / (loss)</b>	<b>1,183</b>	1,370	1,123	2,553	2,354
<b>Other comprehensive income that may be reclassified to the income statement</b>					
<b>Foreign currency translation</b>					
Foreign currency translation movements, before tax (revaluation of net investment)	787	(479)	(1,250)	309	(1,566)
Effective portion of changes in fair value of hedging instruments designated as net investment hedges, before tax	(55)	94	258	40	201
Foreign currency translation differences on foreign operations reclassified to the income statement	15	0	21	15	25
Effective portion of changes in fair value of hedging instruments designated in net investment hedge reclassified to the income statement	0	0	0	0	0
Income tax relating to foreign currency translations, including the impact of net investment hedges	(1)	1	1	0	3
Subtotal foreign currency translation, net of tax	747	(383)	(969)	364	(1,337)
<b>Financial assets measured at fair value through other comprehensive income</b>					
Net unrealized gains / (losses), before tax	(24)	(71)	10	(95)	53
Impairment charges reclassified to the income statement from equity	0	0	(1)	0	13
Realized gains reclassified to the income statement from equity	0	0	(135)	0	(143)
Realized losses reclassified to the income statement from equity	0	0	5	0	7
Income tax relating to net unrealized gains / (losses)	6	19	6	26	(2)
Subtotal financial assets measured at fair value through other comprehensive income, net of tax	(18)	(51)	(115)	(69)	(72)
<b>Cash flow hedges of interest rate risk</b>					
Effective portion of changes in fair value of derivative instruments designated as cash flow hedges, before tax	(127)	(441)	165	(569)	136
Net (gains) / losses reclassified to the income statement from equity	(70)	(127)	(211)	(197)	(431)
Income tax relating to cash flow hedges	37	114	11	151	63
Subtotal cash flow hedges, net of tax	(161)	(454)	(35)	(615)	(233)
<b>Total other comprehensive income that may be reclassified to the income statement, net of tax</b>	<b>569</b>	(889)	(1,119)	(320)	(1,641)
<b>Other comprehensive income that will not be reclassified to the income statement</b>					
<b>Defined benefit plans</b>					
Gains / (losses) on defined benefit plans, before tax	250	(34)	115	216	164
Income tax relating to defined benefit plans	2	21	0	23	2
Subtotal defined benefit plans, net of tax	252	(13)	115	239	166
<b>Own credit on financial liabilities designated at fair value</b>					
Gains / (losses) from own credit on financial liabilities designated at fair value, before tax	248	171	(72)	419	(252)
Income tax relating to own credit on financial liabilities designated at fair value	0	(2)	(1)	(2)	(1)
Subtotal own credit on financial liabilities designated at fair value, net of tax	248	170	(73)	417	(254)
<b>Total other comprehensive income that will not be reclassified to the income statement, net of tax</b>	<b>499</b>	157	42	656	(87)
<b>Total other comprehensive income</b>	<b>1,068</b>	(732)	(1,077)	336	(1,729)
<b>Total comprehensive income attributable to shareholders</b>	<b>2,251</b>	638	46	2,889	625

## Statement of comprehensive income (continued)

CHF million	For the quarter ended			Year-to-date	
	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
<b>Comprehensive income attributable to preferred noteholders</b>					
Net profit / (loss)	0	0	0	0	46
<b>Other comprehensive income that will not be reclassified to the income statement</b>					
Foreign currency translation movements, before tax	0	0	16	0	14
Income tax relating to foreign currency translation movements	0	0	0	0	0
Subtotal foreign currency translation, net of tax	0	0	16	0	14
<b>Total other comprehensive income that will not be reclassified to the income statement, net of tax</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>0</b>	<b>14</b>
<b>Total comprehensive income attributable to preferred noteholders</b>	<b>0</b>	<b>0</b>	<b>16</b>	<b>0</b>	<b>60</b>
<b>Comprehensive income attributable to non-controlling interests</b>					
Net profit / (loss)	1	1	1	3	1
<b>Other comprehensive income that will not be reclassified to the income statement</b>					
Foreign currency translation movements, before tax	(2)	0	(2)	(2)	(1)
Income tax relating to foreign currency translation movements	0	0	0	0	0
Subtotal foreign currency translation, net of tax	(2)	0	(2)	(2)	(1)
<b>Total other comprehensive income that will not be reclassified to the income statement, net of tax</b>	<b>(2)</b>	<b>0</b>	<b>(2)</b>	<b>(2)</b>	<b>(1)</b>
<b>Total comprehensive income attributable to non-controlling interests</b>	<b>(1)</b>	<b>1</b>	<b>(2)</b>	<b>1</b>	<b>1</b>
<b>Total comprehensive income</b>					
Net profit / (loss)	1,184	1,371	1,124	2,556	2,401
Other comprehensive income	1,066	(732)	(1,064)	334	(1,715)
<i>of which: other comprehensive income that may be reclassified to the income statement</i>	<i>569</i>	<i>(889)</i>	<i>(1,119)</i>	<i>(320)</i>	<i>(1,641)</i>
<i>of which: other comprehensive income that will not be reclassified to the income statement</i>	<i>497</i>	<i>157</i>	<i>55</i>	<i>654</i>	<i>(74)</i>
<b>Total comprehensive income</b>	<b>2,250</b>	<b>639</b>	<b>60</b>	<b>2,889</b>	<b>686</b>

**Balance sheet**

<i>CHF million</i>	Note	30.6.18	31.3.18	31.12.17
<b>Assets</b>				
Cash and balances at central banks		102,262	92,800	87,775
Loans and advances to banks		15,518	13,284	13,693
Receivables from securities financing transactions		76,450	77,016	89,633
Cash collateral receivables on derivative instruments	10	24,937	24,271	23,434
Loans and advances to customers	8	320,569	318,394	320,659
Other financial assets measured at amortized cost	11	21,072	19,235	36,935
<b>Total financial assets measured at amortized cost</b>		<b>560,808</b>	545,000	572,129
Financial assets at fair value held for trading	9	112,258	105,785	126,244
<i>of which: assets pledged as collateral that may be sold or repledged by counterparties</i>		<i>36,580</i>	<i>34,536</i>	<i>35,363</i>
Derivative financial instruments	9,10	121,605	113,334	118,229
Brokerage receivables	9	18,415	20,250	
Financial assets at fair value not held for trading	9	92,875	97,213	58,556
<b>Total financial assets measured at fair value through profit or loss</b>		<b>345,153</b>	336,581	303,028
<b>Financial assets measured at fair value through other comprehensive income</b>	9	<b>6,941</b>	6,758	8,665
Investments in associates		1,026	1,037	1,018
Property, equipment and software		8,216	8,015	7,985
Goodwill and intangible assets		6,391	6,235	6,398
Deferred tax assets		9,804	9,671	9,783
Other non-financial assets	11	6,956	6,984	7,358
<b>Total assets</b>		<b>945,296</b>	920,280	916,363



**Balance sheet (continued)**

<i>CHF million</i>	Note	30.6.18	31.3.18	31.12.17
<b>Liabilities</b>				
Amounts due to banks		10,242	9,024	7,533
Payables from securities financing transactions		10,130	9,167	17,044
Cash collateral payables on derivative instruments	10	31,843	29,426	30,247
Customer deposits		407,171	401,514	412,392
Funding from UBS Group AG and its subsidiaries		38,771	35,925	34,749
Debt issued measured at amortized cost	13	98,929	102,213	104,749
Other financial liabilities measured at amortized cost	11	7,187	6,372	37,133
<b>Total financial liabilities measured at amortized cost</b>		<b>604,274</b>	593,640	643,847
Financial liabilities at fair value held for trading	9	31,416	34,747	30,463
Derivative financial instruments	9,10	119,224	111,945	116,134
Brokerage payables designated at fair value	9	37,904	34,793	
Debt issued designated at fair value	9,12	56,849	52,059	49,502
Other financial liabilities designated at fair value	9,11	37,342	34,438	16,223
<b>Total financial liabilities measured at fair value through profit or loss</b>		<b>282,736</b>	267,983	212,323
Provisions	14	3,084	2,999	3,084
Other non-financial liabilities	11	5,181	4,808	6,335
<b>Total liabilities</b>		<b>895,275</b>	869,430	865,588
<b>Equity</b>				
Share capital		386	386	386
Share premium		26,984	26,998	26,966
Retained earnings		28,718	30,099	29,102
Other comprehensive income recognized directly in equity, net of tax		(6,127)	(6,696)	(5,736)
<b>Equity attributable to shareholders</b>		<b>49,961</b>	50,788	50,718
Equity attributable to non-controlling interests		60	62	57
<b>Total equity</b>		<b>50,021</b>	50,850	50,775
<b>Total liabilities and equity</b>		<b>945,296</b>	920,280	916,363

**Statement of changes in equity**

<i>CHF million</i>	Share capital	Share premium	Retained earnings	Other comprehensive income recognized directly in equity, net of tax <sup>1</sup>
<b>Balance as of 1 January 2017</b>	<b>386</b>	<b>29,505</b>	<b>28,265</b>	<b>(4,494)</b>
Issuance of share capital				
Premium on shares issued and warrants exercised		6		
Tax (expense) / benefit		5		
Dividends		(2,250)		
Preferred notes				
New consolidations / (deconsolidations) and other increases / (decreases)		(313)		
Total comprehensive income for the period			2,267	(1,641)
<i>of which: net profit / (loss)</i>			<i>2,354</i>	
<i>of which: other comprehensive income (OCI) that may be reclassified to the income statement, net of tax</i>				<i>(1,641)</i>
<i>of which: OCI that will not be reclassified to the income statement, net of tax – defined benefit plans</i>			<i>166</i>	
<i>of which: OCI that will not be reclassified to the income statement, net of tax – own credit</i>			<i>(254)</i>	
<i>of which: OCI that will not be reclassified to the income statement, net of tax – foreign currency translation</i>				
<b>Balance as of 30 June 2017</b>	<b>386</b>	<b>26,953</b>	<b>30,532</b>	<b>(6,136)</b>
<b>Balance as of 1 January 2018 before the adoption of IFRS 9 and IFRS 15</b>	<b>386</b>	<b>26,966</b>	<b>29,102</b>	<b>(5,736)</b>
Effect of adoption of IFRS 9			(505)	(72)
Effect of adoption of IFRS 15			(24)	
<b>Balance as of 1 January 2018 after the adoption of IFRS 9 and IFRS 15</b>	<b>386</b>	<b>26,966</b>	<b>28,573</b>	<b>(5,808)</b>
Issuance of share capital				
Premium on shares issued and warrants exercised		20		
Tax (expense) / benefit		7		
Dividends			(3,065)	
New consolidations / (deconsolidations) and other increases / (decreases)		(9)		
Total comprehensive income for the period			3,209	(320)
<i>of which: net profit / (loss)</i>			<i>2,553</i>	
<i>of which: other comprehensive income (OCI) that may be reclassified to the income statement, net of tax</i>				<i>(320)</i>
<i>of which: OCI that will not be reclassified to the income statement, net of tax – defined benefit plans</i>			<i>239</i>	
<i>of which: OCI that will not be reclassified to the income statement, net of tax – own credit</i>			<i>417</i>	
<i>of which: OCI that will not be reclassified to the income statement, net of tax – foreign currency translation</i>				
<b>Balance as of 30 June 2018</b>	<b>386</b>	<b>26,984</b>	<b>28,718</b>	<b>(6,127)</b>

<sup>1</sup> Excludes defined benefit plans and own credit that are recorded directly in Retained earnings.

<i>of which: foreign currency translation</i>	<i>of which: financial assets measured at fair value through OCI</i>	<i>of which: cash flow hedges</i>	Total equity attributable to shareholders	Preferred noteholders	Non-controlling interests	Total equity
(5,564)	98	972	53,662	642	40	54,343
			0			0
			6			6
			5			5
			(2,250)	(46)	(4)	(2,300)
			0	0		0
			(313)		0	(312)
(1,337)	(72)	(233)	625	60	1	686
			2,354	46	1	2,401
(1,337)	(72)	(233)	(1,641)			(1,641)
			166			166
			(254)			(254)
			0	14	(1)	14
(6,902)	26	739	51,735	657	37	52,428
(6,099)	12	351	50,718		57	50,775
	(72)		(577)			(577)
			(24)			(24)
(6,099)	(60)	351	50,117		57	50,174
			0			0
			20			20
			7			7
			(3,065)		(6)	(3,071)
			(9)		8	(1)
364	(69)	(615)	2,889		1	2,889
			2,553		3	2,556
364	(69)	(615)	(320)			(320)
			239			239
			417			417
			0		(2)	(2)
(5,735)	(128)	(264)	49,961		60	50,021

**Statement of cash flows<sup>1</sup>**

	Year-to-date	
<i>CHF million</i>	<b>30.6.18</b>	30.6.17
<b>Cash flow from / (used in) operating activities</b>		
Net profit / (loss)	2,556	2,401
<b>Non-cash items included in net profit and other adjustments:</b>		
Depreciation and impairment of property, equipment and software	473	473
Amortization and impairment of intangible assets	32	37
Credit loss expense / (recovery)	53	46
Share of net profits of associates / joint ventures and impairment of associates	(30)	(36)
Deferred tax expense / (benefit)	420	257
Net loss / (gain) from investing activities	(35)	246
Net loss / (gain) from financing activities	1,340	(307)
Other net adjustments	(1,571)	674
<b>Net change in operating assets and liabilities:</b>		
Loans and advances to banks / amounts due to banks	2,634	484
Securities financing transactions	6,727	(6,568)
Cash collateral on derivative instruments	225	15
Loans and advances to customers	(6,998)	(7,561)
Customer deposits	(720)	(12,222)
Financial assets and liabilities at FV held for trading and derivative financial instruments	1,692	(7,400)
Brokerage receivables and payables	8,439	
Financial assets at fair value not held for trading, other financial assets and liabilities	1,732	7,560
Provisions, other non-financial assets and liabilities	(642)	(883)
Income taxes paid, net of refunds	(337)	(685)
<b>Net cash flow from / (used in) operating activities</b>	<b>15,990</b>	<b>(23,469)</b>
<b>Cash flow from / (used in) investing activities</b>		
Purchase of subsidiaries, associates and intangible assets	(3)	(5)
Disposal of subsidiaries, associates and intangible assets <sup>2</sup>	58	95
Purchase of property, equipment and software	(710)	(688)
Disposal of property, equipment and software	30	23
Purchase of financial assets measured at fair value through other comprehensive income	(831)	(4,729)
Disposal and redemption of financial assets measured at fair value through other comprehensive income	668	6,150
Net (purchase) / redemption of debt securities measured at amortized cost	(2,391)	
Net (purchase) / redemption of financial assets held to maturity		168
<b>Net cash flow from / (used in) investing activities</b>	<b>(3,178)</b>	<b>1,014</b>

Table continues on the next page.

## Statement of cash flows (continued)<sup>1</sup>

Table continued from previous page.

	Year-to-date	
<i>CHF million</i>	<b>30.6.18</b>	30.6.17
<b>Cash flow from / (used in) financing activities</b>		
Net short-term debt issued / (repaid)	(5,801)	18,738
Distributions paid on UBS shares	(3,065)	(2,250)
Issuance of long-term debt, including debt issued designated at fair value <sup>3</sup>	38,980	24,829
Repayment of long-term debt, including debt issued designated at fair value <sup>3</sup>	(26,066)	(23,407)
Dividends paid and repayments of preferred notes	0	(46)
Net changes in non-controlling interests	16	(5)
<b>Net cash flow from / (used in) financing activities</b>	<b>4,065</b>	<b>17,861</b>
<b>Total cash flow</b>		
<b>Cash and cash equivalents at the beginning of the period</b>	<b>102,154</b>	121,107
Net cash flow from / (used in) operating, investing and financing activities	16,877	(4,594)
Effects of exchange rate differences on cash and cash equivalents	136	(1,502)
<b>Cash and cash equivalents at the end of the period<sup>4</sup></b>	<b>119,167</b>	115,010
<i>of which: cash and balances with central banks</i>	<i>102,145</i>	<i>100,006</i>
<i>of which: due from banks</i>	<i>14,229</i>	<i>12,646</i>
<i>of which: money market paper<sup>5</sup></i>	<i>2,794</i>	<i>2,358</i>
<b>Additional information</b>		
Net cash flow from / (used in) operating activities includes:		
Interest received in cash	6,713	6,012
Interest paid in cash	4,616	3,650
Dividends on equity investments, investment funds and associates received in cash <sup>6</sup>	1,190	985

<sup>1</sup> Upon adoption of IFRS 9 on 1 January 2018, cash flows from certain financial instruments have been reclassified from investing to operating activities. Refer to Note 19 for more information. <sup>2</sup> Includes dividends received from associates. <sup>3</sup> Includes funding from UBS Group AG and its subsidiaries. <sup>4</sup> CHF 4,042 million and CHF 2,576 million of cash and cash equivalents (mainly reflected in Loans and advances to banks) were restricted as of 30 June 2018 and 30 June 2017, respectively. Refer to "Note 23 Restricted and transferred financial assets" in the "Consolidated financial statements" section in the Annual Report 2017 for more information. <sup>5</sup> Money market paper is included in the balance sheet under Financial assets at fair value held for trading, Financial assets measured at fair value through other comprehensive income, Financial assets at fair value not held for trading and Other financial assets measured at amortized cost. <sup>6</sup> Includes dividends received from associates reported within Cash flow from / (used in) investing activities.

# Notes to the UBS AG interim consolidated financial statements (unaudited)

## Note 1 Basis of accounting

### 1.1 Basis of preparation

The consolidated financial statements (the Financial Statements) of UBS AG and its subsidiaries (together "UBS AG") are prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and are presented in Swiss francs (CHF), which is also the functional currency of UBS AG's Head Office and its Swiss-based operations.<sup>1</sup> These interim Financial Statements are prepared in accordance with IAS 34, *Interim Financial Reporting*.

In preparing these interim Financial Statements, the same accounting policies and methods of computation have been applied as in the UBS AG consolidated annual Financial Statements for the period ended 31 December 2017, except for the changes described in this note, in Note 19 of this report and in "Note 1 Basis of accounting" in the "Consolidated financial statements" section of the first quarter 2018 report. These interim Financial Statements are unaudited and should be read in conjunction with UBS AG's audited consolidated Financial Statements included in the Annual Report 2017. In the opinion of management, all necessary adjustments were made for a fair presentation of UBS AG's financial position, results of operations and cash flows.

Preparation of these interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosures of contingent assets and liabilities. These estimates and assumptions are based on the best available information. Actual results in the future could differ from such estimates and such differences may be material to the Financial Statements. Revisions to estimates, based on regular reviews, are recognized in the period in which they occur. For more information on areas of estimation uncertainty considered to require critical judgment, refer to "Note 1a) Significant accounting policies" in the "Consolidated financial statements" section of the Annual Report 2017 and in Note 19.1 of this report.

### 1.2 Adoption of IFRS 9 and IFRS 15 in the first quarter of 2018

#### IFRS 9, *Financial instruments*

As disclosed in the UBS AG first quarter 2018 report, effective 1 January 2018, UBS AG adopted IFRS 9, *Financial Instruments*, which replaces IAS 39, *Financial Instruments: Recognition and Measurement* and substantially changes accounting and financial reporting in three key areas: classification and measurement of financial assets, impairment and hedge accounting. In addition, UBS AG early adopted the Amendment to IFRS 9, *Prepayment Features with Negative Compensation*, issued in October 2017, which allows UBS AG to continue to apply amortized cost accounting to Swiss private mortgages and corporate loans that provide for two-way compensation if a prepayment occurs. UBS AG has retained hedge accounting under IAS 39 as permitted and early adopted the own credit requirements of IFRS 9 during the first quarter of 2016.

As permitted by the transitional provisions of IFRS 9, UBS AG elected not to restate comparative period information. Any effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognized as an adjustment to opening retained earnings. The adoption of IFRS 9 effective 1 January 2018 resulted in a reduction to IFRS consolidated equity as of 1 January 2018 of CHF 577 million. This effect is comprised of classification and measurement changes of CHF 351 million on a pre-tax basis and CHF 293 million net of tax, as well as effects from the implementation of impairment requirements based on an ECL methodology of CHF 348 million on a pre-tax basis and CHF 284 million net of tax.

UBS AG continues to test and refine the new accounting processes, internal controls and governance framework necessitated by the adoption of IFRS 9. Therefore, the estimation of ECL and related effects remain subject to change until finalization of the financial statements for the year ending 31 December 2018.

<sup>1</sup> As explained in the Annual Report 2017 of UBS Group AG and UBS AG, in light of cumulative changes in UBS's legal structure, business activities and evolving changes to its structural currency management strategy, it is anticipated that during the second half of 2018 the functional currency of UBS AG's Head Office in Switzerland may change from Swiss francs to US dollars, and the functional currency of UBS AG's London Branch operations may change from British pounds to US dollars, where such changes would be made on a prospective basis. If such changes occur, we expect that management would change the presentation currency of UBS AG's consolidated financial statements from Swiss francs to US dollars to align to the change in functional currency, with prior periods restated.

## Note 1 Basis of accounting (continued)

The updated accounting policies for classification and measurement of financial instruments and impairment of financial assets as applied from 1 January 2018 are presented in Note 19.1 of this report and the detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in Note 19.2.

→ Refer to the 31 March 2018 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups under “Pillar 3 disclosures” at [www.ubs.com/investors](http://www.ubs.com/investors) for more information on the effect of the IFRS 9 transition on UBS’s capital adequacy

### *IFRS 15, Revenue from Contracts with Customers*

As disclosed in the UBS AG first quarter 2018 report, effective from 1 January 2018, UBS AG adopted IFRS 15, *Revenue from Contracts with Customers*, which replaces IAS 18, *Revenue* and 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.

The adoption of IFRS 15 resulted in changes to UBS AG’s accounting policies applicable from 1 January 2018. Accounting policies set out in Note 1.3.2 in the “Consolidated financial statements” section of the first quarter 2018 report replace item 4 of Note 1a) in the UBS AG consolidated annual Financial Statements for the year ended 31 December 2017. The primary changes stem from IFRS 15 requirements that fee and commission income is measured based on consideration specified in a legally enforceable contract and variable consideration that is contingent on an uncertain event can only be recognized to the extent that it is highly probable that a significant reversal will not occur. UBS AG does not consider the highly probable criteria to be met where the contingency is beyond the control of UBS AG.

As permitted by the transitional provisions of IFRS 15, UBS AG elected not to restate comparative figures. Instead, the cumulative effect of initially applying the standard was recognized as an adjustment to the opening balance of retained earnings. A transition adjustment of CHF 27 million on a pre-tax basis and CHF 24 million net of tax was posted to retained earnings to reverse income recognized prior to 1 January 2018 under IAS 18 that must be deferred under IFRS 15 either due to the variable consideration constraint (asset management performance fees of CHF 16 million) or because UBS AG does not have an enforceable right to a specified amount of consideration (commission-sharing agreements for research services of CHF 11 million).

IFRS 15 also resulted in changes to presentation. Fee and commission income and expenses are presented gross rather than net on the face of the income statement when UBS AG is considered principal to the contract with a customer. In turn, fees and expenses can only be presented net when UBS AG is considered to be an agent.

→ Refer to Note 3 for more information

### **1.3 New accounting standards and changes in accounting policies effective second quarter 2018**

#### *IFRS Interpretations Committee, Payments relating to taxes other than income tax*

During the second quarter of 2018, UBS AG refined its treatment of prepayments or overpayments in relation to uncertain tax positions outside of the scope of IAS 12, *Income Taxes*, following the IFRS Interpretation Committee’s discussion on *Payments relating to taxes other than income tax*. More specifically, prepayments for uncertain tax positions that have not yet given rise to a liability are recognized as assets because UBS AG will either receive a cash rebate or a benefit through the extinguishment of a future liability. Adoption of the change did not have a material effect on UBS AG’s financial statements.

## Note 2 Segment reporting

UBS AG's businesses are organized globally into four business divisions: Global Wealth Management, Personal & Corporate Banking, Asset Management and the Investment Bank, all of which are supported by Corporate Center. The four business divisions qualify as reportable segments for the purpose of segment reporting and, together with Corporate Center and its units, reflect the management structure of UBS AG. Corporate Center – Non-core and Legacy Portfolio is managed and reported as a separate reportable segment within Corporate Center. Refer to "Note 1a Significant accounting policies"

item 2 and "Note 2 Segment reporting" in the "Consolidated financial statements" section of the Annual Report 2017 for more information on UBS AG's reporting segments.

Effective 1 February 2018, UBS AG integrated its Wealth Management and Wealth Management Americas business divisions into a single Global Wealth Management business division. Refer to "Note 1.2 Changes to segment reporting effective first quarter 2018" in the "Consolidated financial statements" section of the first quarter 2018 report for more information.

	Global Wealth Management	Personal & Corporate Banking	Asset Management	Investment Bank	Corporate Center			UBS AG
					Services	Group ALM	Non-core and Legacy Portfolio	
<i>CHF million</i>								
<b>For the six months ended 30 June 2018<sup>1</sup></b>								
Net interest income	1,999	989	(16)	290	(184)	(398)	13	2,694
Non-interest income	6,264	897	907	4,412	254	(92)	180	12,823
Allocations from CC – Group ALM	88	29	7	(204)	25	100	(44)	0
Income	8,350	1,915	899	4,498	96	(389)	148	15,517
Credit loss (expense) / recovery	2	(35)	0	(21)	0	1	(1)	(53)
Total operating income	8,353	1,880	899	4,478	96	(389)	147	15,464
Personnel expenses	3,764	396	356	1,663	863	18	19	7,080
General and administrative expenses	613	118	99	325	3,302	20	67	4,544
Services (to) / from CC and other BDs	1,805	572	236	1,355	(4,060)	1	91	0
<i>of which: services from CC – Services</i>	<i>1,755</i>	<i>614</i>	<i>256</i>	<i>1,311</i>	<i>(4,096)</i>	<i>81</i>	<i>79</i>	<i>0</i>
Depreciation and impairment of property, equipment and software	2	6	1	4	460	0	0	473
Amortization and impairment of intangible assets	25	0	1	5	1	0	0	32
Total operating expenses	6,208	1,093	692	3,352	566	40	178	12,128
<b>Operating profit / (loss) before tax</b>	<b>2,144</b>	<b>788</b>	<b>207</b>	<b>1,126</b>	<b>(470)</b>	<b>(428)</b>	<b>(31)</b>	<b>3,336</b>
Tax expense / (benefit)								780
<b>Net profit / (loss)</b>								<b>2,556</b>
<b>As of 30 June 2018</b>								
<b>Total assets</b>	<b>197,728</b>	<b>136,007</b>	<b>27,570</b>	<b>262,377</b>	<b>19,483</b>	<b>263,350</b>	<b>38,781</b>	<b>945,296</b>
<b>For the six months ended 30 June 2017<sup>1</sup></b>								
Net interest income	1,764	940	(15)	452	(155)	97	10	3,092
Non-interest income	5,986	870	935	3,859	197	30	34	11,912
Allocations from CC – Group ALM	190	103	9	(174)	60	(139)	(50)	0
Income	7,940	1,914	929	4,137	102	(12)	(6)	15,004
Credit loss (expense) / recovery	(2)	(21)	0	(12)	0	0	(11)	(46)
Total operating income	7,938	1,893	929	4,125	102	(12)	(16)	14,958
Personnel expenses	3,766	436	357	1,598	1,454	17	25	7,654
General and administrative expenses	606	136	109	298	2,568	7	(12)	3,712
Services (to) / from CC and other BDs	1,757	541	246	1,334	(3,982)	(13)	116	0
<i>of which: services from CC – Services</i>	<i>1,703</i>	<i>586</i>	<i>266</i>	<i>1,286</i>	<i>(4,003)</i>	<i>65</i>	<i>97</i>	<i>0</i>
Depreciation and impairment of property, equipment and software	2	6	1	5	460	0	0	473
Amortization and impairment of intangible assets	23	0	2	6	6	0	0	37
Total operating expenses	6,154	1,119	716	3,241	506	12	129	11,876
<b>Operating profit / (loss) before tax</b>	<b>1,784</b>	<b>774</b>	<b>213</b>	<b>884</b>	<b>(404)</b>	<b>(23)</b>	<b>(145)</b>	<b>3,082</b>
Tax expense / (benefit)								681
<b>Net profit / (loss)</b>								<b>2,401</b>
<b>As of 31 December 2017</b>								
<b>Total assets</b>	<b>190,074</b>	<b>135,587</b>	<b>14,270</b>	<b>263,046</b>	<b>19,447</b>	<b>247,739</b>	<b>46,200</b>	<b>916,363</b>

<sup>1</sup> Prior period information may not be comparable as a result of the adoption of IFRS 9 and IFRS 15, both effective 1 January 2018. Refer to Note 1 for more information on these changes.



### Note 3 Net fee and commission income<sup>1</sup>

CHF million	For the quarter ended			Year-to-date	
	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
Underwriting fees	189	241	275	430	570
of which: equity underwriting fees	88	118	148	206	310
of which: debt underwriting fees	101	123	126	224	260
M&A and corporate finance fees	178	194	170	372	347
Brokerage fees	877	968	945	1,845	1,968
Investment fund fees	1,213	1,207	1,046	2,420	2,107
Portfolio management and related services	1,902	1,837	1,852	3,739	3,646
Other	440	452	457	893	914
<b>Total fee and commission income<sup>2</sup></b>	<b>4,799</b>	<b>4,900</b>	<b>4,745</b>	<b>9,699</b>	<b>9,552</b>
of which: recurring	3,161	3,071		6,232	
of which: transaction-based	1,617	1,811		3,428	
of which: performance-based	22	17		39	
Brokerage fees paid	75	85	179	160	344
Other	341	324	270	665	541
<b>Total fee and commission expense</b>	<b>416</b>	<b>409</b>	<b>449</b>	<b>825</b>	<b>885</b>
<b>Net fee and commission income</b>	<b>4,383</b>	<b>4,491</b>	<b>4,296</b>	<b>8,874</b>	<b>8,667</b>
of which: net brokerage fees	802	884	766	1,685	1,624

<sup>1</sup> Upon adoption of IFRS 15, certain brokerage fees paid in an agency capacity have been reclassified from Fee and commission expense to Fee and commission income on a prospective basis from 1 January 2018, primarily relating to third-party execution costs for exchange-traded derivative transactions and fees payable to third-party research providers on behalf of clients. In addition to the IFRS 15 changes, certain revenues, primarily distribution fees and fund management fees, have been reclassified between reporting lines to better reflect the nature of the revenues, with prior period information restated accordingly. This resulted in the following impacts: for the quarter ended 30 June 2017, CHF 84 million was reclassified from Underwriting fees to Brokerage fees and CHF 255 million was reclassified from Portfolio management and related services to Investment fund fees. For the first six months of 2017, CHF 164 million was reclassified from total Underwriting fees to Brokerage fees and CHF 499 million was reclassified from Portfolio management and related services to Investment fund fees. Also, certain expenses that are incremental and incidental to revenues have been reclassified prospectively from General and administrative expenses to Fee and commission expense to improve the alignment of transaction-based costs with the associated revenue stream, primarily impacting clearing costs, client loyalty costs, fund and custody expenses. As the impact of this reclassification was not material, prior period information was not restated. <sup>2</sup> Reflects third-party fee and commission income for the second quarter of 2018 of CHF 2,832 million for Global Wealth Management (first quarter of 2018: CHF 2,891 million), CHF 301 million for Personal & Corporate Banking (first quarter of 2018: CHF 300 million), CHF 801 million for Asset Management (first quarter of 2018: CHF 777 million), CHF 863 million for the Investment Bank (first quarter of 2018: CHF 917 million) and CHF 3 million for Corporate Center (first quarter of 2018: CHF 14 million).

### Note 4 Other income

CHF million	For the quarter ended			Year-to-date	
	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
<b>Associates, joint ventures and subsidiaries</b>					
Net gains / (losses) from disposals of subsidiaries <sup>1</sup>	(10)	0	(18)	(10)	(22)
Share of net profits of associates and joint ventures	15	15	17	30	36
<b>Total</b>	<b>5</b>	<b>15</b>	<b>(2)</b>	<b>20</b>	<b>14</b>
<b>Financial assets measured at fair value through other comprehensive income</b>					
Net gains / (losses) from disposals	0	0	129	0	136
Impairments	0	0	1	0	(13)
<b>Total</b>	<b>0</b>	<b>0</b>	<b>131</b>	<b>0</b>	<b>123</b>
Net gains / (losses) from disposals of financial assets measured at amortized cost	(1)	0	(2)	0	16
Net income from properties (excluding net gains / (losses) from disposals) <sup>2</sup>	6	6	6	12	12
Net gains / (losses) from disposals of properties held for sale	0	0	0	0	(1)
Income from shared services provided to UBS Group AG or its subsidiaries <sup>3</sup>	105	120	121	225 <sup>4</sup>	135
Other	22	23	31	45	47
<b>Total other income</b>	<b>137</b>	<b>164</b>	<b>285</b>	<b>301</b>	<b>345</b>

<sup>1</sup> Includes foreign exchange gains / (losses) reclassified from other comprehensive income related to disposed foreign subsidiaries and branches. <sup>2</sup> Includes net rent received from third parties and net operating expenses. <sup>3</sup> Relates to subsidiaries not in the UBS AG scope of consolidation. <sup>4</sup> The increase compared with the first six months of 2017 was mainly due to the transfer of shared services functions from UBS AG to UBS Business Solutions AG in 2017. Refer to the Annual Report 2017 for more information.

**Note 5 Personnel expenses**

CHF million	For the quarter ended			Year-to-date	
	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
Salaries and variable compensation	2,084	2,211	2,125	4,295	4,559
Financial advisor variable compensation <sup>1</sup>	996	974	992	1,970	1,979
Contractors	50	41	72	90	164
Social security	156	189	166	346	364
Pension and other post-employment benefit plans	119	21 <sup>2</sup>	133	140 <sup>2</sup>	332
Other personnel expenses	118	120	123	238	256
<b>Total personnel expenses</b>	<b>3,524</b>	<b>3,556</b>	<b>3,611</b>	<b>7,080<sup>3</sup></b>	<b>7,654</b>

<sup>1</sup> Financial advisor variable compensation consists of grid-based compensation based directly on compensable revenues generated by financial advisors and supplemental compensation calculated on the basis of financial advisor productivity, firm tenure, assets and other variables. It also includes expenses related to compensation commitments with financial advisors entered into at the time of recruitment that are subject to vesting requirements. <sup>2</sup> Changes to the Pension Fund of UBS in Switzerland in the first quarter of 2018 resulted in a reduction in the pension obligation recognized by UBS AG. As a consequence, a pre-tax gain of CHF 123 million was recognized in the income statement in the first quarter of 2018, with no overall effect on total equity. Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of the first quarter 2018 report for more information. <sup>3</sup> The decrease compared with the first six months of 2017 was mainly due to the transfer of shared services functions from UBS AG to UBS Business Solutions AG in 2017. Refer to the Annual Report 2017 for more information.

**Note 6 General and administrative expenses**

CHF million	For the quarter ended			Year-to-date	
	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
Occupancy	207	205	208	412	423
Rent and maintenance of IT and other equipment	77	76	97	153	241
Communication and market data services	123	124	126	247	280
Administration	1,217	1,293	1,005	2,509	1,227
<i>of which: shared services costs charged by UBS Group AG or its subsidiaries<sup>1</sup></i>	<i>1,151</i>	<i>1,154</i>	<i>909</i>	<i>2,305<sup>2</sup></i>	<i>1,033</i>
<i>of which: UK bank levy<sup>3</sup></i>	<i>(45)</i>	<i>0</i>	<i>(46)</i>	<i>(45)</i>	<i>(71)</i>
Marketing and public relations	61	70	67	131	159
Travel and entertainment	96	79	97	175	183
Professional fees	208	195	253	403	506
Outsourcing of IT and other services	181	176	218	357	588
Litigation, regulatory and similar matters <sup>4</sup>	131	(11)	9	120	42
Other	7	30	31	36	62
<b>Total general and administrative expenses</b>	<b>2,308</b>	<b>2,236</b>	<b>2,111</b>	<b>4,544</b>	<b>3,712</b>

<sup>1</sup> Relates to subsidiaries not in the UBS AG scope of consolidation. <sup>2</sup> The increase compared with the first six months of 2017 was mainly due to the transfer of shared services functions from UBS AG to UBS Business Solutions AG in 2017. Refer to the Annual Report 2017 for more information. <sup>3</sup> The credits presented for the periods shown are related to prior years. <sup>4</sup> Reflects the net increase / (decrease) in provisions for litigation, regulatory and similar matters recognized in the income statement. Refer to Note 14 for more information. Also includes recoveries from third parties (second quarter of 2018: CHF 10 million; first quarter of 2018: CHF 17 million; second quarter of 2017: CHF 1 million).

## Note 7 Income taxes

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UBS AG recognized an income tax expense of CHF 369 million for the second quarter of 2018 compared with an income tax expense of CHF 317 million for the second quarter of 2017.

Deferred tax expenses were CHF 192 million in the second quarter of 2018 compared with CHF 129 million in the second quarter of 2017 and mainly related to the amortization of deferred tax assets previously recognized in relation to tax losses

carried forward and deductible temporary differences to reflect their offset against profits for the quarter.

The current tax expense was CHF 176 million compared with CHF 188 million in the second quarter of 2017 and related to taxable profits of UBS Switzerland AG and other subsidiaries and branches of UBS AG.

## Note 8 Expected credit loss measurement

### a) Expected credit losses in the period

Total net credit loss expenses amounted to CHF 28 million in the second quarter of 2018, reflecting expected credit losses (ECL) of CHF 21 million related to stage 1 and 2 positions and net losses of CHF 7 million related to credit impaired (stage 3) positions.

Stage 1 and 2 ECL have been recognized in the period, primarily arising from credit quality changes in Personal & Corporate Banking and, to a lesser extent, from new loans, facilities and other exposure movements across the Investment Bank, Personal & Corporate Banking and Global Wealth Management.

Stage 3 net losses of CHF 7 million were recognized across a number of defaulted positions, predominantly in Personal & Corporate Banking.

There have not been any material changes to the models used to calculate ECL and to determine stage allocation.

As outlined in Note 19, UBS AG uses four different economic scenarios in the ECL calculation: an upside, a baseline, a mild downside and a severe downside scenario. The scenarios and scenario weights applied to calculate ECL as of 30 June 2018 were reviewed and remain unchanged from those applied as of 31 March 2018 and as of 1 January 2018, the date of transition to IFRS 9.

#### Economic scenarios and weights applied

ECL scenario	Assigned weights in % (30.6.18)
Upside	20.0
Baseline	42.5
Mild downside	30.0
Severe downside	7.5

Further, assumptions around the most important forward-looking economic factors for Switzerland, the US and other regions as applied in each of those economic scenarios to determine ECL at the reporting date have not changed from the date of transition to IFRS 9. The point-in-time probability of default values applied to the ECL calculation at the reporting date reflect, however, market data updates, such as house price and equity indices and foreign exchange rates. Details on assumptions applied around the most important forward-looking economic factors are discussed in Note 19.

### b) ECL-relevant balance sheet and off-balance sheet positions including ECL allowances and provisions

The tables on the following pages provide information on financial instruments and certain non-financial instruments that are subject to ECL. For amortized cost instruments, the net carrying value represents the maximum exposure to credit risk, taking into account the allowance for credit losses. Financial assets measured at fair value through other comprehensive income (FVOCI) are also subject to ECL; however, unlike amortized cost instruments, the allowance does not reduce the carrying value of these financial assets. The carrying value of

financial assets measured at FVOCI represents the maximum exposure to credit risk. Tables provided for 30 June 2018 and 31 March 2018 include additional detail on certain segments that have not been provided for balances as of 1 January 2018.

In addition to on-balance sheet financial assets, certain off-balance sheet and other credit lines are also subject to ECL. The maximum exposure to credit risk for off-balance sheet financial instruments is calculated based on notional amounts.

## Note 8 Expected credit loss measurement (continued)

UBS AG has established ECL disclosure segments or “ECL segments” to disaggregate portfolios based on shared risk characteristics and on the same or similar rating methods applied. The key segments are presented in the table below.

Segment	Segment description	Description of credit risk sensitivity	Business division / Corporate Center
<b>Private clients with mortgages</b>	Lending to private clients secured by owner-occupied real estate and personal account overdrafts of those clients	Sensitive to the interest rate environment, employment status and influence from regional effects (e.g., property values)	– Personal & Corporate Banking – Global Wealth Management
<b>Real estate financing</b>	Rental or income-producing real estate financing to corporate clients secured by real estate	Sensitive to GDP development, the interest rate environment and regional effects (e.g., property values)	– Personal & Corporate Banking – Global Wealth Management
<b>Large corporate clients</b>	Lending to large corporate and multinational clients	Sensitive to GDP development, seasonality and business cycles and collateral values (diverse collateral including real estate and other collateral types)	– Personal & Corporate Banking – Investment Bank
<b>SME clients</b>	Lending to small- and medium-sized corporate clients	Sensitive to GDP development, the interest rate environment and to some extent, seasonality and business cycles and collateral values (diverse collateral including real estate and other collateral types)	– Personal & Corporate Banking
<b>Financial intermediaries and hedge funds</b>	Financial institutions and pension funds, including exposures to broker-dealers and clearing houses	Sensitive to GDP development, the interest rate environment, regulatory changes and political risk	– Personal & Corporate Banking – Investment Bank – Corporate Center
<b>Lombard</b>	Loans secured by pledges of marketable securities, guarantees and other forms of collateral	Sensitive to the market (e.g., changes in collateral, as well as in invested assets)	– Personal & Corporate Banking – Global Wealth Management
<b>Credit cards</b>	Credit card solutions in Switzerland and the US	Sensitive to the interest rate environment and employment status	– Personal & Corporate Banking – Global Wealth Management
<b>Commodity trade finance</b>	Working capital financing of commodity traders, generally extended on a self-liquidating transactional basis	Sensitive primarily to the strength of individual transaction structures and collateral values (price volatility of commodities) as the primary source for debt service is directly linked to the shipments financed	– Personal & Corporate Banking
<b>Leasing (finance lease receivables)</b>	Financing of private aircraft  Financing of investment goods	Sensitive to changes in collateral values  Sensitive to GDP development, the interest rate environment, seasonality and business cycles and collateral values	– Personal & Corporate Banking

**Note 8 Expected credit loss measurement (continued)**

CHF million		30.6.18							
		Carrying amount				ECL allowance			
Financial instruments measured at amortized cost		Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
Cash and balances at central banks		102,262	102,262	0	0	0	0	0	0
Loans and advances to banks		15,518	15,510	8	0	(4)	(2)	0	(2)
Receivables from securities financing transactions		76,450	76,450	0	0	(2)	(2)	0	0
Cash collateral receivables on derivative instruments		24,937	24,937	0	0	0	0	0	0
Loans and advances to customers		320,569	295,332	23,612	1,625	(847)	(53)	(174)	(620)
<i>of which: Private clients with mortgage</i>		121,858	108,533	12,498	826	(122)	(9)	(79)	(34)
<i>of which: Real estate financing</i>		35,659	26,826	8,795	39	(60)	(3)	(49)	(8)
<i>of which: Large corporate clients</i>		10,486	9,841	555	91	(82)	(5)	(9)	(68)
<i>of which: SME clients</i>		9,920	8,055	1,284	581	(292)	(8)	(25)	(258)
<i>of which: Lombard</i>		116,795	116,779	0	16	(90)	(4)	0	(86)
<i>of which: Credit cards</i>		1,406	1,123	268	14	(37)	(6)	(11)	(20)
<i>of which: Commodity trade finance</i>		3,075	3,049	13	13	(88)	(4)	0	(84)
Other financial assets measured at amortized cost		21,072	20,264	292	516	(168)	(39)	(6)	(123)
<i>of which: Loans to financial advisors</i>		3,394	3,139	85	171	(124)	(32)	(2)	(90)
<b>Total financial assets measured at amortized cost<sup>1</sup></b>		<b>560,808</b>	<b>534,755</b>	<b>23,912</b>	<b>2,141</b>	<b>(1,022)</b>	<b>(97)</b>	<b>(179)</b>	<b>(746)</b>
Financial assets measured at fair value through other comprehensive income		6,941	6,941	0	0	0	0	0	0
<b>Total on-balance sheet financial assets in scope of ECL requirements</b>		<b>567,749</b>	<b>541,696</b>	<b>23,912</b>	<b>2,141</b>	<b>(1,022)</b>	<b>(97)</b>	<b>(179)</b>	<b>(746)</b>
		Total exposure				ECL provision			
<b>Off-balance sheet (in scope of ECL)</b>		<b>Total</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>
Guarantees		18,529	17,826	506	197	(34)	(7)	(1)	(26)
<i>of which: Large corporate clients</i>		3,818	3,462	218	138	(7)	(1)	0	(5)
<i>of which: SME clients</i>		1,262	996	221	45	(16)	0	(1)	(15)
<i>of which: Financial intermediaries and hedge funds</i>		7,473	7,464	9	0	(4)	(4)	0	0
<i>of which: Lombard</i>		2,493	2,493	0	0	0	0	0	0
<i>of which: Commodity trade finance</i>		2,398	2,342	43	13	(4)	(1)	0	(3)
Irrevocable loan commitments		31,009	30,407	563	38	(42)	(34)	(8)	0
<i>of which: Large corporate clients</i>		21,914	21,342	550	22	(34)	(27)	(7)	0
Forward starting reverse repurchase and securities borrowing agreements		1,545	1,545	0	0	0	0	0	0
Committed unconditionally revocable credit lines		34,129	33,011	1,053	65	(33)	(21)	(13)	0
<i>of which: Real estate financing</i>		2,676	2,404	272	0	(16)	(8)	(8)	0
<i>of which: Large corporate clients</i>		4,065	4,000	65	0	(1)	(1)	0	0
<i>of which: SME clients</i>		4,407	3,961	390	57	(8)	(5)	(2)	0
<i>of which: Lombard</i>		6,231	6,231	0	0	0	0	0	0
<i>of which: Credit cards</i>		6,980	6,712	267	0	(5)	(3)	(1)	0
<i>of which: Commodity trade finance</i>		2,707	2,703	0	5	(1)	(1)	0	0
Irrevocable committed prolongation of existing loans		2,760	2,741	19	0	(1)	(1)	0	0
<b>Total off-balance sheet financial instruments and other credit lines</b>		<b>87,972</b>	<b>85,531</b>	<b>2,142</b>	<b>300</b>	<b>(111)</b>	<b>(62)</b>	<b>(23)</b>	<b>(26)</b>
<b>Total allowances and provisions</b>						<b>(1,133)</b>	<b>(159)</b>	<b>(202)</b>	<b>(772)</b>

<sup>1</sup> The carrying value of financial assets at amortized cost is net of the respective ECL allowances.

## Note 8 Expected credit loss measurement (continued)

CHF million	31.3.18							
	Carrying amount				ECL allowance			
	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
<b>Financial instruments measured at amortized cost</b>								
Cash and balances at central banks	92,800	92,800	0	0	0	0	0	0
Loans and advances to banks	13,284	13,246	38	0	(5)	(3)	0	(2)
Receivables from securities financing transactions	77,016	77,016	0	0	(2)	(2)	0	0
Cash collateral receivables on derivative instruments	24,271	24,271	0	0	0	0	0	0
Loans and advances to customers	318,394	289,306	27,543	1,545	(838)	(54)	(162)	(622)
<i>of which: Private clients with mortgage</i>	120,535	104,614	15,149	772	(127)	(11)	(71)	(44)
<i>of which: Real estate financing</i>	36,003	26,415	9,553	36	(62)	(3)	(51)	(8)
<i>of which: Large corporate clients</i>	11,610	10,828	684	97	(62)	(7)	(2)	(54)
<i>of which: SME clients</i>	10,072	7,893	1,629	550	(281)	(9)	(24)	(248)
<i>of which: Lombard</i>	114,436	114,423	0	13	(86)	(4)	0	(82)
<i>of which: Credit cards</i>	1,334	1,069	252	14	(34)	(5)	(9)	(19)
<i>of which: Commodity trade finance</i>	3,008	2,942	61	5	(92)	(4)	(4)	(85)
Other financial assets measured at amortized cost	19,235	18,477	271	488	(146)	(35)	(5)	(106)
<i>of which: Loans to financial advisors</i>	3,326	3,104	74	149	(115)	(28)	(2)	(85)
<b>Total financial assets measured at amortized cost<sup>1</sup></b>	<b>545,000</b>	<b>515,116</b>	<b>27,851</b>	<b>2,033</b>	<b>(992)</b>	<b>(94)</b>	<b>(168)</b>	<b>(730)</b>
Financial assets measured at fair value through other comprehensive income	6,758	6,758	0	0	0	0	0	0
<b>Total on-balance sheet financial assets in scope of ECL requirements</b>	<b>551,757</b>	<b>521,873</b>	<b>27,851</b>	<b>2,033</b>	<b>(992)</b>	<b>(94)</b>	<b>(168)</b>	<b>(730)</b>
		Total exposure			ECL provision			
	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
<b>Off-balance sheet (in scope of ECL)</b>								
Guarantees	17,404	16,624	577	203	(40)	(7)	(2)	(31)
<i>of which: Large corporate clients</i>	3,775	3,380	249	146	(10)	(1)	0	(9)
<i>of which: SME clients</i>	1,313	1,029	235	50	(16)	0	(1)	(15)
<i>of which: Financial intermediaries and hedge funds</i>	5,740	5,694	47	0	(3)	(3)	0	0
<i>of which: Lombard</i>	2,537	2,537	0	0	0	0	0	0
<i>of which: Commodity trade finance</i>	1,783	1,752	24	7	(4)	(1)	0	(3)
Irrevocable loan commitments	29,746	29,181	547	18	(32)	(24)	(7)	(1)
<i>of which: Large corporate clients</i>	22,234	21,693	535	7	(26)	(20)	(5)	(1)
Forward starting reverse repurchase and securities borrowing agreements	1,231	1,231	0	0	0	0	0	0
Committed unconditionally revocable credit lines	35,892	33,937	1,879	75	(34)	(17)	(17)	0
<i>of which: Real estate financing</i>	2,942	2,134	808	0	(12)	(2)	(9)	0
<i>of which: Large corporate clients</i>	4,804	4,700	99	5	0	0	0	0
<i>of which: SME clients</i>	4,617	4,065	496	56	(7)	(4)	(3)	0
<i>of which: Lombard</i>	5,960	5,960	0	0	0	0	0	0
<i>of which: Credit cards</i>	6,879	6,609	269	0	(5)	(4)	(1)	0
<i>of which: Commodity trade finance</i>	3,413	3,307	92	14	(2)	(1)	(1)	0
Irrevocable committed prolongation of existing loans	1,912	1,912	0	0	(1)	(1)	0	0
<b>Total off-balance sheet financial instruments and other credit lines</b>	<b>86,184</b>	<b>82,885</b>	<b>3,003</b>	<b>296</b>	<b>(106)</b>	<b>(49)</b>	<b>(26)</b>	<b>(32)</b>
<b>Total allowances and provisions</b>					<b>(1,098)</b>	<b>(143)</b>	<b>(194)</b>	<b>(762)</b>

<sup>1</sup> The carrying value of financial assets at amortized cost is net of the respective ECL allowances.

**Note 8 Expected credit loss measurement (continued)**

CHF million	1.1.18							
	Carrying amount				ECL allowance			
Financial instruments measured at amortized cost	Total	Stage 1	Stage 2	Stage 3 <sup>2</sup>	Total	Stage 1	Stage 2	Stage 3
Cash and balances at central banks	87,775	87,775	0	0	0	0	0	0
Loans and advances to banks	13,673	13,654	18	0	(5)	(2)	0	(3)
Receivables from securities financing transactions	84,674	84,674	0	0	(2)	(2)	0	0
Cash collateral receivables on derivative instruments	23,434	23,434	0	0	0	0	0	0
Loans and advances to customers	312,602	283,256	27,855	1,491	(867)	(61)	(163)	(644)
<i>of which: Private clients with mortgage</i>	119,560	103,867	15,006	686	(124)	(12)	(69)	(44)
<i>of which: Real estate financing</i>	35,896	26,210	9,657	29	(62)	(3)	(53)	(6)
<i>of which: Large corporate clients</i>	11,004	10,358	557	88	(69)	(6)	0	(63)
<i>of which: SME clients</i>	10,322	8,218	1,518	585	(287)	(8)	(23)	(256)
<i>of which: Lombard</i>	110,601	110,384	0	17	(84)	(5)	0	(79)
Other financial assets measured at amortized cost	18,375	17,877	32	465	(136)	(29)	(1)	(106)
<i>of which: Loans to financial advisors</i>	3,086	2,874	32	179	(115)	(28)	(1)	(87)
<b>Total financial assets measured at amortized cost<sup>1</sup></b>	<b>540,533</b>	<b>510,671</b>	<b>27,906</b>	<b>1,956</b>	<b>(1,011)</b>	<b>(95)</b>	<b>(164)</b>	<b>(752)</b>
Financial assets measured at fair value through other comprehensive income	6,755	6,755	0	0	0	0	0	0
<b>Total on-balance sheet financial assets in scope of ECL requirements</b>	<b>547,288</b>	<b>517,426</b>	<b>27,906</b>	<b>1,956</b>	<b>(1,011)</b>	<b>(95)</b>	<b>(164)</b>	<b>(752)</b>
		Total exposure			ECL provision			
<b>Off-balance sheet (in scope of ECL)</b>	Total	Stage 1	Stage 2	Stage 3 <sup>2</sup>	Total	Stage 1	Stage 2	Stage 3
Guarantees	17,152	16,331	633	189	(37)	(6)	(2)	(29)
Irrevocable loan commitments	30,852	30,153	662	37	(36)	(24)	(8)	(4)
<i>of which: Large corporate clients</i>	21,999	21,344	629	26	(27)	(19)	(4)	(4)
Forward starting reverse repurchase and securities borrowing agreements	1,216	1,216	0	0	0	0	0	0
Committed unconditionally revocable credit lines	36,690	34,471	2,157	62	(34)	(19)	(15)	0
<i>of which: Real estate financing</i>	3,103	2,097	1,007	0	(9)	(2)	(7)	0
<i>of which: SME clients</i>	4,770	4,311	406	53	(7)	(5)	(2)	0
Irrevocable committed prolongation of existing loans	1,635	1,634	0	1	0	0	0	0
<b>Total off-balance sheet financial instruments and other credit lines</b>	<b>87,545</b>	<b>83,805</b>	<b>3,452</b>	<b>288</b>	<b>(107)</b>	<b>(49)</b>	<b>(24)</b>	<b>(33)</b>
<b>Total allowances and provisions</b>					<b>(1,117)</b>	<b>(144)</b>	<b>(188)</b>	<b>(785)</b>

<sup>1</sup> The carrying value of financial assets at amortized cost is net of the respective ECL allowances. <sup>2</sup> Upon adoption of IFRS 9 as of 1 January 2018, an instrument is classified as credit-impaired if the counterparty is defaulted, and / or the instrument is purchased or originated credit-impaired and includes credit impaired exposures for which no loss has occurred, or for which no allowance has been recognized (e.g., because they are expected to be fully recoverable through the collateral held). Refer to Note 19 for more information on the adoption of IFRS 9.

**Note 9 Fair value measurement**

This Note provides fair value measurement information for both financial and non-financial instruments and should be read in conjunction with "Note 22 Fair value measurement" in the "Consolidated financial statements" section of the Annual Report 2017, which provides more information on valuation principles, valuation governance, fair value hierarchy classification, valuation adjustments, valuation techniques and inputs, sensitivity of fair value measurements and methods applied to calculate fair values for financial instruments not measured at fair value.

**Adoption of IFRS 9**

Upon adoption of IFRS 9 on 1 January 2018, certain classification and measurement changes were made, primarily resulting in a reclassification of certain financial assets and liabilities from amortized cost to fair value through profit or loss. This included:

- brokerage receivables and payables held in the Investment Bank and Global Wealth Management;
- auction rate securities held in Corporate Center; and
- certain loans held in the Investment Bank.

Certain financial assets and liabilities that have been newly classified at fair value through profit or loss upon adoption of IFRS 9 on 1 January 2018 are designated as Level 3 in the fair value hierarchy. Refer to the tables and text within this Note for more information.

An immaterial amount of financial assets were reclassified from *Financial assets at fair value held for trading* and *Financial assets at fair value not held for trading* to *Loans and advances to customers* upon adoption of IFRS 9. An immaterial amount of associated loan commitments, which were recognized as derivative liabilities as of 31 December 2017, were also derecognized from the balance sheet. No material fair value gains and losses would have been recognized in the income statement in the second quarter of 2018 had these instruments not been reclassified. Similarly, no material fair value gains or losses would have been recognized in Other comprehensive income related to debt instruments that were reclassified from *Financial assets available for sale* to *Other financial assets measured at amortized cost* upon adoption of IFRS 9.

→ Refer to Note 19 for more information on the adoption of IFRS 9



## Note 9 Fair value measurement (continued)

### a) Fair value hierarchy

The fair value hierarchy classification of financial and non-financial assets and liabilities measured at fair value is summarized in the table below.

#### Determination of fair values from quoted market prices or valuation techniques<sup>1</sup>

CHF million	30.6.18				31.3.18				31.12.17			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial assets measured at fair value on a recurring basis</b>												
Financial assets at fair value held for trading	96,133	12,862	3,263	112,258	89,282	14,566	1,937	105,785	108,963	15,309	1,972	126,244
<i>of which:</i>												
Government bills / bonds	10,650	877	0	11,527	13,769	1,115	0	14,885	11,935	918	0	12,854
Corporate and municipal bonds	550	7,596	627	8,773	342	8,379	233	8,953	37	8,072	552	8,662
Loans	0	2,096	1,733	3,829	0	3,005	606	3,611	0	3,346	501	3,847
Investment fund units	8,716	1,974	540	11,230	6,951	1,560	704	9,215	7,223	1,839	571	9,632
Asset-backed securities	0	110	157	266	0	169	157	326	0	194	174	368
Equity instruments	76,218	210	188	76,615	68,220	338	237	68,796	79,276	186	105	79,566
Financial assets for unit-linked investment contracts <sup>2</sup>									10,492	755	69	11,316
Derivative financial instruments	878	119,245	1,481	121,605	853	111,136	1,344	113,334	458	116,222	1,549	118,229
<i>of which:</i>												
Interest rate contracts	0	38,555	226	38,782	8	41,153	35	41,196	1	43,913	135	44,049
Credit derivative contracts	0	1,674	452	2,127	0	1,894	458	2,352	0	2,266	550	2,816
Foreign exchange contracts	563	52,941	186	53,690	385	42,026	239	42,650	207	46,749	189	47,145
Equity / index contracts	7	24,320	612	24,939	21	24,374	608	25,002	16	21,541	675	22,232
Commodity contracts	0	1,564	0	1,564	0	1,379	0	1,379	0	1,727	0	1,727
Brokerage receivables <sup>3</sup>	0	18,415	0	18,415	0	20,250	0	20,250				
Financial assets at fair value not held for trading	42,929	45,177	4,769	92,875	44,989	47,557	4,667	97,213	23,032	34,104	1,419	58,556
<i>of which:</i>												
Government bills / bonds	21,853	3,452	0	25,305	24,255	3,646	0	27,901	22,062	3,900	0	25,961
Corporate and municipal bonds	958	21,849	0	22,807	760	23,265	0	24,025	765	20,702	0	21,467
Financial assets for unit-linked investment contracts <sup>2</sup>	19,824	4,735	8	24,568	19,655	4,528	0	24,183				
Loans (including structured loans)	0	7,394	1,904	9,298	0	8,353	1,924	10,277	0	9,385	758	10,143
Structured securities financing transactions <sup>4</sup>	0	7,556	65	7,622	0	7,621	140	7,760	0	118	173	291
Auction-rate securities <sup>5</sup>	0	0	1,832	1,832	0	0	1,713	1,713				
Investment fund units	194	117	118	429	167	96	107	370	205	0	0	205
Equity instruments <sup>5</sup>	101	16	484	602	151	47	369	567				
Other	0	57	357	414	0	1	413	415	0	0	489	489
<b>Financial assets measured at fair value through other comprehensive income on a recurring basis</b>												
Financial assets measured at fair value through other comprehensive income	2,608	4,333	0	6,941	2,560	4,197	0	6,758	3,000	5,157	507	8,665
<i>of which:</i>												
Government bills / bonds	2,563	111	0	2,675	2,515	118	0	2,634	2,733	133	0	2,866
Corporate and municipal bonds	44	390	0	434	45	428	0	473	121	1,060	9	1,189
Asset-backed securities	0	3,832	0	3,832	0	3,651	0	3,651	0	3,880	0	3,880
Other <sup>5</sup>	0	0	0	0	0	0	0	0	146	85	499	730
<b>Non-financial assets measured at fair value on a recurring basis</b>												
Other non-financial assets												
Precious metals and other physical commodities	3,975	0	0	3,975	4,032	0	0	4,032	4,563	0	0	4,563
<b>Non-financial assets measured at fair value on a non-recurring basis</b>												
Other non-financial assets <sup>6</sup>	0	57	9	65	0	58	9	67	0	54	42	95
<b>Total assets measured at fair value</b>	<b>146,523</b>	<b>200,090</b>	<b>9,522</b>	<b>356,135</b>	<b>141,716</b>	<b>197,764</b>	<b>7,957</b>	<b>347,438</b>	<b>140,017</b>	<b>170,848</b>	<b>5,489</b>	<b>316,353</b>

**Note 9 Fair value measurement (continued)****Determination of fair values from quoted market prices or valuation techniques (continued)<sup>1</sup>**

CHF million	30.6.18				31.3.18				31.12.17			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Financial liabilities measured at fair value on a recurring basis</b>												
Financial liabilities at fair value held for trading	26,211	5,117	88	31,416	29,657	4,999	91	34,747	26,037	4,309	117	30,463
<i>of which:</i>												
Government bills / bonds	4,386	299	0	4,685	7,574	398	0	7,972	5,153	256	0	5,409
Corporate and municipal bonds	138	4,113	34	4,285	11	4,133	31	4,176	50	3,453	35	3,538
Investment fund units	785	214	2	1,002	291	67	4	362	541	263	16	820
Equity instruments	20,901	488	52	21,440	21,781	392	56	22,229	20,293	336	66	20,695
Derivative financial instruments	875	115,955	2,394	119,224	837	108,437	2,671	111,945	398	112,929	2,807	116,134
<i>of which:</i>												
Interest rate contracts	6	33,738	285	34,030	12	36,125	212	36,349	5	38,196	186	38,387
Credit derivative contracts	0	2,620	613	3,233	0	2,777	629	3,407	0	3,196	601	3,797
Foreign exchange contracts	585	52,922	115	53,621	343	41,891	118	42,353	213	45,151	122	45,486
Equity / index contracts	2	25,122	1,369	26,493	6	26,131	1,708	27,845	42	24,803	1,896	26,741
Commodity contracts	0	1,365	1	1,366	0	1,227	1	1,227	0	1,561	1	1,562
<b>Financial liabilities designated at fair value on a recurring basis</b>												
Brokerage payables designated at fair value <sup>3</sup>	0	37,904	0	37,904	0	34,793	0	34,793				
Debt issued designated at fair value	0	46,683	10,166	56,849	0	40,213	11,846	52,059	0	38,617	10,885	49,502
Other financial liabilities designated at fair value	2	36,252	1,089	37,342	2	33,061	1,375	34,438	0	14,282	1,941	16,223
<i>of which:</i>												
Amounts due under unit-linked investment contracts	0	24,913	0	24,913	0	24,348	0	24,348	0	11,523	0	11,523
Structured securities financing transactions <sup>4</sup>	0	6,533	0	6,533	0	5,812	1	5,812	0	372	4	376
Over-the-counter debt instruments	2	4,801	1,085	5,888	2	2,898	1,371	4,270	0	2,385	1,930	4,315
<b>Non-financial liabilities measured at fair value on a non-recurring basis</b>												
Other non-financial liabilities	0	0	0	0	0	0	0	0	0	1	0	1
<b>Total liabilities measured at fair value</b>	<b>27,087</b>	<b>241,911</b>	<b>13,737</b>	<b>282,736</b>	<b>30,495</b>	<b>221,504</b>	<b>15,984</b>	<b>267,983</b>	<b>26,435</b>	<b>170,139</b>	<b>15,750</b>	<b>212,324</b>

<sup>1</sup> Bifurcated embedded derivatives are presented on the same balance sheet lines as their host contracts and are excluded from this table. The fair value of these derivatives was not material for the periods presented.

<sup>2</sup> Financial assets for unit-linked investment contracts were reclassified from Financial assets at fair value held for trading to Financial assets at fair value not held for trading as of 1 January 2018. Refer to Note 19 for more information.

<sup>3</sup> Comparative period information is not disclosed for financial assets and liabilities that were measured at amortized cost prior to the adoption of IFRS 9 on 1 January 2018. Refer to Note 19 for more information.

<sup>4</sup> The increases in Structured securities financing transactions from 31 December 2017 to 31 March 2018 primarily relate to the reclassification of certain balances from amortized cost to fair value through profit or loss upon adoption of IFRS 9 on 1 January 2018. Refer to Note 19 for more information.

<sup>5</sup> Upon adoption of IFRS 9 on 1 January 2018, equity instruments that were formerly classified as available for sale under IAS 39 were reclassified to Financial assets at fair value not held for trading. Refer to Note 19 for more information.

<sup>6</sup> Other non-financial assets primarily consist of properties and other non-current assets held for sale, which are measured at the lower of their net carrying amount or fair value less costs to sell.

All financial and non-financial assets and liabilities measured or disclosed at fair value are categorized into one of three fair value hierarchy levels. In certain cases, the inputs used to measure fair value may fall within different levels of the fair value hierarchy. For disclosure purposes, the level in the hierarchy within which the instrument is classified in its entirety is based on the lowest level input that is significant to the position's fair value measurement:

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

**Product description, valuation and classification in the fair value hierarchy for products newly classified at fair value upon adoption of IFRS 9 on 1 January 2018**

Product description, valuation and fair value hierarchy information is provided on the next page for significant products classified at fair value that are not described in "Note 22 Fair value measurement" in the "Consolidated financial statements" section of the Annual Report 2017.

## Note 9 Fair value measurement (continued)

### Auction rate securities

There are two types of auction rate securities (ARS): auction preferred securities (APS) and auction rate certificates (ARC). ARC are issued by municipalities and are used by investors as tax-exempt alternatives to money market instruments. Interest rates for these instruments are reset through a periodic Dutch auction. APS are similar to ARC with the primary difference being that they are issued from closed-end funds. ARS are valued directly using market prices that reflect recent transactions after applying an adjustment for trade size or quoted dealer prices where available. Suitably deep and liquid pricing information is generally not available for ARS securities. As a result, these securities are classified as Level 3.

### b) Valuation adjustments

#### Own credit

Own credit is estimated using an own credit adjustment (OCA) curve, which incorporates observable market data, including market-observed secondary prices for UBS senior debt, UBS credit default swap spreads and senior debt curves of peers.

In June 2018, UBS AG issued a 30-year senior unsecured bond as part of its ongoing funding requirements. The market-observable secondary prices for this bond have been incorporated into the OCA curve construction, resulting in a widening of the curve at the long-end. An own credit gain of CHF 248 million has been recognized in Other comprehensive income in the second quarter of 2018, mainly reflecting aforementioned changes to the OCA curve.

#### Day-1 reserves

The table below summarizes the changes in deferred day-1 profit or loss reserves during the respective period.

#### Deferred day-1 profit or loss

CHF million	For the quarter ended			Year-to-date	
	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17
<b>Balance at the beginning of the period</b>	<b>457</b>	329	365	329	371
Profit / (loss) deferred on new transactions	53	187	65	240	116
(Profit) / loss recognized in the income statement	(248)	(53)	(66)	(301)	(119)
Foreign currency translation	13	(6)	(15)	7	(18)
<b>Balance at the end of the period</b>	<b>274</b>	457	349	274	349

### c) Transfers between Level 1 and Level 2

The amounts disclosed below reflect transfers between Level 1 and Level 2 for instruments that were held for the entire reporting period.

Assets totaling approximately CHF 0.6 billion, which were mainly comprised of financial assets at fair value held for trading, primarily equity instruments and investment fund units, were

### Brokerage receivables and payables

Brokerage receivables and payables include callable, on-demand balances, including long cash credits, short cash debits, margin debit balances and short sale proceeds. The business model for these accounts is similar to any current or on-demand account, with account holders using the account to house subscriptions, redemptions and billed amounts. Fair value is determined based on value of the underlying balances. Due to the on-demand nature of its underlying, these receivables and payables are designated as Level 2.

Deferred day-1 profit or loss is generally released into *Other net income from fair value changes on financial instruments* when pricing of equivalent products or the underlying parameters become observable or when the transaction is closed out.

In the second quarter of 2018, a day-1 reserve release of CHF 192 million was recognized in the income statement related to long-dated UBS-issued structured notes, which are reported within *Debt issued designated at fair value* on the balance sheet. The day-1 reserve release was driven by increased observability of the OCA curve used to value these positions following the 30-year bond issuance described in the previous section.

#### Other valuation adjustments

In the second quarter of 2018, a CHF 64 million expense was recognized in the income statement reflecting the model valuation adjustment recorded to capture the spread between OCA and LIBOR volatility impacting the valuation of certain structured note issuances.

transferred from Level 2 to Level 1 during the first six months of 2018, generally due to increased levels of trading activity observed within the market. Liabilities transferred from Level 2 to Level 1 during the first six months of 2018 were not material. Assets and liabilities transferred from Level 1 to Level 2 during the first six months of 2018 were also not material.

**Note 9 Fair value measurement (continued)****d) Level 3 instruments: valuation techniques and inputs**

The table below presents material Level 3 assets and liabilities together with the valuation techniques used to measure fair value, the significant inputs used in the valuation technique that are considered unobservable and a range of values for those unobservable inputs.

The range of values represents the highest- and lowest-level input used in the valuation techniques. Therefore, the range does not reflect the level of uncertainty regarding a particular input, but rather the different underlying characteristics of the relevant assets and liabilities. The ranges will therefore vary from period to period and parameter to parameter based on characteristics of the instruments held at each balance sheet date. Further, the ranges and weighted averages of unobservable inputs may differ across

other financial institutions due to the diversity of the products in each firm's inventory.

The significant unobservable inputs disclosed in the table below are generally consistent with those included in "Note 22 Fair value measurement" in the "Consolidated financial statements" section of the Annual Report 2017. A description of the potential effect that a change in each unobservable input in isolation may have on a fair value measurement, including information to facilitate an understanding of factors that give rise to the input ranges shown, is also provided in "Note 22 Fair value measurement" in the "Consolidated financial statements" section of the Annual Report 2017.

**Valuation techniques and inputs used in the fair value measurement of Level 3 assets and liabilities**

	Fair value				Valuation technique(s)	Significant unobservable input(s) <sup>1</sup>	Range of inputs						
	Assets		Liabilities				30.6.18			31.12.17			
CHF billion	30.6.18	31.12.17	30.6.18	31.12.17		low	high	weighted average <sup>2</sup>	low	high	weighted average <sup>2</sup>	unit <sup>1</sup>	
<b>Financial assets and liabilities at fair value held for trading, Financial assets at fair value not held for trading<sup>3</sup></b>													
Corporate and municipal bonds	0.6	0.6	0.0	0.0	Relative value to market comparable	Bond price equivalent	0	134	95	0	133	92	points
Traded loans, loans mandatorily at fair value, loan commitments and guarantees	3.9	1.7	0.0	0.0	Relative value to market comparable	Loan price equivalent	0	101	97	50	102	98	points
					Discounted expected cash flows	Credit spread	111	153		23	124		basis points
					Market comparable and securitization model	Discount margin	0	14	2	0	14	2	%
Auction-rate securities <sup>4</sup>	1.8		0.0		Relative value to market comparable	Price	77	99					points
Investment fund units <sup>5</sup>	0.7	0.7	0.0	0.0	Relative value to market comparable	Net asset value							
Equity instruments <sup>5</sup>	0.7	0.5	0.1	0.1	Relative value to market comparable	Price							
Debt issued designated at fair value <sup>6</sup>			10.2	10.9									
Other financial liabilities designated at fair value <sup>6</sup>			1.1	1.9									
<b>Derivative financial instruments</b>													
Interest rate contracts	0.2	0.1	0.3	0.2	Option model	Volatility of interest rates <sup>7</sup>	42	76		28	70		basis points
					Discounted expected cash flows	Credit spreads	4	394		6	550		basis points
						Bond price equivalent	1	99		2	102		points
Equity / index contracts	0.6	0.7	1.4	1.9	Option model	Equity dividend yields	0	11		0	13		%
						Volatility of equity stocks, equity and other indices	0	75		0	172		%
						Equity-to-FX correlation	(45)	71		(39)	70		%
						Equity-to-equity correlation	(50)	97		(50)	97		%

<sup>1</sup> The ranges of significant unobservable inputs are represented in points, percentages and basis points. Points are a percentage of par (e.g., 100 points would be 100% of par). <sup>2</sup> Weighted averages are provided for non-derivative financial instruments and were calculated by weighting inputs based on the fair values of the respective instruments. Weighted averages are not provided for inputs related to derivative contracts as this would not be meaningful. <sup>3</sup> Comparative period information includes equity instruments that were formerly classified as available for sale under IAS 39 and have been reclassified to Financial assets at fair value not held for trading upon adoption of IFRS 9 on 1 January 2018. Refer to Note 19 for more information. <sup>4</sup> Comparative period information is not disclosed for financial assets and liabilities that were measured at amortized cost prior to the adoption of IFRS 9. Refer to Note 19 for more information. <sup>5</sup> The range of inputs is not disclosed due to the dispersion of values given the diverse nature of the investments. <sup>6</sup> Valuation techniques, significant unobservable inputs and the respective input ranges for Debt issued designated at fair value and Other financial liabilities designated at fair value, which are primarily comprised of over-the-counter debt instruments, are the same as the equivalent derivative or structured financing instruments presented elsewhere in this table. <sup>7</sup> Effective 31 March 2018, the range of inputs reported for this significant unobservable input is based on normal volatility and the unit has been updated to basis points. Log-normal volatility with the unit as points was reported previously. Prior-period information has been restated to reflect this change in presentation.

## Note 9 Fair value measurement (continued)

### e) Level 3 instruments: sensitivity to changes in unobservable input assumptions

The table below summarizes those financial assets and liabilities classified as Level 3 for which a change in one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, and the estimated effect thereof.

The table shown presents the favorable and unfavorable effects for each class of financial assets and liabilities for which the potential change in fair value is considered significant. The sensitivity of fair value measurements for debt issued designated at fair value and over-the-counter debt instruments designated at fair value is reported with the equivalent derivative or structured financing instrument within the table below.

The sensitivity data presented represent an estimation of valuation uncertainty based on reasonably possible alternative values for Level 3 inputs at the balance sheet date and do not represent the estimated effect of stress scenarios. Typically, these financial assets and liabilities are sensitive to a combination of inputs from Levels 1–3. Although well-defined interdependencies may exist between Levels 1–2 and Level 3 parameters (e.g., between interest rates, which are generally Level 1 or Level 2, and prepayments, which are generally Level 3), these have not been incorporated in the table. Further, direct interrelationships between the Level 3 parameters are not a significant element of the valuation uncertainty.

#### Sensitivity of fair value measurements to changes in unobservable input assumptions

CHF million	30.6.18		31.3.18		31.12.17	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Traded loans, loans measured at fair value, loan commitments and guarantees	89	(15)	83	(18)	79	(11)
Structured securities financing transactions	20	(15)	65	(65)	34	(34)
Auction-rate securities <sup>1</sup>	92	(92)	87	(87)		
Asset-backed securities	31	(26)	31	(26)	19	(15)
Equity instruments	182	(115)	134	(106)	79	(53)
Interest rate derivative contracts, net	12	(37)	12	(28)	13	(26)
Credit derivative contracts, net	40	(35)	33	(36)	64	(99)
Foreign exchange derivative contracts, net	6	(3)	8	(5)	12	(6)
Equity / index derivative contracts, net	212	(228)	189	(205)	190	(193)
Other	21	(21)	14	(14)	13	(13)
<b>Total</b>	<b>704</b>	<b>(586)</b>	<b>656</b>	<b>(591)</b>	<b>502</b>	<b>(450)</b>

<sup>1</sup> Comparative period information as of 31 December 2017 is not disclosed for financial assets that were measured at amortized cost prior to the adoption of IFRS 9 on 1 January 2018. Refer to Note 19 for more information.

### f) Level 3 instruments: movements during the period

#### Significant changes in Level 3 instruments

The table on the following pages presents additional information about Level 3 assets and liabilities measured at fair value on a recurring basis. Level 3 assets and liabilities may be hedged with instruments classified as Level 1 or Level 2 in the fair value hierarchy and, as a result, realized and unrealized gains and losses included in the table may not include the effect of related hedging activity. Furthermore, the realized and unrealized gains and losses presented within the table are not limited solely to those arising from Level 3 inputs, as valuations are generally derived from both observable and unobservable parameters.

Upon adoption of IFRS 9 on 1 January 2018, certain financial assets and liabilities were newly classified at fair value through profit or loss and were designated as Level 3 in the fair value hierarchy. These financial instruments are presented in the table on the following pages, including the associated effect upon

adoption. This includes auction rate securities held in Corporate Center and certain loans held in the Investment Bank.

In addition to various financial assets and liabilities being newly classified at fair value through profit or loss, certain equity investments and investment fund units measured at fair value through other comprehensive income were reclassified to *Financial assets at fair value not held for trading* under the revised IFRS 9 measurement rules, which resulted in an opening balance reclassification between reporting lines in the table on the following pages.

In the second quarter of 2018, CHF 2.8 billion of UBS-issued structured notes, which are reported within *Debt issued designated at fair value* on the balance sheet, were transferred from Level 3 to Level 2 in the fair value hierarchy, reflecting increased observability of the OCA curve used to value these notes.

**Note 9 Fair value measurement (continued)****Movements of Level 3 instruments**

CHF billion	Balance as of 31 December 2016	Total gains / (losses) included in comprehensive income			Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation	Balance as of 30 June 2017
		Net gains / (losses) included in income <sup>1</sup>	of which: related to Level 3 instruments held at the end of the reporting period									
<b>Financial assets at fair value held for trading</b>	<b>1.7</b>	<b>0.0</b>	<b>0.0</b>	<b>0.7</b>	<b>(2.3)</b>	<b>1.6</b>	<b>0.0</b>	<b>0.2</b>	<b>(0.2)</b>	<b>0.0</b>	<b>1.6</b>	
<i>of which:</i>												
Corporate and municipal bonds	0.6	0.0	0.0	0.3	(0.1)	0.0	0.0	0.1	0.0	0.0	0.8	
Loans	0.7	0.1	0.0	0.3	(2.1)	1.6	0.0	0.0	(0.1)	0.0	0.5	
Investment fund units	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other	0.4	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.0	0.0	0.3	
<b>Financial assets at fair value not held for trading</b>	<b>2.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.3</b>	<b>(0.7)</b>	<b>0.0</b>	<b>(0.1)</b>	<b>0.0</b>	<b>1.6</b>	
<i>of which:</i>												
Loans (including structured loans)	1.2	0.1	0.1	0.0	0.0	0.0	(0.7)	0.0	(0.1)	0.0	0.5	
Auction-rate securities <sup>3</sup>												
Equity instruments												
Other	0.9	0.0	0.0	0.0	0.0	0.3	(0.1)	0.0	0.0	0.0	1.1	
<b>Financial assets measured at fair value through other comprehensive income</b>	<b>0.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>	
<b>Derivative financial instruments – assets</b>	<b>2.5</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>(0.5)</b>	<b>0.1</b>	<b>(0.5)</b>	<b>0.0</b>	<b>1.9</b>	
<i>of which:</i>												
Credit derivative contracts	1.3	(0.2)	(0.2)	0.0	0.0	0.0	(0.1)	0.0	(0.3)	0.0	0.8	
Equity / index contracts	0.7	0.0	0.0	0.0	0.0	0.4	(0.2)	0.1	(0.1)	0.0	0.8	
Other	0.5	0.0	(0.1)	0.0	0.0	0.0	(0.2)	0.0	(0.1)	0.0	0.3	
<b>Derivative financial instruments – liabilities</b>	<b>4.0</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.5</b>	<b>(1.0)</b>	<b>0.1</b>	<b>(0.7)</b>	<b>0.0</b>	<b>2.8</b>	
<i>of which:</i>												
Credit derivative contracts	1.5	(0.1)	(0.1)	0.0	0.0	0.0	(0.2)	0.0	(0.3)	0.0	1.0	
Equity / index contracts	1.9	0.0	0.0	0.0	0.0	0.5	(0.5)	0.1	(0.4)	0.0	1.4	
Other	0.6	0.0	0.0	0.0	0.0	0.0	(0.2)	0.0	(0.1)	0.0	0.5	
<b>Debt issued designated at fair value</b>	<b>9.7</b>	<b>1.0</b>	<b>0.8</b>	<b>0.0</b>	<b>0.0</b>	<b>2.5</b>	<b>(2.0)</b>	<b>0.2</b>	<b>(0.9)</b>	<b>(0.3)</b>	<b>10.2</b>	
<b>Other financial liabilities designated at fair value</b>	<b>1.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>1.3</b>	<b>(0.5)</b>	<b>0.0</b>	<b>(0.2)</b>	<b>0.0</b>	<b>1.9</b>	

<sup>1</sup> Net gains / (losses) included in comprehensive income are comprised of Net interest income, Other net income from fair value changes on financial instruments and Other income. <sup>2</sup> Total Level 3 assets as of 30 June 2018 were CHF 9.5 billion (31 March 2018: CHF 8.0 billion, 31 December 2017: CHF 5.5 billion). Total Level 3 liabilities as of 30 June 2018 were CHF 13.7 billion (31 March 2018: CHF 16.0 billion, 31 December 2017: CHF 15.7 billion). <sup>3</sup> Comparative period information is not disclosed for items that were measured at amortized cost prior to the adoption of IFRS 9 on 1 January 2018. Refer to Note 19 for more information.

## Note 9 Fair value measurement (continued)

Balance as of 31 December 2017	Reclassifications and remeasurements upon adoption of IFRS 9	Balance as of 1 January 2018	Total gains / (losses) included in comprehensive income		Purchases	Sales	Issuances	Settlements	Transfers into Level 3	Transfers out of Level 3	Foreign currency translation	Balance as of 30 June 2018 <sup>2</sup>
			Net gains / (losses) included in income <sup>1</sup>	of which: related to Level 3 instruments held at the end of the reporting period								
2.0	0.4	2.4	(0.3)	(0.2)	1.0	(4.8)	4.2	0.0	0.8	(0.1)	0.0	3.3
0.6		0.6	(0.1)	(0.1)	0.4	(0.8)	0.0	0.0	0.6	0.0	0.0	0.6
0.5	0.4	0.9	0.0	0.0	0.3	(3.6)	4.2	0.0	0.0	0.0	0.0	1.7
0.6		0.6	(0.1)	(0.1)	0.1	(0.1)	0.0	0.0	0.1	0.0	0.0	0.5
0.3		0.3	(0.1)	(0.1)	0.3	(0.3)	0.0	0.0	0.1	0.0	0.0	0.3
1.4	2.9	4.3	0.1	0.0	1.0	(0.9)	0.0	0.0	0.1	(0.1)	0.1	4.8
0.8	0.6	1.3	(0.1)	(0.1)	1.0	(0.3)	0.0	0.0	0.1	0.0	0.0	1.9
	1.8	1.8	0.1	0.1	0.0	(0.2)	0.0	0.0	0.0	0.0	0.1	1.8
	0.4	0.4	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
0.7	0.1	0.8	0.1	0.0	0.0	(0.3)	0.0	0.0	0.0	(0.1)	0.0	0.5
0.5	(0.5)											
1.5		1.5	0.0	0.1	0.0	0.0	0.4	(0.6)	0.1	0.0	0.0	1.5
0.5		0.5	(0.1)	0.0	0.0	0.0	0.0	(0.1)	0.0	0.0	0.0	0.5
0.7		0.7	0.0	0.0	0.0	0.0	0.4	(0.5)	0.1	(0.1)	0.0	0.6
0.3		0.3	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
2.8	0.0	2.8	(0.3)	(0.3)	0.0	0.0	0.7	(0.8)	0.4	(0.5)	0.0	2.4
0.6		0.6	0.0	0.0	0.0	0.0	0.1	0.0	0.1	(0.1)	0.0	0.6
1.9		1.9	(0.3)	(0.2)	0.0	0.0	0.6	(0.7)	0.2	(0.4)	0.0	1.4
0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.4
10.9		10.9	0.6	0.5	0.0	0.0	3.2	(2.4)	1.3	(3.6)	0.1	10.2
1.9		1.9	(0.6)	(0.6)	0.0	0.0	0.4	(0.7)	0.0	0.0	0.0	1.1

**Note 9 Fair value measurement (continued)**

Assets and liabilities transferred into or out of Level 3 are presented as if those assets or liabilities had been transferred at the beginning of the year.

Assets transferred into and out of Level 3 totaled CHF 1.0 billion and CHF 0.2 billion, respectively. Transfers into Level 3 were primarily comprised of corporate and municipal bonds reflecting decreased observability of the respective bond price equivalent inputs. Transfers out of Level 3 were primarily comprised of equity / index contracts due to increased observability of the respective equity volatility inputs.

Liabilities transferred into and out of Level 3 totaled CHF 1.7 billion and CHF 4.1 billion, respectively. Transfers into Level 3 were primarily comprised of structured medium-term notes and equity-linked issued debt instruments due to decreased observability of the embedded derivative inputs. Transfers out of Level 3 were primarily comprised of interest rate-linked and equity-linked issued debt instruments resulting from changes in the observability of the respective OCA curve and equity volatility inputs used to determine the fair value of these instruments.

**g) Financial instruments not measured at fair value**

The table below reflects the estimated fair values of financial instruments not measured at fair value.

**Financial instruments not measured at fair value**

CHF billion	30.6.18		31.3.18		31.12.17	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<b>Assets</b>						
Cash and balances at central banks	102.3	102.3	92.8	92.8	87.8	87.8
Loans and advances to banks	15.5	15.5	13.3	13.3	13.7	13.7
Receivables from securities financing transactions	76.4	76.4	77.0	77.0	89.6	89.6
Cash collateral receivables on derivative instruments	24.9	24.9	24.3	24.3	23.4	23.4
Loans and advances to customers	320.6	321.1	318.4	319.2	320.7	322.1
Other financial assets measured at amortized cost	21.1	20.8	19.2	19.0	36.9	36.8
<b>Liabilities</b>						
Amounts due to banks	10.2	10.2	9.0	9.0	7.5	7.5
Payables from securities financing transactions	10.1	10.1	9.2	9.2	17.0	17.0
Cash collateral payables on derivative instruments	31.8	31.8	29.4	29.4	30.2	30.2
Customer deposits	407.2	407.2	401.5	401.5	412.4	412.4
Funding from UBS Group AG and its subsidiaries	38.8	39.5	35.9	36.9	34.7	36.4
Debt issued measured at amortized cost	98.9	100.7	102.2	104.2	104.8	107.0
Other financial liabilities measured at amortized cost	7.2	7.2	6.4	6.4	37.1	37.1

The fair values included in the table above were calculated for disclosure purposes only. The fair value valuation techniques and assumptions relate only to the fair value of UBS's financial instruments not measured at fair value. Other institutions may

use different methods and assumptions for their fair value estimation, and therefore such fair value disclosures cannot necessarily be compared from one financial institution to another.



## Note 10 Derivative instruments

### a) Derivative instruments

<i>As of 30.6.18, CHF billion</i>	Derivative financial assets	Notional values related to derivative financial assets <sup>3</sup>	Derivative financial liabilities	Notional values related to derivative financial liabilities <sup>3</sup>	Other notional values <sup>4</sup>
<b>Derivative financial instruments<sup>1,2</sup></b>					
Interest rate contracts	38.8	1,169	34.0	1,093	11,322
Credit derivative contracts	2.1	81	3.2	83	0
Foreign exchange contracts	53.7	2,736	53.6	2,588	1
Equity / index contracts	24.9	446	26.5	530	101
Commodity contracts	1.6	44	1.4	39	11
Unsettled purchases of non-derivative financial instruments <sup>5</sup>	0.2	26	0.2	18	
Unsettled sales of non-derivative financial instruments <sup>5</sup>	0.3	31	0.3	20	
<b>Total derivative financial instruments, based on IFRS netting<sup>6</sup></b>	<b>121.6</b>	<b>4,533</b>	<b>119.2</b>	<b>4,371</b>	<b>11,435</b>
Further netting potential not recognized on the balance sheet <sup>7</sup>	(106.6)		(103.1)		
<i>of which: netting of recognized financial liabilities / assets</i>	<i>(87.4)</i>		<i>(87.4)</i>		
<i>of which: netting with collateral received / pledged</i>	<i>(19.2)</i>		<i>(15.7)</i>		
<b>Total derivative financial instruments, after consideration of further netting potential</b>	<b>15.1</b>		<b>16.2</b>		

*As of 31.3.18, CHF billion*

<i>As of 31.3.18, CHF billion</i>	Derivative financial assets	Notional values related to derivative financial assets <sup>3</sup>	Derivative financial liabilities	Notional values related to derivative financial liabilities <sup>3</sup>	Other notional values <sup>4</sup>
<b>Derivative financial instruments<sup>1,2</sup></b>					
Interest rate contracts	41.2	1,231	36.3	1,103	11,173
Credit derivative contracts	2.4	88	3.4	93	0
Foreign exchange contracts	42.7	2,548	42.4	2,445	0
Equity / index contracts	25.0	412	27.8	474	91
Commodity contracts	1.4	39	1.2	39	9
Unsettled purchases of non-derivative financial instruments <sup>5</sup>	0.4	36	0.3	15	
Unsettled sales of non-derivative financial instruments <sup>5</sup>	0.3	28	0.5	28	
<b>Total derivative financial instruments, based on IFRS netting<sup>6</sup></b>	<b>113.3</b>	<b>4,382</b>	<b>111.9</b>	<b>4,197</b>	<b>11,273</b>
Further netting potential not recognized on the balance sheet <sup>7</sup>	(99.3)		(96.8)		
<i>of which: netting of recognized financial liabilities / assets</i>	<i>(80.7)</i>		<i>(80.7)</i>		
<i>of which: netting with collateral received / pledged</i>	<i>(18.6)</i>		<i>(16.1)</i>		
<b>Total derivative financial instruments, after consideration of further netting potential</b>	<b>14.1</b>		<b>15.2</b>		

*As of 31.12.17, CHF billion*

<i>As of 31.12.17, CHF billion</i>	Derivative financial assets	Notional values related to derivative financial assets <sup>3</sup>	Derivative financial liabilities	Notional values related to derivative financial liabilities <sup>3</sup>	Other notional values <sup>4</sup>
<b>Derivative financial instruments<sup>1</sup></b>					
Interest rate contracts	44.0	1,142	38.4	1,044	10,462
Credit derivative contracts	2.8	92	3.8	98	1
Foreign exchange contracts	47.1	2,389	45.5	2,193	0
Equity / index contracts	22.2	380	26.7	487	83
Commodity contracts	1.7	33	1.6	37	8
Unsettled purchases of non-derivative financial instruments <sup>5</sup>	0.1	12	0.1	11	
Unsettled sales of non-derivative financial instruments <sup>5</sup>	0.1	15	0.1	9	
<b>Total derivative financial instruments, based on IFRS netting<sup>6</sup></b>	<b>118.2</b>	<b>4,063</b>	<b>116.1</b>	<b>3,878</b>	<b>10,555</b>
Further netting potential not recognized on the balance sheet <sup>7</sup>	(104.2)		(98.5)		
<i>of which: netting of recognized financial liabilities / assets</i>	<i>(83.5)</i>		<i>(83.5)</i>		
<i>of which: netting with collateral received / pledged</i>	<i>(20.7)</i>		<i>(15.0)</i>		
<b>Total derivative financial instruments, after consideration of further netting potential</b>	<b>14.0</b>		<b>17.7</b>		

1 Derivative financial liabilities as of 30 June 2018 include CHF 0.0 billion related to derivative loan commitments (31 March 2018: CHF 0.1 billion; 31 December 2017: CHF 0.0 billion). No notional amounts related to these commitments are included in this table but they are disclosed within Note 15 under Loan commitments with a committed amount of CHF 8.1 billion as of 30 June 2018 (31 March 2018: CHF 3.9 billion; 31 December 2017: CHF 5.3 billion). 2 Upon adoption of IFRS 9 on 1 January 2018, certain forward starting repurchase and reverse repurchase agreements have been classified as measured at fair value through profit or loss and are recognized within derivative instruments. The fair value of these derivative instruments was not material as of 30 June 2018 or 31 March 2018. No notional amounts related to these instruments are included in this table, but they are disclosed within Note 15 under Forward starting transactions. 3 In cases where derivative financial instruments are presented on a net basis on the balance sheet, the respective notional values of the netted derivative financial instruments are still presented on a gross basis. 4 Other notional values relate to derivatives that are cleared through either a central counterparty or an exchange. The fair value of these derivatives is presented on the balance sheet net of the corresponding cash margin under Cash collateral receivables on derivative instruments and Cash collateral payables on derivative instruments and was not material for all periods presented. 5 Changes in the fair value of purchased and sold non-derivative financial instruments between trade date and settlement date are recognized as derivative financial instruments. 6 Financial assets and liabilities are presented net on the balance sheet if UBS has the unconditional and legally enforceable right to offset the recognized amounts, both in the normal course of business and in the event of default, bankruptcy or insolvency of the entity and all of the counterparties, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. 7 Reflects the netting potential in accordance with enforceable master netting and similar arrangements where not all criteria for a net presentation on the balance sheet have been met. Refer to "Note 24 Offsetting financial assets and financial liabilities" in the "Consolidated financial statements" section of the Annual Report 2017 for more information.

**Note 10 Derivative instruments****b) Cash collateral on derivative instruments**

<i>CHF billion</i>	<b>Receivables 30.6.18</b>	<b>Payables 30.6.18</b>	Receivables 31.3.18	Payables 31.3.18	Receivables 31.12.17	Payables 31.12.17
Cash collateral on derivative instruments, based on IFRS netting <sup>1</sup>	24.9	31.8	24.3	29.4	23.4	30.2
Further netting potential not recognized on the balance sheet <sup>2</sup>	(13.0)	(15.5)	(13.5)	(14.4)	(12.5)	(17.4)
<i>of which: netting of recognized financial liabilities / assets</i>	(12.5)	(14.5)	(12.9)	(13.3)	(11.7)	(16.3)
<i>of which: netting with collateral received / pledged</i>	(0.5)	(1.0)	(0.6)	(1.2)	(0.7)	(1.2)
<b>Cash collateral on derivative instruments, after consideration of further netting potential</b>	<b>11.9</b>	<b>16.4</b>	10.7	15.0	11.0	12.8

<sup>1</sup> Financial assets and liabilities are presented net on the balance sheet if UBS has the unconditional and legally enforceable right to offset the recognized amounts, both in the normal course of business and in the event of default, bankruptcy or insolvency of UBS or its counterparties, and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. <sup>2</sup> Reflects the netting potential in accordance with enforceable master netting and similar arrangements where not all criteria for a net presentation on the balance sheet have been met. Refer to "Note 24 Offsetting financial assets and financial liabilities" in the "Consolidated financial statements" section of our Annual Report 2017 for more information.

**Note 11 Other assets and liabilities****a) Other financial assets measured at amortized cost**

<i>CHF million</i>	<b>30.6.18</b>	31.3.18	31.12.17
Prime brokerage receivables <sup>1</sup>			19,080
Debt securities	12,241	10,610	9,166
<i>of which: government bills / bonds</i>	9,787	7,775	6,465
Loans to financial advisors <sup>2</sup>	3,394	3,326	3,118
Fee- and commission-related receivables	1,747	1,694	1,748
Finance lease receivables	1,076	1,070	1,059
Settlement and clearing accounts	448	557	716
Accrued interest income	669	610	578
Other	1,496	1,368	1,470
<b>Total other financial assets measured at amortized cost</b>	<b>21,072</b>	19,235	36,935

<sup>1</sup> Upon adoption of IFRS 9 on 1 January 2018, the classification of prime brokerage receivables and payables changed from amortized cost to fair value through profit or loss, and brokerage receivables and payables are now presented separately on the balance sheet. Refer to Note 19 for more information. <sup>2</sup> Related to financial advisors in the US and Canada.

**b) Other non-financial assets**

<i>CHF million</i>	<b>30.6.18</b>	31.3.18	31.12.17
Precious metals and other physical commodities	3,975	4,032	4,563
Bail deposit <sup>1</sup>	1,320	1,336	1,337
Prepaid expenses	795	834	819
Net defined benefit pension and post-employment assets	61	1	0
VAT and other tax receivables	304	299	292
Properties and other non-current assets held for sale	65	67	95
Other	436	415	251
<b>Total other non-financial assets</b>	<b>6,956</b>	6,984	7,358

<sup>1</sup> Refer to item 1 in Note 14b for more information.

## Note 11 Other assets and liabilities (continued)

### c) Other financial liabilities measured at amortized cost

<i>CHF million</i>	30.6.18	31.3.18	31.12.17
Prime brokerage payables <sup>1</sup>			29,646
Other accrued expenses	1,884	1,960	2,105
Accrued interest expenses	1,084	1,311	1,533
Settlement and clearing accounts	1,239	1,058	1,380
Other	2,981	2,043	2,468
<b>Total other financial liabilities measured at amortized cost</b>	<b>7,187</b>	<b>6,372</b>	<b>37,133</b>

<sup>1</sup> Upon adoption of IFRS 9 on 1 January 2018, the classification of prime brokerage receivables and payables changed from amortized cost to fair value through profit or loss, and brokerage receivables and payables are now presented separately on the balance sheet. Refer to Note 19 for more information.

### d) Other financial liabilities designated at fair value

<i>CHF million</i>	30.6.18	31.3.18	31.12.17
Amounts due under unit-linked investment contracts	24,913	24,348	11,523
Structured securities financing transactions	6,533	5,812	375
Over-the-counter debt instruments	5,888	4,270	4,317
<i>of which: life-to-date own credit (gain) / loss</i>	<i>(41)</i>	<i>5</i>	<i>36</i>
Loan commitments and guarantees	8	7	9
<b>Total other financial liabilities designated at fair value</b>	<b>37,342</b>	<b>34,438</b>	<b>16,223</b>

### e) Other non-financial liabilities

<i>CHF million</i>	30.6.18	31.3.18	31.12.17
Compensation-related liabilities	3,601	3,130	4,909
<i>of which: accrued expenses</i>	<i>1,578</i>	<i>1,007</i>	<i>2,372</i>
<i>of which: other deferred compensation plans</i>	<i>1,400</i>	<i>1,296</i>	<i>1,613</i>
<i>of which: net defined benefit pension and post-employment liabilities</i>	<i>623</i>	<i>827</i>	<i>925</i>
Current and deferred tax liabilities	814	867	844
VAT and other tax payables	391	501	378
Deferred income	239	243	150
Other	136	67	53
<b>Total other non-financial liabilities</b>	<b>5,181</b>	<b>4,808</b>	<b>6,335</b>

**Note 12 Debt issued designated at fair value**

<i>CHF million</i>	<b>30.6.18</b>	31.3.18	31.12.17
<b>Issued debt instruments</b>			
Equity-linked <sup>1</sup>	<b>39,355</b>	36,107	34,162
Rates-linked	<b>7,505</b>	5,972	5,811
Credit-linked	<b>3,034</b>	2,933	2,937
Fixed-rate	<b>4,293</b>	4,187	3,921
Other	<b>2,661</b>	2,860	2,671
<b>Total debt issued designated at fair value</b>	<b>56,849</b>	52,059	49,502
<i>of which: issued by UBS AG with original maturity greater than one year<sup>2</sup></i>	<b>41,624</b>	38,255	37,266
<i>of which: life-to-date own credit (gain) / loss</i>	<b>(188)</b>	14	159

<sup>1</sup> Includes investment fund unit-linked instruments issued. <sup>2</sup> Issued by the legal entity UBS AG. Based on original contractual maturity without considering any early redemption features. More than 99% of the balance as of 30 June 2018 was unsecured (31 March 2018: more than 99% of the balance was unsecured; 31 December 2017: more than 99% of the balance was unsecured).

**Note 13 Debt issued measured at amortized cost**

<i>CHF million</i>	<b>30.6.18</b>	31.3.18	31.12.17
Certificates of deposit	<b>12,720</b>	18,779	23,831
Commercial paper	<b>28,878</b>	23,304	23,532
Other short-term debt	<b>3,730</b>	4,078	3,590
<b>Short-term debt<sup>1</sup></b>	<b>45,328</b>	46,162	50,953
Senior unsecured debt	<b>33,699</b>	34,729	32,268
<i>of which: issued by UBS AG with original maturity greater than one year<sup>2</sup></i>	<b>33,697</b>	34,725	32,256
Covered bonds	<b>4,029</b>	4,105	4,112
Subordinated debt	<b>7,453</b>	8,791	8,985
<i>of which: low-trigger loss-absorbing tier 2 capital instruments</i>	<b>6,748</b>	8,097	8,286
<i>of which: non-Basel III-compliant tier 2 capital instruments</i>	<b>705</b>	694	700
Debt issued through the Swiss central mortgage institutions	<b>8,357</b>	8,349	8,345
Other long-term debt	<b>63</b>	77	87
<i>of which: issued by UBS AG with original maturity greater than one year<sup>2</sup></i>	<b>54</b>	58	66
<b>Long-term debt<sup>3</sup></b>	<b>53,601</b>	56,051	53,796
<b>Total debt issued measured at amortized cost<sup>4</sup></b>	<b>98,929</b>	102,213	104,749

<sup>1</sup> Debt with an original maturity of less than one year. <sup>2</sup> Issued by the legal entity UBS AG. Based on original contractual maturity without considering any early redemption features. 100% of the balance as of 30 June 2018 was unsecured (31 March 2018: 100% of the balance was unsecured; 31 December 2017: 100% of the balance was unsecured). <sup>3</sup> Debt with an original maturity greater than or equal to one year. The classification of debt issued into short-term and long-term does not consider any early redemption features. <sup>4</sup> Net of bifurcated embedded derivatives, the fair value of which was not material for the periods presented.

## Note 14 Provisions and contingent liabilities

### a) Provisions

The table below presents an overview of total provisions recognized under both IAS 37 and IFRS 9.

<i>CHF million</i>	30.6.18	31.3.18	31.12.17
Provisions recognized under IAS 37	2,973	2,893	3,051
Provisions for off-balance sheet financial instruments <sup>1</sup>	76	72	33
Provisions for other credit lines <sup>1</sup>	35	35	0
<b>Total provisions</b>	<b>3,084</b>	<b>2,999</b>	<b>3,084</b>

<sup>1</sup> Provisions recognized in 2018 relate to exposures in the scope of the expected credit loss requirements of IFRS 9. Refer to Notes 8 and 19 for more information. 2017 provisions for off-balance sheet financial instruments relate to loss provisions recognized under IAS 37.

The following table presents additional information for provisions recognized under IAS 37.

<i>CHF million</i>	Operational risks <sup>1</sup>	Litigation, regulatory and similar matters <sup>2</sup>	Restructuring	Real estate	Employee benefits <sup>5</sup>	Other	Total
<b>Balance as of 31 December 2017</b>	43	2,444	294	125	55	89	3,051
<b>Balance as of 31 March 2018</b>	41	2,331	257	126	54	83	2,893
Increase in provisions recognized in the income statement	5	154	30	0	1	2	192
Release of provisions recognized in the income statement	(1)	(13)	(25)	0	(2)	0	(40)
Provisions used in conformity with designated purpose	(4)	(94)	(37)	(2)	0	(4)	(141)
Capitalized reinstatement costs	0	0	0	(2)	0	0	(2)
Foreign currency translation / unwind of discount	0	64	6	1	0	0	71
<b>Balance as of 30 June 2018</b>	<b>41</b>	<b>2,442</b>	<b>232<sup>3</sup></b>	<b>123<sup>4</sup></b>	<b>53</b>	<b>81</b>	<b>2,973</b>

<sup>1</sup> Comprises provisions for losses resulting from security risks and transaction processing risks. <sup>2</sup> Comprises provisions for losses resulting from legal, liability and compliance risks. <sup>3</sup> Primarily consists of personnel-related restructuring provisions of CHF 44 million as of 30 June 2018 (31 March 2018: CHF 41 million, 31 December 2017: CHF 54 million) and provisions for onerous lease contracts of CHF 183 million as of 30 June 2018 (31 March 2018: CHF 212 million, 31 December 2017: CHF 235 million). <sup>4</sup> Consists of reinstatement costs for leasehold improvements of CHF 84 million as of 30 June 2018 (31 March 2018: CHF 86 million, 31 December 2017: CHF 86 million) and provisions for onerous lease contracts of CHF 39 million as of 30 June 2018 (31 March 2018: CHF 40 million, 31 December 2017: CHF 39 million). <sup>5</sup> Includes provisions for sabbatical and anniversary awards as well as provisions for severance that are not part of restructuring provisions.

Restructuring provisions primarily relate to onerous lease contracts and severance payments. The use of onerous lease provisions is driven by the maturities of the underlying lease contracts. Severance-related provisions are used within a short time period, usually within six months, but potential changes in amount may be triggered when natural staff attrition reduces

the number of people affected by a restructuring and therefore the estimated costs.

Information on provisions and contingent liabilities in respect of litigation, regulatory and similar matters, as a class, is included in Note 14b. There are no material contingent liabilities associated with the other classes of provisions.

### b) Litigation, regulatory and similar matters

UBS operates in a legal and regulatory environment that exposes it to significant litigation and similar risks arising from disputes and regulatory proceedings. As a result, UBS (which for purposes of this Note may refer to UBS AG and / or one or more of its subsidiaries, as applicable) is involved in various disputes and legal proceedings, including litigation, arbitration, and regulatory and criminal investigations.

Such matters are subject to many uncertainties, and the outcome and the timing of resolution are often difficult to predict, particularly in the earlier stages of a case. There are also situations where UBS may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which UBS believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. UBS makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that UBS has a present legal or

constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against UBS, but are nevertheless expected to be, based on UBS's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to such matters could be significant.

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

**Note 14 Provisions and contingent liabilities (continued)**

In the case of certain matters below, we state that we have established a provision, and for the other matters, we make no such statement. When we make this statement and we expect disclosure of the amount of a provision to prejudice seriously our position with other parties in the matter because it would reveal what UBS believes to be the probable and reliably estimable outflow, we do not disclose that amount. In some cases we are subject to confidentiality obligations that preclude such disclosure. With respect to the matters for which we do not state whether we have established a provision, either (a) we have not established a provision, in which case the matter is treated as a contingent liability under the applicable accounting standard, or (b) we have established a provision but expect disclosure of that fact to prejudice seriously our position with other parties in the matter because it would reveal the fact that UBS believes an outflow of resources to be probable and reliably estimable.

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

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in the "Provisions" table in Note 14a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, that have not yet been initiated or are at early stages of adjudication, or as to which alleged damages have not been

quantified by the claimants. Although we therefore cannot provide a numerical estimate of the future losses that could arise from litigation, regulatory and similar matters, we believe that the aggregate amount of possible future losses from this class that are more than remote substantially exceeds the level of current provisions. Litigation, regulatory and similar matters may also result in non-monetary penalties and consequences. For example, the Non-Prosecution Agreement (NPA) described in item 5 of this Note, which we entered into with the US Department of Justice (DOJ), Criminal Division, Fraud Section in connection with our submissions of benchmark interest rates, including, among others, the British Bankers' Association London Interbank Offered Rate (LIBOR), was terminated by the DOJ based on its determination that we had committed a US crime in relation to foreign exchange matters. As a consequence, UBS AG pleaded guilty to one count of wire fraud for conduct in the LIBOR matter, paid a fine and is subject to probation through January 2020. A guilty plea to, or conviction of, a crime could have material consequences for UBS. Resolution of regulatory proceedings may require us to obtain waivers of regulatory disqualifications to maintain certain operations, may entitle regulatory authorities to limit, suspend or terminate licenses and regulatory authorizations, and may permit financial market utilities to limit, suspend or terminate our participation in such utilities. Failure to obtain such waivers, or any limitation, suspension or termination of licenses, authorizations or participations, could have material consequences for UBS.

The risk of loss associated with litigation, regulatory and similar matters is a component of operational risk for purposes of determining our capital requirements. Information concerning our capital requirements and the calculation of operational risk for this purpose is included in the "Capital management" section of the UBS Group second quarter 2018 report.

**Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit<sup>1</sup>**

<i>CHF million</i>	Global Wealth Management	Personal & Corporate Banking	Asset Management	Investment Bank	CC – Services	CC – Group ALM	CC – Non-core and Legacy Portfolio	UBS
<b>Balance as of 31 December 2017</b>	555	79	1	345	240	0	1,224	2,444
<b>Balance as of 31 March 2018</b>	546	79	1	323	216	0	1,166	2,331
Increase in provisions recognized in the income statement	69	0	0	3	1	0	82	154
Release of provisions recognized in the income statement	(12)	0	0	0	0	0	0	(13)
Provisions used in conformity with designated purpose	(47)	(3)	0	(1)	0	0	(42)	(94)
Foreign currency translation / unwind of discount	11	0	0	9	0	0	45	64
<b>Balance as of 30 June 2018</b>	<b>567</b>	<b>75</b>	<b>0</b>	<b>333</b>	<b>216</b>	<b>0</b>	<b>1,251</b>	<b>2,442</b>

<sup>1</sup> Provisions, if any, for the matters described in this Note are recorded in Global Wealth Management (item 3 and item 4), the Investment Bank (item 7) and Corporate Center – Non-core and Legacy Portfolio (item 2). Provisions, if any, for the matters described in items 1 and 6 of this Note are allocated between Global Wealth Management and Personal & Corporate Banking, and provisions, if any, for the matters described in this Note in item 5 are allocated between the Investment Bank, Corporate Center – Services and Corporate Center – Non-core and Legacy Portfolio.

## Note 14 Provisions and contingent liabilities (continued)

### 1. Inquiries regarding cross-border wealth management businesses

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

The Swiss Federal Administrative Court ruled in 2016 that, in the administrative assistance proceedings related to a French bulk request, UBS has the right to appeal all final FTA client data disclosure orders.

Since 2013, UBS (France) S.A., UBS AG and certain former employees have been under investigation in France for alleged complicity in having illicitly solicited clients on French territory, regarding the laundering of proceeds of tax fraud, and of banking and financial solicitation by unauthorized persons. In connection with this investigation, the investigating judges ordered UBS AG to provide bail ("*caution*") of EUR 1.1 billion and UBS (France) S.A. to post bail of EUR 40 million, which was reduced on appeal to EUR 10 million.

In February 2016, the investigating judges notified UBS AG and UBS (France) S.A. that they have closed their investigation. In July 2016, UBS AG and UBS (France) S.A. received the National Financial Prosecutor's recommendation ("*réquisitoire*"). In March 2017, the investigating judges issued the trial order ("*ordonnance de renvoi*") that charges UBS AG and UBS (France) S.A., as well as various former employees, with illicit solicitation of clients on French territory and with participation in the laundering of the proceeds of tax fraud, and that transfers the case to court. The trial is scheduled to start in October 2018. In October 2017, the Investigation Chamber of the Court of Appeals decided that UBS (France) S.A. shall not be

constituted as a civil party in the guilty plea proceedings against the former UBS (France) S.A. Head of Front Office. UBS (France) S.A. has appealed this decision to the French Supreme Court ("*Cour de cassation*"). The appeal is pending, although the criminal court subsequently found the individual's guilty plea to be invalid.

In 2016, UBS was notified by the Belgian investigating judge that it is under formal investigation ("*inculpé*") regarding the laundering of proceeds of tax fraud, of banking and financial solicitation by unauthorized persons, and of serious tax fraud.

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

Our balance sheet at 30 June 2018 reflected provisions with respect to matters described in this item 1 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

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

From 2002 through 2007, prior to the crisis in the US residential loan market, UBS was a substantial issuer and underwriter of US residential mortgage-backed securities (RMBS) and was a purchaser and seller of US residential mortgages. A subsidiary of UBS, UBS Real Estate Securities Inc. (UBS RESI), acquired pools of residential mortgage loans from originators and (through an affiliate) deposited them into securitization trusts. In this manner, from 2004 through 2007, UBS RESI sponsored approximately USD 80 billion in RMBS, based on the original principal balances of the securities issued.

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

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

**Note 14 Provisions and contingent liabilities (continued)**

*Lawsuits related to contractual representations and warranties concerning mortgages and RMBS:* When UBS acted as an RMBS sponsor or mortgage seller, it generally made certain representations relating to the characteristics of the underlying loans. In the event of a material breach of these representations, UBS was in certain circumstances contractually obligated to repurchase the loans to which the representations related or to indemnify certain parties against losses. In 2012, certain RMBS trusts filed an action (Trustee Suit) in the US District Court for the Southern District of New York (SDNY) seeking to enforce UBS RESI's obligation to repurchase loans in the collateral pools for three RMBS securitizations issued and underwritten by UBS with an original principal balance of approximately USD 2 billion. Approximately 9,000 loans were at issue in a bench trial in the SDNY in 2016, following which the court issued an order ruling on numerous legal and factual issues and applying those rulings to 20 exemplar loans. The court further ordered that a lead master be appointed to apply the court's rulings to the remaining loans. In 2017, UBS and certain holders of the RMBS in the Trustee Suit entered into an agreement under which UBS would have paid an aggregate of USD 543 million into the relevant RMBS trusts, plus certain attorneys' fees. The trustee for the RMBS trusts declined to become a party to the settlement and the agreement with the RMBS holders therefore lapsed. In July 2018, UBS and the trustee entered into an agreement under which UBS will pay USD 850 million to resolve this matter. A significant portion of this amount will be borne by other parties that indemnified UBS. The settlement remains subject to approval by the court and proceedings to determine how the settlement funds will be distributed to RMBS holders. After giving effect to this settlement, UBS considers claims relating to substantially all loan repurchase demands to be resolved, and believes that new demands to repurchase US residential mortgage loans are time-barred under a decision rendered by the New York Court of Appeals.

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

focus of their inquiry, and subsequently provided a revised list of transactions. UBS has provided information in response to this subpoena. UBS has also responded to inquiries from both the Special Inspector General for the Troubled Asset Relief Program (SIGTARP) (who is working in conjunction with the US Attorney's Office for Connecticut and the DOJ) and the US Securities and Exchange Commission (SEC) relating to trading practices in connection with purchases and sales of mortgage-backed securities in the secondary market from 2009 through 2014. UBS is cooperating with the authorities in these matters.

Our balance sheet at 30 June 2018 reflected a provision with respect to matters described in this item 2 in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of this matter cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

**3. Madoff**

In relation to the Bernard L. Madoff Investment Securities LLC (BMIS) investment fraud, UBS AG, UBS (Luxembourg) S.A. (now UBS Europe SE, Luxembourg branch) and certain other UBS subsidiaries have been subject to inquiries by a number of regulators, including the Swiss Financial Market Supervisory Authority (FINMA) and the Luxembourg Commission de Surveillance du Secteur Financier (CSSF). Those inquiries concerned two third-party funds established under Luxembourg law, substantially all assets of which were with BMIS, as well as certain funds established in offshore jurisdictions with either direct or indirect exposure to BMIS. These funds faced severe losses, and the Luxembourg funds are in liquidation. The documentation establishing both funds identifies UBS entities in various roles, including custodian, administrator, manager, distributor and promoter, and indicates that UBS employees serve as board members.

In 2009 and 2010, the liquidators of the two Luxembourg funds filed claims against UBS entities, non-UBS entities and certain individuals, including current and former UBS employees, seeking amounts aggregating approximately EUR 2.1 billion, which includes amounts that the funds may be held liable to pay the trustee for the liquidation of BMIS (BMIS Trustee).



## Note 14 Provisions and contingent liabilities (continued)

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A large number of alleged beneficiaries have filed claims against UBS entities (and non-UBS entities) for purported losses relating to the Madoff fraud. The majority of these cases have been filed in Luxembourg, where decisions that the claims in eight test cases were inadmissible have been affirmed by the Luxembourg Court of Appeal, and the Luxembourg Supreme Court has dismissed a further appeal in one of the test cases.

In the US, the BMIS Trustee filed claims against UBS entities, among others, in relation to the two Luxembourg funds and one of the offshore funds. The total amount claimed against all defendants in these actions was not less than USD 2 billion. In 2014, the US Supreme Court rejected the BMIS Trustee's motion for leave to appeal decisions dismissing all claims except those for the recovery of fraudulent conveyances and preference payments. In 2016, the Bankruptcy Court dismissed the remaining claims against the UBS entities. The BMIS Trustee appealed.

### 4. Puerto Rico

Declines since 2013 in the market prices of Puerto Rico municipal bonds and of closed-end funds (funds) that are sole-managed and co-managed by UBS Trust Company of Puerto Rico and distributed by UBS Financial Services Incorporated of Puerto Rico (UBS PR) have led to multiple regulatory inquiries, as well as customer complaints and arbitrations with aggregate claimed damages of USD 2.6 billion, of which claims with aggregate claimed damages of USD 1.6 billion have been resolved through settlements, arbitration or withdrawal of the claim. The claims are filed by clients in Puerto Rico who own the funds or Puerto Rico municipal bonds and / or who used their UBS account assets as collateral for UBS non-purpose loans; customer complaint and arbitration allegations include fraud, misrepresentation and unsuitability of the funds and of the loans. A shareholder derivative action was filed in 2014 against various UBS entities and current and certain former directors of the funds, alleging hundreds of millions of US dollars in losses in the funds. In 2015, defendants' motion to dismiss was denied.

Defendants' requests for permission to appeal that ruling were denied by the Puerto Rico Court of Appeals and the Puerto Rico Supreme Court. In 2014, a federal class action complaint also was filed against various UBS entities, certain members of UBS PR senior management and the co-manager of certain of

the funds, seeking damages for investor losses in the funds during the period from May 2008 through May 2014. In 2016, defendants' motion to dismiss was granted in part and denied in part. In 2015, a class action was filed in Puerto Rico state court against UBS PR seeking equitable relief in the form of a stay of any effort by UBS PR to collect on non-purpose loans it acquired from UBS Bank USA in December 2013 based on plaintiffs' allegation that the loans are not valid. The trial court denied defendant's motion for summary judgment based on a forum selection clause in the loan agreements. The Puerto Rico Supreme Court reversed that decision and remanded the case back to the trial court for reconsideration. On reconsideration the trial court granted defendant's motion and dismissed the action.

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

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

In 2011, a purported derivative action was filed on behalf of the Employee Retirement System of the Commonwealth of Puerto Rico (System) against over 40 defendants, including UBS PR, which was named in connection with its underwriting and consulting services. Plaintiffs alleged that defendants violated their purported fiduciary duties and contractual obligations in connection with the issuance and underwriting of USD 3 billion of bonds by the System in 2008 and sought damages of over USD 800 million. In 2016, the court granted the System's request to join the action as a plaintiff, but ordered that plaintiffs must file an amended complaint. In 2017, the court denied defendants' motion to dismiss the amended complaint.

**Note 14 Provisions and contingent liabilities (continued)**

Beginning in 2015, and continuing through 2017, certain agencies and public corporations of the Commonwealth of Puerto Rico (Commonwealth) defaulted on certain interest payments on Puerto Rico bonds. The funds hold significant amounts of those bonds and the defaults on interest payments have had, and are expected to continue to have, an adverse effect on dividends from the funds. Executive orders of the Governor of Puerto Rico that have diverted funds to pay for essential services instead of debt payments and stayed any action to enforce creditors' rights on the Puerto Rico bonds continue to be in effect. In 2016, US federal legislation created an oversight board with power to oversee Puerto Rico's finances and to restructure its debt. The oversight board has imposed a stay on the exercise of creditors' rights. In 2017, the oversight board placed certain of the bonds into a bankruptcy-like proceeding under the supervision of a Federal District Judge. These events, further defaults, any further legislative action to create a legal means of restructuring Commonwealth obligations or to impose additional oversight on the Commonwealth's finances, or any restructuring of the Commonwealth's obligations may increase the number of claims against UBS concerning Puerto Rico securities, as well as potential damages sought.

Our balance sheet at 30 June 2018 reflected provisions with respect to matters described in this item 4 in amounts that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provisions that we have recognized.

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

*Foreign exchange-related regulatory matters:* Following an initial media report in 2013 of widespread irregularities in the foreign exchange markets, UBS immediately commenced an internal review of its foreign exchange business, which includes our precious metals and related structured products businesses. Numerous authorities commenced investigations concerning possible manipulation of foreign exchange markets and precious metals prices. In 2014 and 2015, UBS reached settlements with the UK Financial Conduct Authority (FCA) and the US Commodity Futures Trading Commission (CFTC) in connection with their foreign exchange investigations, FINMA issued an order concluding its formal proceedings relating to UBS's foreign exchange and precious metals businesses, and the Board of Governors of the Federal Reserve System (Federal Reserve Board) and the Connecticut Department of Banking issued a Cease and Desist Order and assessed monetary penalties against UBS AG.

In addition, the DOJ's Criminal Division (Criminal Division) terminated the 2012 Non-Prosecution Agreement (NPA) with UBS AG related to UBS's submissions of benchmark interest rates and UBS AG pleaded guilty to one count of wire fraud, paid a fine and is subject to probation through January 2020. UBS has ongoing obligations to cooperate with these authorities and to undertake certain remediation measures. UBS has also been granted conditional immunity by the Antitrust Division of the DOJ (Antitrust Division) and by authorities in other jurisdictions in connection with potential competition law violations relating to foreign exchange and precious metals businesses. Investigations relating to foreign exchange and precious metals matters by certain authorities remain ongoing notwithstanding these resolutions.

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

A putative class action has been filed in federal court in New York against UBS and other banks on behalf of participants, beneficiaries and named fiduciaries of plans qualified under the Employee Retirement Income Security Act of 1974 (ERISA) for whom a defendant bank provided foreign currency exchange transactional services, exercised discretionary authority or discretionary control over management of such ERISA plan, or authorized or permitted the execution of any foreign currency exchange transactional services involving such plan's assets. The complaint asserts claims under ERISA. The parties filed a stipulation to dismiss the case with prejudice. The plaintiffs have appealed the dismissal. In July, the Second Circuit affirmed the dismissal.

## Note 14 Provisions and contingent liabilities (continued)

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In 2015, a putative class action was filed in federal court against UBS and numerous other banks on behalf of persons and businesses in the US who directly purchased foreign currency from the defendants and their co-conspirators for their own end use. In March 2017, the court granted UBS's (and the other banks') motions to dismiss the complaint. The plaintiffs filed an amended complaint in August 2017. In March 2018, the court denied the defendants' motions to dismiss the amended complaint.

In 2016, a putative class action was filed in federal court in New York against UBS and numerous other banks on behalf of persons and entities who had indirectly purchased foreign exchange instruments from a defendant or co-conspirator in the US. The complaint asserts claims under federal and state antitrust laws. In response to defendants' motion to dismiss, plaintiffs agreed to dismiss their complaint.

In 2017, two new putative class actions were filed in federal court in New York against UBS and numerous other banks on behalf of different proposed classes of indirect purchasers of currency, and a consolidated complaint was filed in June 2017. In March 2018, the court dismissed the consolidated complaint. Plaintiffs have filed a motion seeking leave to file an amended complaint.

Putative class actions are also pending against UBS and other banks in federal court in New York and other jurisdictions on behalf of putative classes of persons who had bought or sold physical precious metals and various precious metal products and derivatives. The complaints in these lawsuits assert claims under the antitrust laws and the CEA, and other claims. In 2016, the court in New York granted UBS's motions to dismiss the putative class actions relating to gold and silver. Plaintiffs in those cases sought to amend their complaints to add new allegations about UBS, which the court granted. The plaintiffs filed amended complaints in 2017, and motions to dismiss the amended complaints are pending. In March 2017, the court in New York granted UBS's motion to dismiss the platinum and palladium action. In May 2017, plaintiffs in the platinum and palladium action filed an amended complaint that did not allege claims against UBS.

*LIBOR and other benchmark-related regulatory matters:* Numerous government agencies, including the SEC, the CFTC, the DOJ, the FCA, the UK Serious Fraud Office (SFO), the Monetary Authority of Singapore (MAS), the Hong Kong Monetary Authority (HKMA), FINMA, various state attorneys general in the US and competition authorities in various jurisdictions, have conducted or are continuing to conduct investigations regarding potential improper attempts by UBS, among others, to manipulate LIBOR and other benchmark rates at certain times. In 2012, UBS reached settlements relating to benchmark interest rates with the FSA, the CFTC and the Criminal Division of the DOJ, and FINMA issued an order in its

proceedings with respect to UBS relating to benchmark interest rates. In addition, UBS entered into settlements with the European Commission (EC) and with the Swiss Competition Commission (WEKO) regarding its investigation of bid-ask spreads in connection with Swiss franc interest rate derivatives. UBS has ongoing obligations to cooperate with the authorities with whom we have reached resolutions and to undertake certain remediation measures with respect to benchmark interest rate submissions. UBS has been granted conditional leniency or conditional immunity from authorities in certain jurisdictions, including the Antitrust Division of the DOJ and WEKO, in connection with potential antitrust or competition law violations related to certain rates. However, UBS has not reached a final settlement with WEKO as the Secretariat of WEKO has asserted that UBS does not qualify for full immunity. Investigations by certain governmental authorities remain ongoing notwithstanding these resolutions.

*LIBOR and other benchmark-related civil litigation:* A number of putative class actions and other actions are pending in the federal courts in New York against UBS and numerous other banks on behalf of parties who transacted in certain interest rate benchmark-based derivatives. Also pending in the US and in other jurisdictions are a number of other actions asserting losses related to various products whose interest rates were linked to LIBOR and other benchmarks, including adjustable rate mortgages, preferred and debt securities, bonds pledged as collateral, loans, depository accounts, investments and other interest-bearing instruments. The complaints allege manipulation, through various means, of certain benchmark interest rates, including USD LIBOR, Euroyen TIBOR, Yen LIBOR, EURIBOR, CHF LIBOR, GBP LIBOR, USD and SGD SIBOR and SOR, Australian BBSW and USD ISDAFIX, and seek unspecified compensatory and other damages under varying legal theories.

*USD LIBOR class and individual actions in the US:* In 2013 and 2015, the district court in the USD LIBOR actions dismissed, in whole or in part, certain plaintiffs' antitrust claims, federal racketeering claims, CEA claims, and state common law claims. Although, the Second Circuit vacated the district court's judgment dismissing antitrust claims, the district court again dismissed antitrust claims against UBS in 2016. Certain plaintiffs have appealed that decision to the Second Circuit. Separately, in 2018, the Second Circuit reversed in part the district court's 2015 decision dismissing certain individual plaintiffs' claims. UBS entered into an agreement in 2016 with representatives of a class of bondholders to settle their USD LIBOR class action. The agreement has received preliminary court approval and remains subject to final approval. In 2018, the district court denied plaintiffs' motions for class certification in the USD class actions for claims pending against UBS, and plaintiffs have sought permission to appeal that ruling to the Second Circuit. In July, the Second Circuit denied the petition to appeal of the class of USD lenders.

## Note 14 Provisions and contingent liabilities (continued)

*Other benchmark class actions and ISDAFIX class action in the US:* In 2014, the court in one of the Euroyen TIBOR lawsuits dismissed certain of the plaintiff's claims, including federal antitrust claims for lack of standing. In 2015, this court dismissed the plaintiff's federal racketeering claims on the same basis and affirmed its previous dismissal of the plaintiff's antitrust claims against UBS. In 2017, this court also dismissed the other Yen LIBOR / Euroyen TIBOR action in its entirety on standing grounds, as did the court in the CHF LIBOR action. Also in 2017, the courts in the EURIBOR and the SIBOR / SOR lawsuits dismissed the cases as to UBS and certain other foreign defendants for lack of personal jurisdiction. Plaintiffs in the CHF LIBOR and SIBOR / SOR actions have filed amended complaints following the dismissals, which UBS and other defendants have moved to dismiss. UBS and other defendants have also moved to dismiss the GBP LIBOR and Australian BBSW actions. In 2017, UBS agreed to pay USD 14 million to resolve putative class actions filed in federal court in New York and New Jersey against UBS and other financial institutions on behalf of parties who entered into interest rate derivative transactions linked to ISDAFIX. The final settlement was approved in June 2018.

*Government bonds:* Putative class actions have been filed since 2015 in US federal courts against UBS and other banks on behalf of persons who participated in markets for US Treasury securities since 2007. A consolidated complaint was filed in 2017 in the SDNY alleging that the banks colluded with respect to, and manipulated prices of, US Treasury securities sold at auction and in the secondary market and asserting claims under the antitrust laws and for unjust enrichment. Defendants' motions to dismiss the consolidated complaint are pending.

Following filing of these complaints, UBS and reportedly other banks are responding to investigations and requests for information from various authorities regarding US Treasury securities and other government bond trading practices. As a result of its review to date, UBS has taken appropriate action.

With respect to additional matters and jurisdictions not encompassed by the settlements and orders referred to above, our balance sheet at 30 June 2018 reflected a provision in an amount that UBS believes to be appropriate under the applicable accounting standard. As in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

### 6. Swiss retrocessions

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

FINMA has issued a supervisory note to all Swiss banks in response to the Supreme Court decision. UBS has met the FINMA requirements and has notified all potentially affected clients.

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

Our balance sheet at 30 June 2018 reflected a provision with respect to matters described in this item 6 in an amount that UBS believes to be appropriate under the applicable accounting standard. The ultimate exposure will depend on client requests and the resolution thereof, factors that are difficult to predict and assess. Hence, as in the case of other matters for which we have established provisions, the future outflow of resources in respect of such matters cannot be determined with certainty based on currently available information and accordingly may ultimately prove to be substantially greater (or may be less) than the provision that we have recognized.

### 7. Investigation of UBS's role in initial public offerings in Hong Kong

The Hong Kong Securities and Futures Commission (SFC) has been conducting investigations into UBS's role as a sponsor of certain initial public offerings listed on the Hong Kong Stock Exchange. The SFC has previously indicated that it intended to take enforcement action against UBS and certain employees in relation to certain of these offerings. In March 2018, the SFC issued a decision notice in relation to one of the offerings under investigation. The notice provides for a fine of HKD 119 million and a suspension of UBS Securities Hong Kong Limited's ability to act as a sponsor for Hong Kong-listed initial public offerings for 18 months. UBS has appealed the decision.

## Note 15 Guarantees, commitments and forward starting transactions

The table below presents the maximum irrevocable amount of guarantees, commitments and forward starting transactions.

CHF million	30.6.18			31.3.18			31.12.17		
	Gross	Sub-participations	Net	Gross	Sub-participations	Net	Gross	Sub-participations	Net
<b>Total guarantees</b>	<b>20,175</b>	<b>(2,976)</b>	<b>17,199</b>	19,009	(2,923)	16,086	18,854	(2,867)	15,987
<b>Loan commitments</b>	<b>39,567</b>	<b>(662)</b>	<b>38,905</b>	34,534	(866)	33,667	39,069	(1,074)	37,995
<b>Forward starting transactions<sup>1</sup></b>									
Reverse repurchase agreements	<b>13,521</b>			16,905			12,683		
Securities borrowing agreements	<b>38</b>			35			23		
Repurchase agreements	<b>10,868</b>			13,763			8,187		

<sup>1</sup> Cash to be paid in the future by either UBS or the counterparty.

## Note 16 Changes in organization

Following the announcement by the China Securities Regulatory Commission that foreign investors will be permitted to increase their ownership percentages in China affiliates to a cap of 51%, and may be allowed to increase their ownership up to 100% in 2021, UBS AG submitted in May 2018 a preliminary application to increase the shareholding in its China affiliate, UBS Securities

Co. Limited (UBSS), from 24.99% to 51%. The transaction is subject to completion of a share purchase from existing shareholders and regulatory approval. If UBS AG acquires majority ownership, UBS AG would consolidate its investment in UBSS under IFRS and would be required to remeasure its current 24.99% holding in UBSS at fair value, likely resulting in a loss.

## Note 17 Currency translation rates

The following table shows the rates of the main currencies used to translate the financial information of UBS AG's foreign operations into Swiss francs.

	Spot rate				Average rate <sup>1</sup>					
	As of				For the quarter ended			Year-to-date		
	30.6.18	31.3.18	31.12.17	30.6.17	30.6.18	31.3.18	30.6.17	30.6.18	30.6.17	
1 USD	<b>0.99</b>	0.95	0.97	0.96	<b>0.99</b>	0.94	0.97	0.97	0.99	
1 EUR	<b>1.16</b>	1.17	1.17	1.10	<b>1.17</b>	1.16	1.09	1.16	1.08	
1 GBP	<b>1.31</b>	1.34	1.32	1.25	<b>1.33</b>	1.32	1.26	1.32	1.26	
100 JPY	<b>0.89</b>	0.90	0.86	0.85	<b>0.90</b>	0.88	0.87	0.89	0.88	

<sup>1</sup> Monthly income statement items of foreign operations with a functional currency other than the Swiss franc are translated with month-end rates into Swiss francs. Disclosed average rates for a quarter represent an average of three month-end rates, weighted according to the income and expense volumes of all foreign operations of UBS AG with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for UBS AG.

## Note 18 Supplemental guarantor information required under SEC regulations

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### Joint liability of UBS Switzerland AG

In 2015, the Personal & Corporate Banking and Wealth Management businesses booked in Switzerland were transferred from UBS AG to UBS Switzerland AG through an asset transfer in accordance with the Swiss Merger Act. Under the terms of the asset transfer agreement, UBS Switzerland AG assumed joint liability for contractual obligations of UBS AG existing on the asset transfer date, including the full and unconditional guarantee of certain registered debt securities issued by UBS AG. To reflect this joint liability, UBS Switzerland AG is presented in a separate column as a subsidiary co-guarantor.

The joint liability of UBS Switzerland AG for contractual obligations of UBS AG decreased by CHF 36 billion in the first half of 2018 to CHF 33 billion as of 30 June 2018, mainly as the joint liability related to demand obligations booked in foreign branches expired three years after the effective date of the asset transfer.

### Guarantee of PaineWebber securities

Prior to its acquisition by UBS in 2000, Paine Webber Group Inc. (PaineWebber) was an SEC registrant. Upon acquisition, PaineWebber was merged into UBS Americas Inc., a wholly owned subsidiary of UBS AG. Following the acquisition, UBS AG entered into a full and unconditional guarantee of the senior notes (Debt Securities) issued by PaineWebber. Under the guarantee, if UBS Americas Inc. failed to make any timely payment under the Debt Securities agreements, the holders of the Debt Securities or the Debt Securities trustee may have demanded payment from UBS AG without first proceeding against UBS Americas Inc. These Debt Securities matured in May 2018 and the guarantee ceased to exist. UBS Americas Inc. is therefore no longer presented in a separate column for periods ended after 31 December 2017.

### Adoption of IFRS 9

Effective 1 January 2018, UBS AG adopted IFRS 9, Financial Instruments. The adoption of IFRS 9 has resulted in changes to the classification and measurement of certain financial instruments, which have been applied prospectively in the balance sheet from 1 January 2018.

Although the effect of IFRS 9 classification and measurement changes has been applied prospectively, UBS AG has made a series of changes to the presentation of its IFRS balance sheet to facilitate comparability and prior-period information is presented for periods ending before 1 January 2018 in this revised structure.

→ **Refer to Note 19 for more information on the adoption of IFRS 9 and the effect on comparability**

### Transfer of shared services functions to Group service companies

Amounts presented in the following pages for UBS AG standalone for the first six months ended 30 June 2017 include the results of shared services functions in Switzerland, the UK and the US, which were substantially transferred to Group service companies during 2017. Following the transfer, these Group service companies charge other legal entities within the Group for services provided, including a markup on costs incurred.

→ **Refer to the 2017 standalone financial statements of UBS AG, available under "Holding company and significant regulated subsidiaries and sub-groups" at [www.ubs.com/investors](http://www.ubs.com/investors) for more information on the transfer of shared services functions in 2017**

## Note 18 Supplemental guarantor information required under SEC regulations (continued)

### Supplemental guarantor consolidated income statement

<i>CHF million</i>	UBS AG (standalone)	UBS Switzerland AG (standalone)	Other subsidiaries <sup>2</sup>	Elimination entries	UBS AG (consolidated)
For the six months ended 30 June 2018					
<b>Operating income</b>					
Interest income	4,915	2,048	2,422	(1,351)	8,034
Interest expense	(4,828)	(410)	(1,476)	1,374	(5,340)
Net interest income	86	1,638	946	24	2,694
Other net income from fair value changes on financial instruments	2,641	466	531	10	3,648
Credit loss (expense) / recovery	(12)	(18)	5	(28)	(53)
Fee and commission income	1,426	2,194	6,454	(376)	9,699
Fee and commission expense	(456)	(196)	(533)	360	(825)
Net fee and commission income	970	1,999	5,921	(15)	8,874
Other income	3,839 <sup>1</sup>	86	1,175	(4,799)	301
<b>Total operating income</b>	<b>7,524</b>	<b>4,171</b>	<b>8,577</b>	<b>(4,809)</b>	<b>15,464</b>
<b>Operating expenses</b>					
Personnel expenses	1,869	928	4,283	0	7,080
General and administrative expenses	2,060	1,664	2,587	(1,768)	4,544
Depreciation and impairment of property, equipment and software	319	9	146	0	473
Amortization and impairment of intangible assets	1	0	30	0	32
<b>Total operating expenses</b>	<b>4,249</b>	<b>2,601</b>	<b>7,046</b>	<b>(1,768)</b>	<b>12,128</b>
<b>Operating profit / (loss) before tax</b>	<b>3,275</b>	<b>1,570</b>	<b>1,531</b>	<b>(3,041)</b>	<b>3,336</b>
Tax expense / (benefit)	282	330	170	(3)	780
Net profit / (loss)	2,993	1,240	1,361	(3,038)	2,556
Net profit / (loss) attributable to non-controlling interests	0	0	3	0	3
<b>Net profit / (loss) attributable to shareholders</b>	<b>2,993</b>	<b>1,240</b>	<b>1,358</b>	<b>(3,038)</b>	<b>2,553</b>

<sup>1</sup> UBS AG received dividends from UBS Switzerland AG of CHF 2,351 million in the second quarter of 2018. <sup>2</sup> Following the maturity of the remaining outstanding debt securities issued by PaineWebber in May 2018, we no longer present UBS Americas Inc. separately from other subsidiaries. The column "Other subsidiaries" includes consolidated information for the significant sub-groups UBS Americas Holding LLC, UBS Europe SE, UBS Asset Management AG and UBS Limited, as well as standalone information for other subsidiaries.

**Note 18 Supplemental guarantor information required under SEC regulations (continued)****Supplemental guarantor consolidated statement of comprehensive income**

<i>CHF million</i>	UBS AG (standalone)	UBS Switzerland AG (standalone)	Other subsidiaries <sup>1</sup>	Elimination entries	UBS AG (consolidated)
For the six months ended 30 June 2018					
<b>Comprehensive income attributable to shareholders</b>					
Net profit / (loss)	2,993	1,240	1,358	(3,038)	2,553
<b>Other comprehensive income</b>					
<b>Other comprehensive income that may be reclassified to the income statement</b>					
Foreign currency translation, net of tax	38	0	331	(5)	364
Financial assets measured at fair value through other comprehensive income, net of tax	0	0	(69)	0	(69)
Cash flow hedges, net of tax	(568)	(28)	(17)	(3)	(615)
<b>Total other comprehensive income that may be reclassified to the income statement, net of tax</b>	<b>(530)</b>	<b>(28)</b>	<b>245</b>	<b>(8)</b>	<b>(320)</b>
<b>Other comprehensive income that will not be reclassified to the income statement</b>					
Defined benefit plans, net of tax	285	(95)	49	(1)	239
Own credit on financial liabilities designated at fair value, net of tax	417				417
<b>Total other comprehensive income that will not be reclassified to the income statement, net of tax</b>	<b>703</b>	<b>(95)</b>	<b>49</b>	<b>(1)</b>	<b>656</b>
<b>Total other comprehensive income</b>	<b>173</b>	<b>(123)</b>	<b>294</b>	<b>(8)</b>	<b>336</b>
<b>Total comprehensive income attributable to shareholders</b>	<b>3,166</b>	<b>1,117</b>	<b>1,652</b>	<b>(3,046)</b>	<b>2,889</b>
Total comprehensive income attributable to non-controlling interests			1		1
<b>Total comprehensive income</b>	<b>3,166</b>	<b>1,117</b>	<b>1,653</b>	<b>(3,046)</b>	<b>2,889</b>

<sup>1</sup> Following the maturity of the remaining outstanding debt securities issued by PaineWebber in May 2018, we no longer present UBS Americas Inc. separately from other subsidiaries. The column "Other subsidiaries" includes consolidated information for the significant sub-groups UBS Americas Holding LLC, UBS Europe SE, UBS Asset Management AG and UBS Limited, as well as standalone information for other subsidiaries.



## Note 18 Supplemental guarantor information required under SEC regulations (continued)

### Supplemental guarantor consolidated balance sheet

<i>CHF million</i>	UBS				
As of 30 June 2018	UBS AG (standalone)	Switzerland AG (standalone)	Other subsidiaries <sup>1</sup>	Elimination entries	UBS AG (consolidated)
<b>Assets</b>					
Cash and balances at central banks	46,774	42,990	12,498	0	102,262
Loans and advances to banks	33,332	7,562	21,173	(46,549)	15,518
Receivables from securities financing transactions	53,612	30,111	49,378	(56,651)	76,450
Cash collateral receivables on derivative instruments	23,006	636	13,433	(12,137)	24,937
Loans and advances to customers	106,877	184,655	59,417	(30,380)	320,569
Other financial assets measured at amortized cost	4,927	9,799	9,696	(3,350)	21,072
<b>Total financial assets measured at amortized cost</b>	<b>268,528</b>	<b>275,753</b>	<b>165,595</b>	<b>(149,068)</b>	<b>560,808</b>
Financial assets at fair value held for trading	98,761	33	19,454	(5,990)	112,258
<i>of which: assets pledged as collateral that may be sold or repledged by counterparties</i>	<i>56,093</i>	<i>0</i>	<i>8,984</i>	<i>(28,497)</i>	<i>36,580</i>
Derivative financial instruments	116,798	4,431	34,918	(34,542)	121,605
Brokerage receivables	10,508	0	7,909	(1)	18,415
Financial assets at fair value not held for trading	46,134	9,702	45,509	(8,470)	92,875
<b>Total financial assets measured at fair value through profit or loss</b>	<b>272,200</b>	<b>14,166</b>	<b>107,790</b>	<b>(49,003)</b>	<b>345,153</b>
<b>Financial assets measured at fair value through other comprehensive income</b>	<b>171</b>	<b>0</b>	<b>6,770</b>	<b>0</b>	<b>6,941</b>
Investments in subsidiaries and associates	50,081	20	36	(49,111)	1,026
Property, equipment and software	6,491	149	1,576	0	8,216
Goodwill and intangible assets	293	0	6,157	(58)	6,391
Deferred tax assets	1,177	316	8,258	52	9,804
Other non-financial assets	4,584	1,625	755	(8)	6,956
<b>Total assets</b>	<b>603,526</b>	<b>292,029</b>	<b>296,938</b>	<b>(247,196)</b>	<b>945,296</b>
<b>Liabilities</b>					
Amounts due to banks	32,508	20,389	49,887	(92,543)	10,242
Payables from securities financing transactions	39,644	2,794	24,353	(56,661)	10,130
Cash collateral payables on derivative instruments	28,423	22	15,531	(12,132)	31,843
Customer deposits	78,703	241,516	74,022	12,930	407,171
Funding from UBS Group AG and its subsidiaries	38,771	0	0	0	38,771
Debt issued measured at amortized cost	90,548	8,367	973	(958)	98,929
Other financial liabilities measured at amortized cost	4,552	1,582	4,258	(3,204)	7,187
<b>Total financial liabilities measured at amortized cost</b>	<b>313,150</b>	<b>274,670</b>	<b>169,023</b>	<b>(152,569)</b>	<b>604,274</b>
Financial liabilities at fair value held for trading	24,751	475	12,079	(5,889)	31,416
Derivative financial instruments	114,721	4,010	35,078	(34,584)	119,224
Brokerage payables designated at fair value	26,985	0	10,926	(7)	37,904
Debt issued designated at fair value	55,188	0	1,680	(19)	56,849
Other financial liabilities designated at fair value	13,110	0	28,920	(4,687)	37,342
<b>Total financial liabilities measured at fair value through profit or loss</b>	<b>234,754</b>	<b>4,484</b>	<b>88,683</b>	<b>(45,186)</b>	<b>282,736</b>
Provisions	983	134	1,884	83	3,084
Other non-financial liabilities	1,390	796	3,015	(20)	5,181
<b>Total liabilities</b>	<b>550,277</b>	<b>280,084</b>	<b>262,605</b>	<b>(197,691)</b>	<b>895,275</b>
<b>Equity attributable to shareholders</b>	<b>53,249</b>	<b>11,945</b>	<b>34,272</b>	<b>(49,505)</b>	<b>49,961</b>
Equity attributable to non-controlling interests			60		60
<b>Total equity</b>	<b>53,249</b>	<b>11,945</b>	<b>34,333</b>	<b>(49,505)</b>	<b>50,021</b>
<b>Total liabilities and equity</b>	<b>603,526</b>	<b>292,029</b>	<b>296,938</b>	<b>(247,196)</b>	<b>945,296</b>

<sup>1</sup> Following the maturity of the remaining outstanding debt securities issued by PaineWebber in May 2018, we no longer present UBS Americas Inc. separately from other subsidiaries. The column "Other subsidiaries" includes consolidated information for the significant sub-groups UBS Americas Holding LLC, UBS Europe SE, UBS Asset Management AG and UBS Limited, as well as standalone information for other subsidiaries.

**Note 18 Supplemental guarantor information required under SEC regulations (continued)****Supplemental guarantor consolidated statement of cash flows**

<i>CHF million</i>				
For the six months ended 30 June 2018	UBS AG <sup>1</sup>	UBS Switzerland AG <sup>1</sup>	Other subsidiaries <sup>1</sup>	UBS AG (consolidated)
<b>Net cash flow from / (used in) operating activities</b>	<b>6,707</b>	<b>6,860</b>	<b>2,425</b>	<b>15,990</b>
<b>Cash flow from / (used in) investing activities</b>				
Purchase of subsidiaries, associates and intangible assets	0	(4)	0	(3)
Disposal of subsidiaries, associates and intangible assets <sup>2</sup>	53	0	5	58
Purchase of property, equipment and software	(424)	(68)	(218)	(710)
Disposal of property, equipment and software	1	3	27	30
Purchase of financial assets measured at fair value through other comprehensive income	(132)	0	(699)	(831)
Disposal and redemption of financial assets measured at fair value through other comprehensive income	142	0	526	668
Net (purchase) / redemption of debt securities measured at amortized cost	(944)	504	(1,952)	(2,391)
<b>Net cash flow from / (used in) investing activities</b>	<b>(1,304)</b>	<b>435</b>	<b>(2,310)</b>	<b>(3,178)</b>
<b>Cash flow from / (used in) financing activities</b>				
Net short-term debt issued / (repaid)	(5,907)	(2)	109	(5,801)
Distributions paid on UBS shares	(3,065)	0	0	(3,065)
Issuance of long-term debt, including financial liabilities designated at fair value <sup>3</sup>	38,501	400	79	38,980
Repayment of long-term debt, including financial liabilities designated at fair value <sup>3</sup>	(25,291)	(397)	(378)	(26,066)
Dividends paid and repayments of preferred notes	0	0	0	0
Net changes in non-controlling interests	0	0	16	16
Net activity in investments in subsidiaries	2,540	(2,331)	(209)	0
<b>Net cash flow from / (used in) financing activities</b>	<b>6,778</b>	<b>(2,331)</b>	<b>(383)</b>	<b>4,065</b>
<b>Total cash flow</b>				
<b>Cash and cash equivalents at the beginning of the period</b>	<b>40,522</b>	<b>39,928</b>	<b>21,703</b>	<b>102,154</b>
Net cash flow from / (used in) operating, investing and financing activities	12,181	4,964	(269)	16,877
Effects of exchange rate differences on cash and cash equivalents	291	(13)	(142)	136
<b>Cash and cash equivalents at the end of the period<sup>4</sup></b>	<b>52,994</b>	<b>44,879</b>	<b>21,294</b>	<b>119,167</b>
<i>of which: cash and balances with central banks</i>	<i>46,657</i>	<i>42,990</i>	<i>12,498</i>	<i>102,145</i>
<i>of which: due from banks</i>	<i>3,894</i>	<i>1,703</i>	<i>8,632</i>	<i>14,229</i>
<i>of which: money market paper<sup>5</sup></i>	<i>2,443</i>	<i>186</i>	<i>164</i>	<i>2,794</i>

<sup>1</sup> Cash flows generally represent a third-party view from a UBS AG consolidated perspective. <sup>2</sup> Includes dividends received from associates. <sup>3</sup> Includes funding from UBS Group AG and its subsidiaries. <sup>4</sup> Comprises balances with an original maturity of three months or less. CHF 4,042 million of cash and cash equivalents were restricted. <sup>5</sup> Money market paper is included in the balance sheet under Financial assets at fair value held for trading, Financial assets measured at fair value through other comprehensive income, Financial assets at fair value not held for trading, and Other financial assets measured at amortized cost.

## Note 18 Supplemental guarantor information required under SEC regulations (continued)

### Supplemental guarantor consolidated income statement

<i>CHF million</i>	UBS AG (standalone) <sup>1</sup>	UBS Switzerland AG (standalone) <sup>1</sup>	UBS Americas Inc. <sup>2</sup>	Other subsidiaries <sup>2</sup>	Elimination entries	UBS AG (consolidated)
For the six months ended 30 June 2017						
<b>Operating income</b>						
Interest income	4,232	2,001	1,272	749	(1,271)	6,982
Interest expense	(3,594)	(314)	(569)	(625)	1,211	(3,890)
Net interest income	638	1,687	703	124	(60)	3,092
Other net income from fair value changes on financial instruments	2,163	468	286	184	(200)	2,900
Credit loss (expense) / recovery	(23)	(21)	(2)	0	0	(46)
Fee and commission income	1,300	2,166	4,352	2,150	(415)	9,552
Fee and commission expense	(443)	(187)	(215)	(435)	395	(885)
Net fee and commission income	856	1,979	4,137	1,715	(20)	8,667
Other income	2,695 <sup>3</sup>	116	207	1,513	(4,186)	345
<b>Total operating income</b>	<b>6,329</b>	<b>4,228</b>	<b>5,331</b>	<b>3,536</b>	<b>(4,466)</b>	<b>14,958</b>
<b>Operating expenses</b>						
Personnel expenses	2,418	1,046	3,172	1,018	0	7,654
General and administrative expenses	2,229	1,591	1,451	1,392	(2,952)	3,712
Depreciation and impairment of property, equipment and software	348	5	83	37	0	473
Amortization and impairment of intangible assets	6	0	26	5	0	37
<b>Total operating expenses</b>	<b>5,001</b>	<b>2,643</b>	<b>4,731</b>	<b>2,453</b>	<b>(2,952)</b>	<b>11,876</b>
<b>Operating profit / (loss) before tax</b>	<b>1,327</b>	<b>1,586</b>	<b>600</b>	<b>1,083</b>	<b>(1,514)</b>	<b>3,082</b>
Tax expense / (benefit)	45	319	9	309	0	681
Net profit / (loss)	1,283	1,267	591	774	(1,514)	2,401
Net profit / (loss) attributable to preferred noteholders	46	0	0	0	0	46
Net profit / (loss) attributable to non-controlling interests	0	0	0	1	0	1
<b>Net profit / (loss) attributable to shareholders</b>	<b>1,237</b>	<b>1,267</b>	<b>591</b>	<b>773</b>	<b>(1,514)</b>	<b>2,354</b>

<sup>1</sup> Amounts presented for UBS AG standalone and UBS Switzerland AG standalone represent IFRS standalone information. Refer to the "UBS AG standalone financial information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to "Holding company and significant regulated subsidiaries and sub-groups" at [www.ubs.com/investors](http://www.ubs.com/investors) for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. <sup>2</sup> Amounts presented in these columns serve as a basis for preparing UBS AG consolidated financial statements in accordance with IFRS. <sup>3</sup> UBS AG received dividends from UBS Switzerland AG of CHF 191 million in the second quarter of 2017.

**Note 18 Supplemental guarantor information required under SEC regulations (continued)****Supplemental guarantor consolidated statement of comprehensive income**

<i>CHF million</i>	UBS AG (standalone) <sup>1</sup>	UBS Switzerland AG (standalone) <sup>1</sup>	UBS Americas Inc. <sup>2</sup>	Other subsidiaries <sup>2</sup>	Elimination entries	UBS AG (consolidated)
For the six months ended 30 June 2017						
<b>Comprehensive income attributable to shareholders</b>						
Net profit / (loss)	1,237	1,267	591	773	(1,514)	2,354
<b>Other comprehensive income</b>						
<b>Other comprehensive income that may be reclassified to the income statement</b>						
Foreign currency translation, net of tax	(198)	0	(1,011)	(339)	212	(1,337)
Financial assets measured at fair value through other comprehensive income, net of tax	(21)	(1)	21	(2)	(68)	(72)
Cash flow hedges, net of tax	(134)	(99)	0	0	1	(233)
<b>Total other comprehensive income that may be reclassified to the income statement, net of tax</b>	(354)	(100)	(990)	(342)	144	(1,641)
<b>Other comprehensive income that will not be reclassified to the income statement</b>						
Defined benefit plans, net of tax	120	(16)	31	13	18	166
Own credit on financial liabilities designated at fair value, net of tax	(254)					(254)
<b>Total other comprehensive income that will not be reclassified to the income statement, net of tax</b>	(133)	(16)	31	13	18	(87)
<b>Total other comprehensive income</b>	(487)	(115)	(960)	(329)	162	(1,729)
<b>Total comprehensive income attributable to shareholders</b>	749	1,151	(369)	444	(1,352)	625
Total comprehensive income attributable to preferred noteholders	60					60
Total comprehensive income attributable to non-controlling interests				1		1
<b>Total comprehensive income</b>	810	1,151	(369)	445	(1,352)	686

<sup>1</sup> Amounts presented for UBS AG standalone and UBS Switzerland AG standalone represent IFRS standalone information. Refer to the "UBS AG standalone financial information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to "Holding company and significant regulated subsidiaries and sub-groups" at [www.ubs.com/investors](http://www.ubs.com/investors) for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. <sup>2</sup> Amounts presented in these columns serve as a basis for preparing UBS AG consolidated financial statements in accordance with IFRS.

## Note 18 Supplemental guarantor information required under SEC regulations (continued)

### Supplemental guarantor consolidated balance sheet

<i>CHF million</i>	UBS					
As of 31 Dec 2017	UBS AG (standalone) <sup>1</sup>	Switzerland AG (standalone) <sup>1</sup>	UBS Americas Inc. <sup>2</sup>	Other subsidiaries <sup>2</sup>	Elimination entries	UBS AG (consolidated)
<b>Assets</b>						
Cash and balances at central banks	36,552	38,467	3,100	9,656	0	87,775
Loans and advances to banks	30,467	3,977	4,712	66,649	(92,112)	13,693
Receivables from securities financing transactions	61,200	34,830	31,451	25,556	(63,404)	89,633
Cash collateral receivables on derivative instruments	22,346	696	2,129	10,828	(12,565)	23,434
Loans and advances to customers	106,443	183,298	51,743	24,078	(44,903)	320,659
Other financial assets measured at amortized cost	17,020	10,342	10,844	2,021	(3,291)	36,935
<b>Total financial assets measured at amortized cost</b>	<b>274,028</b>	<b>271,610</b>	<b>103,979</b>	<b>138,787</b>	<b>(216,275)</b>	<b>572,129</b>
Financial assets at fair value held for trading	101,182	91	6,720	25,974	(7,723)	126,244
of which: assets pledged as collateral that may be sold or repledged by counterparties	<i>58,524</i>	<i>0</i>	<i>2,303</i>	<i>7,411</i>	<i>(32,877)</i>	<i>35,363</i>
Derivative financial instruments	114,044	4,123	12,948	21,118	(34,004)	118,229
Financial assets at fair value not held for trading	34,100	12,768	3,363	10,805	(2,481)	58,556
<b>Total financial assets measured at fair value through profit or loss</b>	<b>249,327</b>	<b>16,982</b>	<b>23,031</b>	<b>57,897</b>	<b>(44,209)</b>	<b>303,028</b>
<b>Financial assets measured at fair value through other comprehensive income</b>						
Investments in subsidiaries and associates	3,604	790	6,483	933	(3,145)	8,665
Property, equipment and software	49,632	15	1	27	(48,657)	1,018
Goodwill and intangible assets	6,384	92	979	529	0	7,985
Deferred tax assets	294	0	4,880	1,281	(58)	6,398
Other non-financial assets	1,252	421	5,999	2,110	0	9,783
Other non-financial assets	5,049	1,714	256	437	(98)	7,358
<b>Total assets</b>	<b>589,570</b>	<b>291,624</b>	<b>145,611</b>	<b>202,001</b>	<b>(312,442)</b>	<b>916,363</b>
<b>Liabilities</b>						
Amounts due to banks	24,361	20,728	3,160	51,915	(92,631)	7,533
Payables from securities financing transactions	48,161	1,644	14,924	15,719	(63,404)	17,044
Cash collateral payables on derivative instruments	27,768	60	2,215	12,768	(12,565)	30,247
Customer deposits	83,935	241,313	79,684	54,438	(46,977)	412,392
Funding from UBS Group AG and its subsidiaries	34,749	0	0	0	0	34,749
Debt issued measured at amortized cost	96,572	8,367	8	514	(711)	104,749
Other financial liabilities measured at amortized cost	28,443	1,416	7,788	2,788	(3,303)	37,133
<b>Total financial liabilities measured at amortized cost</b>	<b>343,989</b>	<b>273,530</b>	<b>107,778</b>	<b>138,142</b>	<b>(219,591)</b>	<b>643,847</b>
Financial liabilities at fair value held for trading	24,358	250	3,877	9,122	(7,145)	30,463
Derivative financial instruments	111,448	3,675	12,932	22,082	(34,004)	116,134
Debt issued designated at fair value	47,514	0	104	2,165	(281)	49,502
Other financial liabilities designated at fair value	6,018	0	0	12,687	(2,481)	16,223
<b>Total financial liabilities measured at fair value through profit or loss</b>	<b>189,338</b>	<b>3,926</b>	<b>16,913</b>	<b>46,056</b>	<b>(43,910)</b>	<b>212,323</b>
Provisions	1,057	145	1,682	200	0	3,084
Other non-financial liabilities	1,988	830	2,329	1,313	(125)	6,335
<b>Total liabilities</b>	<b>536,372</b>	<b>278,430</b>	<b>128,702</b>	<b>185,711</b>	<b>(263,626)</b>	<b>865,588</b>
<b>Equity attributable to shareholders</b>						
Equity attributable to non-controlling interests	53,198	13,194	16,909	16,233	(48,816)	50,718
<b>Total equity</b>	<b>53,198</b>	<b>13,194</b>	<b>16,909</b>	<b>16,290</b>	<b>(48,816)</b>	<b>50,775</b>
<b>Total liabilities and equity</b>	<b>589,570</b>	<b>291,624</b>	<b>145,611</b>	<b>202,001</b>	<b>(312,442)</b>	<b>916,363</b>

<sup>1</sup> Amounts presented for UBS AG standalone and UBS Switzerland AG standalone represent IFRS standalone information. Refer to the "UBS AG standalone financial information" section of this report for UBS AG standalone financial information prepared in accordance with Swiss GAAP. Refer to "Holding company and significant regulated subsidiaries and sub-groups" at [www.ubs.com/investors](http://www.ubs.com/investors) for UBS Switzerland AG standalone interim financial statements prepared in accordance with Swiss GAAP. <sup>2</sup> Amounts presented in these columns serve as a basis for preparing UBS AG consolidated financial statements in accordance with IFRS.

**Note 18 Supplemental guarantor information required under SEC regulations (continued)****Supplemental guarantor consolidated statement of cash flows**

<i>CHF million</i>	UBS AG <sup>1</sup>	UBS Switzerland AG <sup>1</sup>	UBS Americas Inc. <sup>1</sup>	Other subsidiaries <sup>1</sup>	UBS AG (consolidated)
For the six months ended 30 June 2017					
<b>Net cash flow from / (used in) operating activities</b>	(19,178)	(1,291)	(4,854)	1,854	(23,469)
<b>Cash flow from / (used in) investing activities</b>					
Purchase of subsidiaries, associates and intangible assets	0	0	(5)	0	(5)
Disposal of subsidiaries, associates and intangible assets <sup>2</sup>	95	0	0	0	95
Purchase of property, equipment and software	(466)	(25)	(155)	(41)	(688)
Disposal of property, equipment and software	0	0	22	0	23
Purchase of financial assets measured at fair value through other comprehensive income	(180)	0	(1,807)	(2,743)	(4,729)
Disposal and redemption of financial assets measured at fair value through other comprehensive income	2,607	753	1,164	1,625	6,150
Net (purchase) / redemption of financial assets held to maturity	(288)	456	0	0	168
<b>Net cash flow from / (used in) investing activities</b>	1,768	1,184	(780)	(1,158)	1,014
<b>Cash flow from / (used in) financing activities</b>					
Net short-term debt issued / (repaid)	18,832	9	0	(103)	18,738
Distributions paid on UBS shares	(2,250)	0	0	0	(2,250)
Issuance of long-term debt, including financial liabilities designated at fair value <sup>3</sup>	24,112	573	0	145	24,829
Repayment of long-term debt, including financial liabilities designated at fair value <sup>3</sup>	(22,685)	(506)	(76)	(140)	(23,407)
Dividends paid and repayments of preferred notes	(46)	0	0	0	(46)
Net changes in non-controlling interests	0	0	0	(5)	(5)
Net activity in investments in subsidiaries	663	(191)	296	(768)	0
<b>Net cash flow from / (used in) financing activities</b>	18,626	(115)	221	(871)	17,861
<b>Total cash flow</b>					
<b>Cash and cash equivalents at the beginning of the period</b>	44,269	46,629	11,892	18,317	121,107
Net cash flow from / (used in) operating, investing and financing activities	1,217	(223)	(5,414)	(174)	(4,594)
Effects of exchange rate differences on cash and cash equivalents	(1,076)	(14)	(513)	100	(1,502)
<b>Cash and cash equivalents at the end of the period<sup>4</sup></b>	44,410	46,392	5,965	18,243	115,010
<i>of which: cash and balances with central banks</i>	40,122	44,036	2,801	13,046	100,006
<i>of which: due from banks</i>	2,613	2,350	3,101	4,583	12,646
<i>of which: money market paper<sup>5</sup></i>	1,674	6	63	614	2,358

<sup>1</sup> Cash flows generally represent a third-party view from a UBS AG consolidated perspective. <sup>2</sup> Includes dividends received from associates. <sup>3</sup> Includes funding from UBS Group AG and its subsidiaries. <sup>4</sup> Comprises balances with an original maturity of three months or less. CHF 2,576 million of cash and cash equivalents were restricted. <sup>5</sup> Money market paper is included in the balance sheet under Financial assets at fair value held for trading, Financial assets measured at fair value through other comprehensive income, Financial assets at fair value not held for trading, and Other financial assets measured at amortized cost.

## Note 19 Transition to IFRS 9 as of 1 January 2018

### 19.1 Update to significant accounting policies disclosed in Note 1a) to the Financial Statements 2017 related to IFRS 9

The adoption of IFRS 9, *Financial Instruments* (IFRS 9) resulted in changes to UBS AG's accounting policies applicable from 1 January 2018. Accounting policies set out below replace item 3) b, c, g, h, i, l, o and p in Note 1a) in the UBS AG consolidated annual Financial Statements for the year ended 31 December 2017.

As permitted by the transition provisions of IFRS 9 UBS AG elected not to restate comparative period information, and the accounting policies as set out in Note 1 in the UBS AG consolidated annual Financial Statements for the period ended 31 December 2017 apply to comparative periods.

#### Update to Note 1a) 3) Financial instruments

##### b. Classification, measurement and presentation

On initial recognition, financial assets are classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A debt instrument is measured at amortized cost if it meets the following conditions:

- it is held within a business model that has an objective to hold financial assets to collect contractual cash flows; and
- the contractual terms of the financial asset result in cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

A debt instrument is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset result in cash flows that are SPPI.

Equity instruments are accounted for at FVTPL. All other financial assets are measured at FVTPL and consist of held for trading assets, assets mandatorily measured on a fair value basis and derivatives, except to the extent that they are designated in a hedging relationship, in which case the IAS 39 hedge accounting requirements continue to apply.

##### Business model assessment

UBS AG determines the nature of the business model, for example if the objective is to hold the financial asset and collect the contractual cash flows, by considering the way in which the financial assets are managed to achieve a particular business objective as determined by management.

Financial assets that are held for trading or managed on a fair value basis are measured at FVTPL insofar as the associated business model is neither to hold the financial assets to collect contractual cash flows nor to hold to collect contractual cash flows and sell.

UBS AG originates loans to hold to maturity and to sell or sub-participate to other parties, resulting in a transfer of substantially all the risks and rewards, and derecognition of the loan or portions of it. UBS AG considers the activities of lending to hold and lending to sell or sub-participate as two separate business models, with financial assets within the former considered to be within a business model that has an objective to hold the assets to collect contractual cash flows, and those within the latter included in a trading portfolio. In certain cases, it may not be possible on origination to identify whether loans or portions of loans will be sold or sub-participated and certain loans may be managed on a fair value basis through, for instance, using credit derivatives. These financial assets are mandatorily measured at FVTPL.

##### Critical accounting estimates and judgments

UBS AG exercises judgment to determine the appropriate level at which to assess its business models. In general the assessment is performed at the product level, e.g., retail and commercial mortgages. In other cases the assessment is carried out at a more granular level, e.g., loan portfolios by region, and, if required, further disaggregation is performed by business strategy. In addition, UBS AG exercises judgment in determining the effect of sales of financial instruments on the business model assessment.

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

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### *Contractual cash flow characteristics*

In assessing whether the contractual cash flows are SPPI, UBS AG considers whether the contractual terms of the financial asset contain a term that could change the timing or amount of contractual cash flows arising over the life of the instrument, which could affect whether the instrument is considered to meet the SPPI criteria.

For example, UBS AG holds portfolios of private mortgage contracts and corporate loans in Personal & Corporate Banking that commonly contain clauses that provide for two-way compensation if prepayment occurs. The amount of compensation paid by or to UBS AG reflects the effect of changes in market interest rates. UBS AG has determined that the inclusion of the change in market interest rates in the compensation amount is reasonable for the early termination of the contract, and therefore results in contractual cash flows that are SPPI.

### **Critical accounting estimates and judgments**

UBS AG applies judgment when considering whether certain contractual features, such as interest rate reset frequency or non-recourse features, significantly affect future cash flows. Furthermore, judgment is required when assessing whether compensation paid or received on early termination of lending arrangements results in cash flows that are not SPPI.

All financial instruments are initially measured at fair value. In the case of financial instruments subsequently measured at amortized cost or FVOCI, the initial fair value is adjusted for directly attributable transaction costs.

After initial recognition, UBS AG classifies, measures and presents its financial assets and liabilities in accordance with IFRS 9 as described in the table on the following pages.



## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

Financial assets classification		Significant items included	Measurement and presentation
Measured at amortized cost		<p>A debt financial asset is measured at amortized cost if:</p> <ul style="list-style-type: none"> <li>– it is held in a business model that has an objective to hold assets to collect contractual cash flows, and</li> <li>– the contractual terms give rise to cash flows that are SPPI.</li> </ul> <p>This classification includes:</p> <ul style="list-style-type: none"> <li>– cash and balances at central banks</li> <li>– loans and advances to banks</li> <li>– cash collateral receivable on securities borrowed</li> <li>– receivables on reverse repurchase agreements</li> <li>– cash collateral receivables on derivative instruments</li> <li>– residential and commercial mortgages</li> <li>– corporate loans</li> <li>– secured loans, including Lombard loans, and unsecured loans</li> <li>– loans to financial advisors</li> <li>– debt securities held as high-quality liquid assets (HQLA)</li> <li>– fee and lease receivables.</li> </ul>	<p>Measured at amortized cost using the effective interest rate (EIR) method less allowances for expected credit losses (ECL) (refer to items 3c and 3g in this Note for more information).</p> <p>The following items are recognized in the income statement:</p> <ul style="list-style-type: none"> <li>– Interest income, which is accounted for in accordance with item 3c in this Note</li> <li>– ECL and reversals</li> <li>– Foreign exchange translation gains and losses</li> </ul> <p>Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments – when it is probable that UBS AG will enter into a specific lending relationship – are deferred and amortized over the life of the loan using the EIR method.</p> <p>When the financial asset at amortized cost is derecognized, the gain or loss is recognized in the income statement.</p> <p>Amounts arising from exchange-traded derivatives (ETD) and certain over-the-counter (OTC) derivatives cleared through central clearing counterparties that are either considered to be daily settled or qualify for netting (refer to “Note 1a) Significant accounting policies” items 3d and 3j in the “Consolidated financial statements” section of the Annual Report 2017 for more information) are presented within <i>Cash collateral receivables on derivative instruments</i>.</p>
Measured at FVOCI	Debt instruments measured at FVOCI	<p>A debt financial asset is measured at FVOCI if:</p> <ul style="list-style-type: none"> <li>– it is held in a business model whose objective is achieved by both holding assets to collect contractual cash flows and selling the assets, and</li> <li>– the contractual terms give rise to cash flows that are SPPI.</li> </ul> <p>This classification primarily includes debt securities and certain asset-backed securities held as HQLA for which the contractual cash flows meet the SPPI conditions.</p>	<p>Measured at fair value with unrealized gains and losses reported in <i>Other comprehensive income</i>, net of applicable income taxes, until such investments are derecognized (when sold, collected or otherwise disposed). Upon derecognition, any accumulated balances in <i>Other comprehensive income</i> are reclassified to the income statement and reported within <i>Other income</i>.</p> <p>The following items are recognized in the income statement:</p> <ul style="list-style-type: none"> <li>– Interest income, which is accounted for in accordance with item 3c in this Note</li> <li>– ECL and reversals</li> <li>– Foreign exchange translation gains and losses.</li> </ul> <p>The amounts recognized in the income statement are determined on the same basis as for financial assets measured at amortized cost.</p>

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)**

Financial assets classification		Significant items included	Measurement and presentation
Measured at FVTPL	Held for trading	<p>Financial assets held for trading include:</p> <ul style="list-style-type: none"> <li>– all derivatives with a positive replacement value, except those that are designated as effective hedging instruments</li> <li>– other financial assets acquired principally for the purpose of selling or repurchasing in the near term, or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Included in this category are debt instruments (including those in the form of securities, money market paper and traded corporate and bank loans) and equity instruments.</li> </ul>	<p>Measured at fair value with changes recognized in profit or loss.</p> <p>Changes in fair value, initial transaction costs and gains and losses realized on disposal or redemption are recognized in <i>Other net income from fair value changes on financial instruments</i>, except interest and dividend income on instruments other than derivatives (refer to item 3c in this Note for more information), interest on derivatives designated as hedging instruments in certain types of hedge accounting relationships and forward points on certain long- and short-duration foreign exchange contracts, which are reported in <i>Net interest income</i>.</p>
	Mandatorily measured at FVTPL – Other	<p>A financial asset is mandatorily measured at FVTPL if:</p> <ul style="list-style-type: none"> <li>– it is not held in a business model whose objective is to hold assets to collect contractual cash flows or to hold them to collect contractual cash flows and sell, and / or</li> <li>– the contractual terms give rise to cash flows that are not SPPI, and / or</li> <li>– it is not held for trading.</li> </ul> <p>The following financial assets are mandatorily measured at FVTPL:</p> <ul style="list-style-type: none"> <li>– Certain structured loans, certain commercial loans, receivables under reverse repurchase and cash collateral on securities borrowing agreements that are managed on a fair value basis</li> <li>– Loans, managed on a fair value basis and hedged with credit derivatives</li> <li>– Certain debt securities held as HQLA and managed on a fair value basis</li> <li>– Certain investment fund holdings and assets held to hedge delivery obligations related to cash-settled employee compensation plans. These assets represent holdings in investments funds, whereby the contractual cash flows do not meet the SPPI conditions because the entry and exit price is based on the fair value of the fund's assets</li> <li>– Brokerage receivables, for which contractual cash flows do not meet the SPPI conditions due to the aggregate balance being accounted for as a single unit of account, with interest being calculated on the individual components</li> <li>– Auction rate securities, for which contractual cash flows do not meet the SPPI conditions because interest may be reset at rates that contain leverage</li> <li>– Equity instruments</li> <li>– Assets held under unit-linked investment contracts.</li> </ul>	<p>Derivative assets are generally presented as <i>Derivative financial instruments</i>, except those exchange-traded and OTC-cleared derivatives that are considered to be settled on a daily basis or qualify for netting and are presented within <i>Cash collateral receivables on derivative instruments</i>.</p> <p>The presentation of fair value changes on derivatives that are designated and effective as hedging instruments depends on the type of hedge relationship (refer to “Note 1a) Significant accounting policies” item 3k in the “Consolidated financial statements” section of the Annual Report 2017 for more information).</p> <p>Financial assets held for trading (other than derivatives) are presented as <i>Financial assets at fair value held for trading</i>.</p> <p>Other financial assets mandatorily measured at fair value through profit or loss are presented as <i>Financial assets at fair value not held for trading</i>, except for brokerage receivables, which are presented as a separate line item on UBS AG's balance sheet.</p>

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

Financial liabilities classification		Significant items included	Measurement and presentation
<b>Measured at amortized cost</b>		<p>This classification includes:</p> <ul style="list-style-type: none"> <li>– Demand and time deposits, retail savings / deposits, amounts payable under repurchase agreements, cash collateral on securities lent, non-structured fixed-rate bonds, subordinated debt, certificates of deposit and covered bonds and obligations against funding from UBS Group AG and its subsidiaries</li> <li>– Cash collateral payables on derivative instruments.</li> </ul>	<p>Measured at amortized cost using the EIR method.</p> <p>Upfront fees and direct costs relating to the issuance or origination of the liability are deferred and amortized over the life of the liability using the EIR method.</p> <p>When the financial liability at amortized cost is derecognized, the gain or loss is recognized in the income statement.</p> <p>Amortized cost liabilities are presented on the balance sheet primarily as <i>Amounts due to banks, Customer deposits, Payables from securities financing transactions, Debt issued measured at amortized cost and Funding from UBS Group AG and its subsidiaries.</i></p> <p>Amounts arising from ETD and certain OTC derivatives cleared through central clearing counterparties that are either considered to be daily settled or qualify for netting (refer to “Note 1a) Significant accounting policies” items 3d and 3j in the “Consolidated financial statements” section of the Annual Report 2017 for more information) are presented within <i>Cash collateral payables on derivative instruments.</i></p>
<b>Measured at fair value through profit or loss</b>	Held for trading	<p>Financial liabilities held for trading include:</p> <ul style="list-style-type: none"> <li>– All derivatives with a negative replacement value (including certain loan commitments) except those that are designated and effective hedging instruments</li> <li>– Obligations to deliver financial instruments, such as debt and equity instruments, that UBS AG has sold to third parties, but does not own (short positions).</li> </ul>	<p>Measurement of financial liabilities classified at FVTPL follows the same principles as for financial assets classified at FVTPL, except that the amount of change in the fair value of the financial liability that is attributable to changes in UBS AG’s own credit risk is presented in OCI.</p> <p>Financial liabilities measured at FVTPL are presented as <i>Financial liabilities at fair value held for trading</i> and <i>Other financial liabilities designated at fair value</i>, respectively, except for brokerage payables and debt issued, which are presented as separate sub-totals on UBS AG’s balance sheet.</p> <p>Derivative liabilities are generally presented as <i>Derivative financial instruments</i>, except those exchange-traded and OTC-cleared derivatives that are considered to be settled on a daily basis or qualify for netting and are presented within <i>Cash collateral payables on derivative instruments.</i></p> <p>Bifurcated embedded derivatives are measured at fair value, but are presented on the same balance sheet line as the host contract measured at amortized cost.</p> <p>Derivatives that are designated and effective as hedging instruments are also measured at fair value. The presentation of fair value changes differs depending on the type of hedge relationship (refer to “Note 1a) Significant accounting policies” item 3k in the “Consolidated financial statements” section of the Annual Report 2017 for more information).</p>
	Designated at FVTPL	<p>UBS AG designated at FVTPL the following financial liabilities:</p> <ul style="list-style-type: none"> <li>– Issued hybrid debt instruments that primarily include equity-linked, credit-linked and rates-linked bonds or notes</li> <li>– Issued debt instruments managed on a fair value basis</li> <li>– Certain payables under repurchase agreements and cash collateral on securities lending agreements that are managed in conjunction with associated reverse repurchase agreements and cash collateral on securities borrowed</li> <li>– Loan commitments that are hedged predominantly with credit derivatives and those managed on a fair value basis</li> <li>– Amounts due under unit-linked investment contracts whose cash flows are linked to financial assets measured at FVTPL and eliminate an accounting mismatch</li> <li>– Brokerage payables, which arise in conjunction with brokerage receivables and are measured at FVTPL to achieve measurement consistency.</li> </ul>	

### c. Interest income and expense

Interest income and expense are recognized in the income statement applying the EIR method.

In determining interest income and expense, the EIR is applied to the gross carrying amount of the financial asset (unless the asset is credit-impaired) or the amortized cost of a financial liability, based on estimated future cash flows that take into

account all contractual cash flows, except those related to ECL. However, when a financial asset becomes credit-impaired after initial recognition, interest income is determined by applying EIR to the amortized cost of the instrument. Furthermore, for financial assets that were credit-impaired on initial recognition, interest is determined by applying a credit-adjusted EIR to the amortized cost of the instrument.

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)**

UBS AG also presents interest income and expense on financial instruments (excluding derivatives) measured at FVTPL separately from the rest of the fair value changes in the income statement. Interest income or expense on financial instruments measured at amortized cost and financial assets measured at FVOCI are presented separately within *Interest income from financial instruments measured at amortized cost and fair value through other comprehensive income* and *Interest expense from financial instruments measured at amortized cost*, with interest on financial instruments at FVTPL presented in *Interest income (or expense) from financial instruments measured at fair value through profit or loss*. All are part of *Net interest income*.

*Interest income from financial instruments measured at fair value through profit or loss* includes forward points on certain short- and long-duration foreign exchange contracts and dividend income.

Furthermore, interest income and expense on derivatives designated as hedging instruments in effective hedge relationships are presented consistently with the interest income and expense of the respective hedged item.

→ Refer to “**Note 1a) Significant Accounting Policies**” in the “**UBS AG consolidated financial statements**” section of the **Annual Report 2017** for more information

**g. Expected credit losses**

Expected credit losses (ECL) are recognized for financial assets measured at amortized cost, financial assets measured at FVOCI, fee and lease receivables, financial guarantees and loan commitments. ECL are also recognized on the undrawn portion of revolving revocable credit lines, which include UBS AG’s credit card limits and master credit facilities, which are customary in the Swiss market for corporate and commercial clients. UBS AG refers to both as “other credit lines,” with clients allowed to draw down on-demand balances (with the Swiss master credit facilities also allowing for term products) and which can be terminated by UBS AG at any time. Though these other credit lines are revocable, UBS AG is exposed to credit risk because the client has the ability to draw down funds before UBS AG can take credit risk mitigation actions.

**Recognition of expected credit losses**

ECL represent the difference between contractual cash flows and those UBS AG expects to receive, discounted at the EIR. For loan commitments and other credit facilities in scope of ECL, expected cash shortfalls are determined by considering expected future draw downs.

ECL are recognized on the following basis:

- Maximum 12-month ECL are recognized from initial recognition, reflecting the portion of lifetime cash shortfalls that would result if a default occurs in the 12 months after the reporting date, weighted by the risk of a default occurring. Instruments in this category are referred to as instruments in stage 1. For instruments with a remaining maturity of less than 12 months, ECL are determined for this shorter period.
- Lifetime ECL are recognized if a significant increase in credit risk (SICR) is detected subsequent to the instrument’s initial recognition, reflecting lifetime cash shortfalls that would result from all possible default events over the expected life of a financial instrument, weighted by the risk of a default occurring. Instruments in this category are referred to as instruments in stage 2. Where an SICR is no longer observed, the instrument will move back to stage 1.
- Lifetime ECL are always recognized for credit-impaired financial instruments, referred to as instruments in stage 3. The IFRS 9 determination of whether an instrument is credit-impaired is based on the occurrence of one or more loss events, with lifetime ECL generally derived by estimating expected cash flows based on a chosen recovery strategy with additional consideration given to forward-looking economic scenarios. Credit-impaired exposures may include positions for which no loss has occurred or no allowance has been recognized, for example, because they are expected to be fully recoverable through the collateral held.
- Changes in lifetime ECL since initial recognition are also recognized for assets that are purchased or originated credit-impaired financial assets (POCI). POCI are initially recognized at fair value with interest income subsequently being recognized based on a credit-adjusted EIR. POCI include financial instruments that are newly recognized following a substantial restructuring and remain a separate category until maturity.

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

UBS AG does not apply the low-credit-risk practical expedient that allows a lifetime ECL for lease or fee receivables to be recognized irrespective of whether a significant increase in credit risk has occurred. Instead, UBS AG has incorporated lease and fee receivables into the standard ECL calculation.

A write-off is made when all or part of a financial asset is deemed uncollectible or forgiven. Write-offs reduce the principal amount of a claim and are charged against previously established allowances for credit losses. Recoveries, in part or in full, of amounts previously written off are generally credited to *Credit loss expense / recovery*. Write-offs and partial write-offs represent derecognition / partial derecognition events.

ECL are recognized in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortized cost on the balance sheet. For financial assets measured at fair value through OCI, the carrying value is not reduced, but an accumulated amount is recognized in OCI. For off-balance sheet financial instruments and other credit lines, provisions for ECL are reported in *Provisions*. ECL are recognized within the income statement in *Credit loss expense / recovery*.

### *Default and credit impairment*

The definition of default is based on quantitative and qualitative criteria. A counterparty is classified as defaulted at the latest when material payments of interest, principal or fees are overdue for more than 90 days, or more than 180 days for the Personal & Corporate Banking and Swiss wealth management portfolios. Counterparties are also classified as defaulted when bankruptcy, insolvency proceedings or enforced liquidation have commenced, obligations have been restructured on preferential terms or there is other evidence that payment obligations will not be fully met without recourse to collateral. The latter may be the case even if, to date, all contractual payments have been made when due. If a counterparty is defaulted, generally all claims against the counterparty are treated as defaulted.

An instrument is classified as credit-impaired if the counterparty is defaulted, and / or the instrument is POCI. An instrument is POCI if it has been purchased with a material discount to its carrying amount following a risk event of the issuer or originated with a defaulted counterparty. Once a financial asset is classified as defaulted / credit-impaired (except POCIs), it remains as such unless all past due amounts have been rectified, additional payments have been made on time, the

position is not classified as credit-restructured, and there is general evidence of credit recovery. A minimum period of three months is applied whereby most instruments remain in stage 3 for a longer period.

### *Measurement of expected credit losses*

IFRS 9 ECL reflect an unbiased, probability-weighted estimate based on either loss expectations resulting from default events over a maximum 12-month period from the reporting date or over the remaining life of a financial instrument. The method used to calculate individual probability-weighted unbiased ECL is based on a combination of the following principal factors: probability of default (PD), loss given default (LGD) and exposure at default (EAD). PDs and LGDs used in the ECL calculation are point in time (PIT)-based for key portfolios and consider both current conditions and expected cyclical changes. For each instrument or group of instruments, parameter time series are generated consisting of the instruments' PD, LGD and EAD profiles considering the respective period of exposure to credit risk.

For the purpose of determining the ECL-relevant parameters, UBS AG leverages its Pillar 1 internal ratings-based (IRB) models that are also used in determining expected loss (EL) and risk-weighted assets under the Basel III framework and Pillar 2 stress loss models. Adjustments have been made to these models and new IFRS 9-related models have been developed, which consider the complexity, structure and risk profile of relevant portfolios and take account of the fact that PDs and LGDs used in the ECL calculation are PIT-based as opposed to the corresponding Basel III through the cycle (TTC) parameters. The assignment of internal counterparty rating grades and the determination of default probabilities for the purposes of Basel III are not affected by the IFRS 9 ECL calculation.

*Probability of default (PD)*: The PD represents the likelihood of a default over a specified time period. A 12-month PD represents the likelihood of default determined for the next 12 months and a lifetime PD represents the probability of default over the remaining lifetime of the instrument. The lifetime PD calculation is based on a series of 12-month PIT PDs that are derived from TTC PDs and scenario forecasts. This modeling is region-, industry- and client segment-specific and considers both scenario-systematic and client-idiosyncratic information. To derive the cumulative lifetime PD per scenario, the series of 12-month PIT PDs are transformed into marginal PIT PDs taking any assumed default events from previous periods into account.

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)**

*Exposure at default (EAD):* The EAD represents an estimate of the exposure to credit risk at the time of a potential default occurring during the life of a financial instrument. It represents the cash flows outstanding at the time of default, considering expected repayments, interest payments and accruals, discounted at the EIR. Future drawdowns on facilities are considered through a credit conversion factor (CCF) that is reflective of historical drawdown and default patterns and the characteristics of the respective portfolios. IFRS 9-specific CCFs have been modeled to capture client segment- and product-specific patterns after removing Basel standard-specific limitations, i.e., conservatism and focus on a 12-month period prior to default.

*Loss given default (LGD):* The LGD represents an estimate of the loss at the time of a potential default occurring during the life of a financial instrument. The determination of the LGD takes into account expected future cash flows from collateral and other credit enhancements, or expected payouts from bankruptcy proceedings for unsecured claims and, where applicable, time to realization of collateral and the seniority of claims. The LGD is commonly expressed as a percentage of the EAD.

PD and LGD are determined for four different scenarios whereas EAD projections are treated as scenario independent.

Parameters are generally determined on an individual financial asset level. For credit card exposures in Switzerland, personal account overdrafts and certain loans to financial advisors, a portfolio approach is applied that derives an average PD and LGD for the entire portfolio.

*Scenarios and scenario weights*

The determination of the probability-weighted ECL requires evaluating a range of diverse and relevant future economic conditions.

To accommodate this requirement, UBS AG uses four different economic scenarios in the ECL calculation: an upside, a baseline, a mild downside and a severe downside scenario. Each scenario is represented by a specific scenario narrative, which is relevant considering the exposure of key portfolios to economic risks, and for which a set of consistent macroeconomic variables is determined. Those variables range from above-trend economic

growth to severe recession. A weight is computed for each scenario by using a probabilistic econometric model that considers recent information as well as several decades of historical data. The determined weights constitute the probabilities that the respective set of macroeconomic conditions will occur. The scenarios, including the narratives, the macroeconomic and financial variables and the scenario weights, are further discussed, challenged and potentially refined by a team of UBS-AG internal experts. The baseline scenario is aligned to the economic and market assumptions used for UBS AG business planning purposes.

*Macroeconomic and other factors*

The range of macroeconomic, market and other factors that is modeled as part of the scenario determination is wide, and historical information is used to support the identification of the key factors. As the forecast horizon increases, the availability of information decreases and judgment increases. For cycle-sensitive PD and LGD determination purposes, UBS AG projects the relevant economic factors for a period of three years before reverting, over a specified period, to a cycle-neutral PD and LGD for longer-term projections.

Factors relevant for the ECL calculation vary by type of exposure and are determined during the credit cycle index model development process in close alignment with practitioner judgment. Certain variables may only be relevant for specific types of exposures, such as house price indices for mortgage loans, while other variables have key relevance in the ECL calculation for all exposures. Regional and client segment characteristics are generally taken into account, with specific focus on Switzerland and the US considering UBS AG's key ECL-relevant portfolios.

For UBS AG, the following forward-looking macroeconomic variables represent the most relevant factors in the ECL calculation:

- GDP growth rates
- House price indices
- Unemployment rates
- Interest rates, specifically LIBOR and government bond yields
- Equity indices
- Consumer price indices

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

The forward-looking macroeconomic assumptions used in the ECL calculation are developed by UBS AG economists, risk methodology personnel and credit risk officers. Assumptions and scenarios are validated and approved through a scenario committee and an operating committee, which also aim to ensure a consistent use of forward-looking information throughout UBS AG, including in the business planning process. ECL inputs are tested and reassessed for appropriateness at least each quarter and appropriate adjustments are made when needed.

### *ECL measurement period*

The period for which lifetime ECL are determined is based on the maximum contractual period that UBS AG is exposed to credit risk, taking into account contractual extension, termination and prepayment options. For irrevocable loan commitments and financial guarantee contracts, the measurement period represents the maximum contractual period for which UBS AG has an obligation to extend credit.

Additionally, some financial instruments include both an on-demand loan and a revocable undrawn commitment where the contractual cancellation right does not limit UBS AG's exposure to credit risk to the contractual notice period as the client has the ability to draw down funds before UBS AG can take risk mitigating actions. In such cases, UBS AG is required to estimate the period over which it is exposed to credit risk. This applies to UBS AG's credit card limits, which do not have a defined contractual maturity date, are callable on demand and where the drawn and undrawn components are managed as one unit. The exposure arising from UBS AG's credit card limits is not significant and is managed at a portfolio level, with credit actions triggered when balances are past due. An ECL measurement period of seven years is applied for credit card limits, capped at 12 months for stage 1 balances, as a proxy for the period that UBS AG is exposed to credit risk. Customary master credit agreements in the Swiss corporate market also include on-demand loans and revocable undrawn commitments. For smaller commercial facilities, a risk-based monitoring (RbM) approach is in place that highlights negative trends as risk events, at an individual facility level, based on a combination of continuously updated risk indicators. The risk events trigger additional credit reviews by a Risk Officer, allowing for informed credit decisions to be taken. Larger corporate facilities are not subject to RbM, but are reviewed at least annually through a formal credit review. UBS AG has assessed these credit risk management practices and considers both the RbM approach and formal credit review as a substantive credit review providing for a re-origination of the facility. Following this, a 12-month measurement period is used for both types of facilities as an appropriate proxy of the period over which UBS AG is exposed to credit risk, with 12 months also used as a look back period for assessing SICR.

### *Significant increase in credit risk*

Financial instruments subject to ECL are monitored on an ongoing basis. To determine whether the recognition of a 12-month ECL continues to be appropriate, it is assessed whether an SICR has occurred since initial recognition of the financial instrument. The assessment criteria include both quantitative and qualitative factors.

Primarily, UBS AG assesses changes in an instrument's risk of default on a quantitative basis by comparing the annualized forward-looking and scenario-weighted lifetime PD of an instrument determined at two different dates:

- at the reporting date and
- at inception of the instrument.

In both cases, the respective PDs are determined for the residual lifetime of the instrument, i.e., the period between the reporting date and maturity. If, based on UBS AG's quantitative modeling, an increase exceeds a set threshold, an SICR is deemed to have occurred and the instrument is transferred to stage 2 with lifetime ECL being recognized.

The threshold applied varies depending on the original credit quality of the borrower. For instruments with lower default probabilities at inception due to good credit quality of the counterparty, the SICR threshold is set at a higher level than for instruments with higher default probabilities at inception. This implies that for instruments with initially lower default probabilities a relatively higher deterioration in credit quality is needed to trigger an SICR than for those instruments with originally higher PDs. The SICR assessment based on PD changes is made at an individual financial asset level. A high-level overview of the SICR trigger, expressed in rating downgrades, together with the corresponding ratings at origination of an instrument is provided in the "SICR thresholds" table below. This simplified view is aligned to internal ratings as disclosed in the internal ratings table presented in "Credit risk" in the "Risk management and control" section of the Annual Report 2017. The actual SICR thresholds applied are defined on a more granular level interpolating between the values shown in the table.

### **SICR thresholds**

<b>Internal rating at origination of the instrument</b>	<b>Rating downgrades / SICR trigger</b>
0–3	3
4–8	2
9–13	1

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)**

Irrespective of the SICR assessment based on default probabilities, credit risk is generally deemed to have significantly increased for an instrument if the borrower becomes more than 30 days past due on his contractual payments. This presumption is rebutted only where reasonable and supportable information is available that demonstrates that UBS AG is not exposed to an SICR even if contractual payments become more than 30 days past due.

For certain less material portfolios, specifically the Swiss credit card portfolio and the recruitment and retention loans to financial advisors within Global Wealth Management, the 30 days past due criterion is used as the primary indicator of an SICR. Where instruments are transferred to stage 2 due to the 30 days past due criterion, a minimum period of six months is applied before a transfer back to stage 1 can be triggered. For instruments in Personal & Corporate Banking that are between 90 and 180 days past due, a one-year period is applied before a transfer back to stage 1 can be triggered.

Additionally, based on individual counterparty-specific indicators, external market indicators of credit risk or general economic conditions, counterparties may be moved to a watch list, which is used as a secondary qualitative indicator for an SICR and hence for a transfer to stage 2. Exception management is further applied, allowing for individual and collective adjustments on exposures sharing the same credit risk characteristics to take account of specific situations that are not otherwise fully reflected. Instruments for which an SICR since initial recognition is determined based on criteria other than changed default probabilities remain in stage 2 for at least six months post resolution of the stage 2 trigger event.

The overall SICR determination process does not apply to Lombard loans, securities financing transactions and certain other asset-based lending transactions due to the risk management practices adopted, including daily monitoring processes with strict remargining requirements. If margin calls are not satisfied, a position is closed out and classified as a stage 3 position. ECL on these positions are not material.

**Critical accounting estimates and judgments**

The calculation of ECL requires management to apply significant judgment and make estimates and assumptions that involve significant uncertainty at the time they are made. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognized.

*Determination of a significant increase of credit risk*

IFRS 9 does not include a definition of what constitutes an SICR. UBS AG assesses whether an SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable forward-looking information that includes significant management judgment. More stringent criteria could significantly increase the number of instruments migrating to stage 2. An IFRS 9 Operating Committee has been established to review and challenge the SICR approach and any potential changes and determinations made in the quarter.

*Scenarios, scenario weights and macroeconomic factors*

ECL reflect an unbiased and probability-weighted amount, which UBS AG determines by evaluating a range of possible outcomes. Management selects forward-looking scenarios and judges the suitability of respective weights to be applied. Each of the scenarios is based on management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables for the forecast horizon would have a significant effect on the ECL. An IFRS 9 Scenario Committee, in addition to the Operating Committee, has been established to derive, review and challenge the selection and weights.

*ECL measurement period*

Lifetime ECL are generally determined based upon the contractual maturity of the transaction, which significantly affects ECL. The ECL calculation is therefore sensitive to any extension of contractual maturities triggered by business decisions, consumer behaviors and an increased number of stage 2 positions. In addition, for credit card limits and Swiss callable master credit facilities, judgment is required as UBS AG must determine the period over which it is exposed to credit risk. A seven-year period has been applied for credit card limits, capped at 12 months for stage 1 positions, and a 12-month period has been applied for master credit facilities.

*Modeling and management adjustments*

A number of complex models have been developed or modified to calculate ECL, with additional management adjustments required. Internal counterparty rating changes, new or revised models and data may significantly affect ECL. The models are governed by UBS AG's model validation controls, which aim to ensure independent verification, and are approved by the Group Model Governance Board (GMGB). The management adjustments are approved by the IFRS 9 Operating Committee and endorsed by the GMGB.



## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

### *h. Restructured and modified financial assets*

When a counterparty is in financial difficulties or where default has already occurred, UBS AG may restructure financial assets by providing concessions that would otherwise not be considered and that are outside of UBS AG's normal risk appetite, such as preferential interest rates, extension of maturity and subordination. When a credit restructuring takes place, each case is considered individually and the counterparty is generally classified as defaulted until the loan is collected or written off, non-preferential conditions are granted that supersede the preferential conditions, or until the counterparty has recovered and the preferential conditions no longer exceed UBS AG's risk appetite.

Concessions granted when there is no evidence of financial difficulties, or where changes to terms and conditions are within UBS AG's usual risk appetite, are not considered to be a credit restructuring.

Modifications represent contract amendments that result in an alteration of future contractual cash flows and that can occur within UBS AG's normal risk appetite or as part of a credit restructuring where a counterparty is in financial difficulties.

A restructuring or modification of a financial asset could lead to a substantial change in the terms and conditions, resulting in the original financial asset being derecognized and a new financial asset being recognized. Where the modification does not result in a derecognition, any difference between the modified contractual cash flows discounted at the original EIR and the existing gross carrying value of a financial asset is recognized in profit or loss as a modification gain or loss. Further, the subsequent SICR assessment is made by comparing the risk of default at the reporting date based on the modified contractual terms of the financial asset with the risk of default at initial recognition based on the original, unmodified contractual terms of the financial asset.

### *o. Loan commitments*

Loan commitments are arrangements under which clients can borrow stipulated amounts under defined terms and conditions.

Loan commitments that can be canceled at any time by UBS AG at its discretion are neither recognized on the balance sheet nor included in off-balance sheet disclosures.

Loan commitments that cannot be canceled by UBS AG once the commitments are communicated to the beneficiary or that are revocable only due to automatic cancellation upon deterioration in a borrower's creditworthiness are considered irrevocable and are classified as (i) derivative loan commitments measured at fair value through profit or loss, (ii) loan commitments designated at fair value through profit or loss or (iii) other loan commitments.

UBS AG recognizes ECL on non-cancelable other loan commitments. In addition, UBS AG also recognizes ECL on loan commitments that can be canceled at any time if UBS AG is exposed to credit risk (refer to item g in this Note). Corresponding ECL are presented within *Provisions* on the UBS AG's balance sheet. ECL relating to these other loan commitments is recorded in the income statement in *Credit loss expense / recovery*.

When a client draws on a commitment, the resulting loan is presented within (i) *Financial assets at fair value held for trading*, consistent with the associated derivative loan commitment, (ii) *Financial assets at fair value not held for trading*, following loan commitments designated at fair value through profit or loss or (iii) *Loans and advances to customers*, when the associated loan commitment is not fair valued through profit or loss.

### *p. Financial guarantee contracts*

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for an incurred loss because a specified debtor fails to make payments when due in accordance with the terms of a specified debt instrument. UBS AG issues such financial guarantees to banks, financial institutions and other parties on behalf of clients to secure loans, overdrafts and other banking facilities.

Certain issued financial guarantees that are managed on a fair value basis are designated at fair value through profit or loss. Financial guarantees that are not managed on a fair value basis are initially recognized in the financial statements at fair value and are subsequently measured at the higher of:

- the amount of ECL (refer to item g in this Note) and
- the amount initially recognized less the cumulative amount of income recognized as of the reporting date.

ECL resulting from guarantees is recorded in the income statement in *Credit loss expense / recovery*.

### *q. Other net income from fair value changes of financial instruments*

The line item *Other net income from fair value changes of financial instruments* substantially includes fair value gains and losses on financial instruments at fair value through profit or loss, as well as the effects at derecognition, trading gains and losses and intermediation income arising from certain client-driven Global Wealth Management and Personal & Corporate Banking financial transactions. In addition, foreign currency translation effects and income and expenses from precious metals are presented under this income statement line item.

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)****19.2 Adoption of IFRS 9****19.2.1 Governance**

The implementation of IFRS 9 has been a key strategic initiative for UBS implemented under the joint sponsorship of the Group Chief Financial Officer and the Group Chief Risk Officer. The incorporation of forward-looking information into the ECL calculation and the definition and assessment of what constitutes a significant increase in credit risk (SICR) are inherently subjective and involve the use of significant expert judgment. Therefore, UBS AG has developed a front-to-back governance framework over the ECL calculation process jointly owned by the Group Chief Financial Officer and the Group Chief Risk Officer and has designed controls to be in compliance with the requirements of the Sarbanes-Oxley Act. UBS AG has efficient credit risk management processes in place that continue to be applicable and aim to ensure the effects of economic developments are appropriately considered, mitigation actions are taken where required and risk appetite is reassessed and adjusted as needed.

→ Refer to the “Risk management and control” section of the Annual Report 2017 for more information

**19.2.2 Retrospective amendments to UBS AG balance sheet presentation**

Although the effect of IFRS 9 classification and measurement changes has been applied prospectively, UBS AG has made a series of changes to the presentation of its IFRS balance sheet to facilitate comparability and prior-period information is presented for periods ending before 1 January 2018 in this revised structure. The primary changes include:

- IAS 39-specific asset categories, such as “Financial assets held to maturity” and “Financial assets available for sale,” have been superseded by the new categories “Financial assets measured at amortized cost” and “Financial assets measured at fair value through other comprehensive income.”
- A new line, *Financial assets at fair value not held for trading*, has been created to accommodate in particular financial assets previously designated at fair value, all of which are mandatorily classified at fair value through profit or loss under IFRS 9.
- *Other assets* and *Other liabilities* have been split between measured at amortized cost, measured at fair value through profit or loss and other non-financial assets and liabilities.
- *Cash collateral on securities borrowed* and *Reverse repurchase agreements* have been combined into a single line, *Receivables from securities financing transactions*. Similarly, *Cash collateral on securities lent* and *Repurchase agreements* have been combined into a single line, *Payables from securities financing transactions*.
- Finance lease receivables, previously presented within *Loans*, are now presented within *Other financial assets measured at amortized cost*.
- Precious metal positions previously presented in *Trading portfolio assets* are now presented within the new line *Other non-financial assets*.
- *Financial liabilities designated at fair value* have been split into two lines: *Debt issued designated at fair value* and *Other financial liabilities designated at fair value*.
- Obligations of UBS AG from funding received from UBS Group AG or its subsidiaries, previously included within *Due to customers*, are now presented separately within *Funding from UBS Group AG and its subsidiaries*.

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

The table below illustrates the new balance sheet presentation of assets and liabilities as of 31 December 2017 in comparison with the presentation in the Annual Report 2017. The presentation of the components of equity has not changed, and therefore, for illustration purposes, total liabilities and equity

are presented in a single line in the table. The table does not reflect any of the effects of adopting the classification and measurement requirements of IFRS 9, which are presented in section 19.2.3 under *Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9*.

### Retrospective amendments to UBS AG's balance sheet presentation as of 31 December 2017

CHF million		31.12.17	31.12.17
	References	Former presentation	Revised presentation
<b>Assets</b>			
Cash and balances at central banks		87,775	87,775
Loans and advances to banks (formerly: Due from banks)		13,693	13,693
Receivables from securities financing transactions (new line)	1		89,633
Cash collateral on securities borrowed (newly included in Receivables from securities financing transactions)	1	12,393	
Reverse repurchase agreements (newly included in Receivables from securities financing transactions)	1	77,240	
Cash collateral receivables on derivative instruments		23,434	23,434
Loans and advances to customers (formerly: Loans)	2	321,718	320,659
Financial assets held to maturity (superseded)	3	9,166	
Other financial assets measured at amortized cost (new line)	2,3,7		36,935
<b>Total financial assets measured at amortized cost</b>			<b>572,129</b>
Financial assets at fair value held for trading (formerly: Trading portfolio assets)	4	130,807	126,244
<i>of which: assets pledged as collateral that may be sold or repledged by counterparties</i>		<i>35,363</i>	<i>35,363</i>
Derivative financial instruments (formerly: Positive replacement values)		118,229	118,229
Brokerage receivables (new line, formerly included within Other assets)		n/a	n/a
Financial assets at fair value not held for trading (new line)	5		58,556
Financial assets designated at fair value	5	58,556	
<b>Total financial assets measured at fair value through profit or loss</b>			<b>303,028</b>
Financial assets available for sale (superseded)	6	8,665	
<b>Financial assets measured at fair value through other comprehensive income (new line)</b>	<b>6</b>		<b>8,665</b>
Investments in associates		1,018	1,018
Property, equipment and software		7,985	7,985
Goodwill and intangible assets		6,398	6,398
Deferred tax assets		9,783	9,783
Other non-financial assets (new line)	4,7		7,358
Other assets (superseded)	7	29,505	
<b>Total assets</b>		<b>916,363</b>	<b>916,363</b>
<b>Liabilities</b>			
Amounts due to banks		7,533	7,533
Payables from securities financing transactions (new line)	8		17,044
Cash collateral on securities lent (newly included in Payables from securities financing transactions)	8	1,789	
Repurchase agreements (newly included in Payables from securities financing transactions)	8	15,255	
Cash collateral payables on derivative instruments		30,247	30,247
Customer deposits (formerly: Due to customers)	9	447,141	412,392
Funding from UBS Group AG and its subsidiaries (new line, formerly included within Due to customers)	9		34,749
Debt issued measured at amortized cost		104,749	104,749
Other financial liabilities measured at amortized cost (new line)	11		37,133
<b>Total financial liabilities measured at amortized cost</b>			<b>643,847</b>
Financial liabilities at fair value held for trading (formerly: Trading portfolio liabilities)		30,463	30,463
Derivative financial instruments (formerly: Negative replacement values)		116,134	116,134
Brokerage payables designated at fair value (new line, formerly included within Other liabilities)		n/a	n/a
Financial liabilities designated at fair value (superseded)	10	54,202	
Debt issued designated at fair value (new line)	10		49,502
Other financial liabilities designated at fair value (new line)	10,11		16,223
<b>Total financial liabilities measured at fair value through profit or loss</b>			<b>212,323</b>
Provisions		3,084	3,084
Other non-financial liabilities (new line)	11		6,335
Other liabilities (superseded)	11	54,990	
<b>Total liabilities</b>		<b>865,588</b>	<b>865,588</b>
<b>Total liabilities and equity</b>		<b>916,363</b>	<b>916,363</b>

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)***Explanatory footnotes to the table "Retrospective amendments to UBS AG balance sheet presentation"*

Table ref.	Description of presentation changes applied retrospectively to the balance sheet as of 31 December 2017
<b>Balance sheet assets</b>	
1	Cash collateral on securities borrowed of CHF 12,393 million and reverse repurchase agreements of CHF 77,240 million as of 31 December 2017 are now presented as a total of CHF 89,633 within a single line, <i>Receivables from securities financing transactions</i> .
2	Finance lease receivables of CHF 1,059 million as of 31 December 2017, previously presented within <i>Loans</i> , are now presented within <i>Other financial assets measured at amortized cost</i> .
3	<i>Financial assets held to maturity</i> measured at amortized cost of CHF 9,166 million as of 31 December 2017 are now presented within <i>Other financial assets measured at amortized cost</i> .
4	Precious metal positions of CHF 4,563 million as of 31 December 2017, previously presented in <i>Trading portfolio assets</i> , are now presented within <i>Other non-financial assets</i> .
5	Financial assets designated at fair value through profit or loss of CHF 58,556 million as of 31 December 2017, previously presented in a separate line, are now presented within <i>Financial assets at fair value not held for trading</i> .
6	Debt and equity instruments of CHF 8,665 million as of 31 December 2017, previously presented in <i>Financial assets available for sale</i> , are now presented within <i>Financial assets measured at fair value through other comprehensive income</i> .
7	The reporting line <i>Other assets</i> has been split into two new reporting lines, <i>Other financial assets measured at amortized cost</i> and <i>Other non-financial assets</i> . <ul style="list-style-type: none"> <li>– Assets of CHF 29,505 million as of 31 December 2017, previously presented within <i>Other assets</i>, are now presented within <i>Other assets measured at amortized cost</i> (CHF 26,710 million) and <i>Other non-financial assets</i> (CHF 2,795 million).</li> <li>– Financial assets now presented within <i>Other financial assets measured at amortized cost</i> include brokerage receivables of CHF 19,080 million, debt securities of CHF 9,166 million, loans to financial advisors of CHF 3,118 million and other assets amounting to CHF 5,571 million. Refer to Note 11 a) for more information.</li> <li>– Refer to Note 11 b) for more information on assets now presented within <i>Other non-financial assets</i>.</li> </ul>
<b>Balance sheet liabilities</b>	
8	Cash collateral on securities lent of CHF 1,789 million and repurchase agreements of CHF 15,255 million as of 31 December 2017 are now presented within a single line, <i>Payables from securities financing transactions</i> .
9	Obligations of UBS AG from funding received from UBS Group AG or its subsidiaries of CHF 34,749 million as of 31 December 2017, which were previously included within <i>Due to customers</i> , are now presented separately within <i>Funding from UBS Group AG and its subsidiaries</i> .
10	Financial liabilities designated at fair value through profit or loss of CHF 54,202 million as of 31 December 2017 are now presented within <i>Debt issued designated at fair value</i> (CHF 49,502 million) and <i>Other financial liabilities designated at fair value</i> (CHF 4,700 million).
11	The reporting line <i>Other liabilities</i> has been split into three new reporting lines, <i>Other financial liabilities measured at amortized cost</i> , <i>Other financial liabilities designated at fair value</i> and <i>Other non-financial liabilities</i> . <ul style="list-style-type: none"> <li>– Liabilities amounting to CHF 54,990 million as of 31 December 2017, previously presented within <i>Other liabilities</i>, are now presented within <i>Other financial liabilities measured at amortized cost</i> (CHF 37,133 million, thereof CHF 29,646 million brokerage payables), within <i>Other financial liabilities designated at fair value</i> (amounts due under unit-linked investment contracts of CHF 11,523 million) and within <i>Other non-financial liabilities</i> (CHF 6,335 million).</li> <li>– Refer to note 11 c) for more information on financial liabilities now presented within <i>Other financial liabilities measured at amortized cost</i>.</li> <li>– Refer to note 11 d) for more information on financial liabilities now presented within <i>Other financial liabilities designated at fair value</i>.</li> <li>– Refer to note 11 e) for more information on liabilities now presented within <i>Other non-financial liabilities</i>.</li> </ul>

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

### 19.2.3 Transition to IFRS 9 as of 1 January 2018

#### *Transition to Classification and measurement requirements*

As set out in the amended accounting policies in section 19.1, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be classified at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit or loss (FVTPL), based on the business model for managing the respective assets and their contractual cash flow characteristics.

Changes resulting from the application of IFRS 9 classification and measurement requirements as of 1 January 2018 have been applied as follows:

- Determination of the business model was made based on facts and circumstances as of the 1 January 2018 transition date;
- De-designations and new designations of financial instruments at FVTPL, pursuant to transition requirements of IFRS 9, have been carried out as of 1 January 2018. These reassessments resulted in:
  - i. the de-designation of certain financial assets designated at FVTPL, as they are managed on a fair value basis, and therefore are mandatorily measured at fair value, or no longer managed on a fair value basis but held to collect the contractual cash flows and therefore are measured at amortized cost;
  - ii. newly designated financial liabilities at FVTPL (e.g., brokerage payables) in order to achieve measurement consistency with associated financial assets that are mandatorily measured at FVTPL (e.g., brokerage receivables).

For UBS AG, the most significant IFRS 9 classification and measurement changes on transition to IFRS 9 are as follows:

- financial assets that no longer qualify for amortized cost accounting under IFRS 9 have been classified at FVTPL because their cash flow characteristics do not satisfy the solely payments of principal and interest criteria (e.g., auction rate securities and certain brokerage receivables);

- lending arrangements that no longer qualify for amortized cost accounting under IFRS 9 are classified at FVTPL because the business model within which they are managed does not have an objective to hold financial assets in order to collect the contractual cash flows or to collect contractual cash flows and sell (e.g., certain Investment Bank lending arrangements);
- equity instruments classified as available for sale under IAS 39 are classified at FVTPL under IFRS 9; and
- financial liabilities are newly designated under IFRS 9 at FVTPL, from amortized cost accounting, to align with conclusions reached for associated financial assets that will be measured at FVTPL (e.g., brokerage payables).

#### *Effect on UBS AG income statement presentation*

Upon adoption of IFRS 9, the reclassification of auction rate securities, certain loans in the Investment Bank, certain repurchase agreements and brokerage balances from amortized cost to FVTPL has resulted in the interest income from these instruments moving from Interest income (expense) from financial instruments measured at amortized cost to interest income (expense) from financial instruments measured at fair value through profit or loss. These changes have been applied prospectively from 1 January 2018.

#### *Effect on UBS AG Statement of cash flows*

Following the adoption of IFRS 9, changes have been made to the Statement of cash flows to reflect the changes arising from financial instruments that have been reclassified on the balance sheet. In particular, cash flows from certain financial assets previously measured as available-for-sale assets at fair value through other comprehensive income have been reclassified from investing activities to operating activities as the assets are fair valued through profit or loss effective 1 January 2018.

#### *Transition to expected credit loss requirements*

As set out in UBS AG's amended accounting policies in section 19.1, IFRS 9 introduces a forward-looking ECL approach, which is intended to result in an earlier recognition of credit losses compared with the incurred-loss impairment approach for financial instruments under IAS 39 and the loss-provisioning approach for financial guarantees and loan commitments under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

The majority of ECL calculated as of the transition date relates to the private and commercial mortgage portfolio and corporate lending in Switzerland within Personal & Corporate Banking.

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)***Models at transition*

For the purpose of implementing ECL under IFRS 9, UBS AG has leveraged existing Pillar 1 internal ratings-based (IRB) models that are also used in determining expected loss (EL) and risk-weighted assets under the Basel III framework and Pillar 2 stress loss models.

Existing models have been adapted and 29 new models have been developed for the ECL calculation that consider the complexity, structure and risk profile of relevant portfolios and take account of the fact that PDs and LGDs used in the ECL calculation are PIT-based as opposed to the corresponding Basel III TTC parameters. Management adjustments have also been made. UBS AG has leveraged its existing model risk framework, including the key model validation control executed by Model Risk Management & Control. New and revised models have been approved by UBS's GMGB.

The assignment of internal counterparty rating grades and the determination of default probabilities for the purposes of Basel III remain unchanged.

- Refer to **"Credit risk models" in the "Risk, treasury and capital management" section of our Annual Report 2017 for more information**
- Refer to **"Significant accounting and financial reporting changes in 2018" in the "Operating environment and strategy" section of our Annual Report 2017 for more information**

*Scenarios and scenario weights at transition*

As outlined in section 19.1, UBS AG uses four different economic scenarios in the ECL calculation: an upside, a baseline, a mild downside and a severe downside scenario. ECL calculated on transition have been determined for each of the scenarios and subsequently weighted based on the probabilities in the table "Economic scenarios and weights applied."

**Economic scenarios and weights applied**

ECL scenario	Assigned weights in % (1.1.18)
Upside	20.0
Baseline	42.5
Mild downside	30.0
Severe downside	7.5

UBS AG has established IFRS 9 ECL Scenario and Operating Committees to propose and approve the selection of the scenarios and weights to be applied and to monitor whether appropriate governance exists.

Macroeconomic and other factors: For each of the economic scenarios, UBS AG forecasts a wide range of forward-looking macroeconomic, market and other factors. Historical information was used to support the identification of the key factors and to project their development under the different scenarios. As the forecast horizon increases, the availability of information decreases and judgment increases. For cycle-sensitive PD and LGD determination purposes, UBS AG projected those factors for a period of three years before reverting, over a specified period, to a cycle-neutral PD and LGD for longer-term projections.

Factors relevant for the ECL calculation vary by type of exposure and are determined during the credit cycle index model development process in close alignment with practitioner judgment. Regional and client segment characteristics are generally taken into account, with specific focus on Switzerland and the US considering UBS AG's key ECL-relevant portfolios.

The following represent the most significant macroeconomic factors for UBS AG and could substantially change the estimated ECL:

- GDP growth rates, given their significant effect on borrowers' performance
- House price indices, given their significant effect on mortgage collateral valuations
- Unemployment rates, given their significant effect on private clients' ability to meet contractual obligations
- Interest rates, given their significant effect on the counterparties' abilities to service their debt
- Equity indices, given their relevance for equity collateral valuation
- Consumer price indices, given their overall relevance for companies' performance, private clients' purchasing power and economic stability.

*Macroeconomic and other factors at transition*

Assumptions around the most important forward-looking economic factors for Switzerland, the US and other regions as applied in each of the economic scenarios to determine ECL at the date of transition can be summarized as follows:

In the upside scenario, which assumes GDP growth rising above trend in most countries with only a moderate rise in inflation and ongoing accommodative monetary policies, GDP growth in Switzerland peaks at around 5% annually. Strong growth leads to a decline in unemployment to very low levels (below 1%) by 2020. Asset prices grow at robust pace, with equity prices increasing by approximately 10% annually and house prices (single-family homes) rising by approximately 4% annually. Policy and short-term interest rates remain low over the entire scenario, while government bond yields experience a sustained increase.

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

In the US and the rest of the world, the scenario shows broadly similar features, with growth accelerating in Year 1 before steadily returning toward trend by Year 3. Specifically in the US, GDP growth accelerates at a slightly faster pace than in Switzerland, although the US experiences a slightly less substantial improvement in the unemployment rate by Year 3. The degree of policy tightening is marginally greater over the scenario horizon and, as in Switzerland, long-term government bond yields rise more significantly than short-term rates, and to a greater degree.

For the baseline scenario, which is modeled along our business plan assumptions of a continuation of overall important global growth, Swiss GDP growth remains between 1% and 2% annually over the three years of the scenario. Moderate growth results in a very mild increase of unemployment, which stabilizes at around 3.5%. Asset price growth is also moderate, with the Swiss equity price index rising by approximately 8% annually, while house prices grow by less than 1% annually. Policy rates, short-term interest rates and government bond yields increase very gradually over the three years of the scenario by approximately 50 basis points.

GDP growth in the US remains relatively stable, and faster than in Switzerland. Monetary policy tightens at a similar pace to Switzerland and, combined with a modest decline in the unemployment rate, helps to keep inflation in check. US equity prices slightly underperform their Swiss counterparts, while house prices outperform relatively stagnant Swiss house price growth. In the rest of the world, growth remains buoyant, with moderating growth in both Europe and China contrasting with accelerating growth in other emerging markets.

The mild downside scenario is based on a monetary policy tightening assumption, implemented to deflate a potential asset price bubble, causing Swiss GDP to decline by almost 1% in the first year of the scenario. The unemployment rate rises to roughly 5%. Equity prices fall by more than 20% over three years, while house prices decline by 15% over the same period. The fall of the nominal asking rent index is cushioned by higher interest rates, which register a more moderate decline than house prices. Short-term interest rates rise significantly due to monetary tightening, as well as government bond yields.

In this scenario, inflation in the US accelerates rapidly, leading to a sharp rise in short-term interest rates, similar to Switzerland. GDP growth averages a similar pace to Switzerland over three years, while equity and house prices also fall by a

broadly similar degree to their Swiss equivalents. In the rest of the world, growth is also weighed down, particularly in more vulnerable emerging markets such as Russia, Turkey and Brazil, as interest rates and credit spreads rise sharply.

The severe downside scenario is modeled to mimic a severe recession caused by an event affecting Switzerland's competitiveness in key export markets, with Swiss GDP shrinking almost 7% in the first year of the scenario. The severe recession results in a substantial increase in unemployment, which peaks at around 9%. Asset prices plummet, with the Swiss equity index falling more than 55% over three years, and house prices declining 27% over the same period. Policy and short-term interest rates remain low over the entire scenario horizon.

US GDP and unemployment deteriorate by a lesser degree than in Switzerland, and while house and equity prices decline sharply, the effects are also less severe than in Switzerland. With more scope to cut rates than the Swiss National Bank, short-term rates fall in the US. In the rest of the world, growth also slows sharply, particularly in the eurozone and neighboring emerging markets such as Turkey and Russia.

### *ECL measurement period at transition*

As set out in section 19.1, for the majority of ECL-relevant instruments, the contractual maturity is used to calculate the measurement period, with this capped at 12 months when stage 1 ECL are required. In addition, for credit card limits and Swiss callable master credit facilities, judgment is required as UBS AG must determine the period over which it is exposed to credit risk. A seven-year period has been applied for credit cards and 12 months for master credit facilities. UBS AG's ECL-relevant financial instruments have relatively short average maturities, which significantly contribute to the level of ECL on transition.

### *SICR determination at transition*

The identification of instruments for which an SICR has been determined since initial recognition and the corresponding allocation to stage 2 at transition generally follow the principles described in the relevant accounting policy provided in section 19.1. Furthermore, the following principles have been applied:

*General:* In estimating the retrospective lifetime PDs, we have considered the economic conditions over the relevant prior periods and the general significant uncertainty inherent in such approximation to determine the allocation of instruments to stage 2 at transition.

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

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*Real estate financing:* The Basel III rating methodology applied to the majority of income-producing real estate financings within Personal & Corporate Banking, which is leveraged for IFRS 9 ECL calculations, was significantly changed in 2017. As a consequence, there is no comparable rating on origination to determine whether an SICR has arisen over time. As permitted by the IFRS 9 transition requirements, a lifetime ECL allowance has therefore been recognized for certain real estate financing positions and will continue to be recognized until the positions are derecognized.

*Other portfolios, including private mortgages and commercial SME clients:* The Basel III rating models for other key portfolios in Personal & Corporate Banking, in particular for private client mortgages and commercial clients in the small and medium-sized enterprise (SME) segment, have recently been subject to a major redesign. While the methodology remained essentially the same and the calibration to the portfolios' average TTC PD value unchanged, the effect on the stage allocation is significant. This is due to the fact that the introduction of new models has led to a broader and different distribution of borrowers across the

rating spectrum; while there was no material effect on those counterparties with an uplift in their rating, some of those that had a downward shift in their rating triggered the SICR threshold and a reclassification into stage 2 at transition.

The table on the following pages provides a detailed overview of the IFRS 9 transition effects as of 1 January 2018. This includes:

- reclassification of IAS 39 carrying amounts to the new categories applicable under IFRS 9;
- remeasurement of carrying amounts due to reclassification (any remeasurement to fair value and / or reversal of IAS 39 allowances or IAS 37 provisions for assets moving from amortized cost to fair value); and
- recognition of IFRS 9 ECL for in-scope assets, off-balance sheet positions and other credit lines.

The following table also includes the effects recognized for deferred tax assets and therefore the total impact provided in *Retained earnings* in the table is net of tax effects. Explanatory footnotes provided after the table provide additional details on these changes.



## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

### Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9

CHF million	31.12.2017		1.1.2018			Carrying amount (IFRS 9)
	Classification under IAS 39	Carrying amount (IAS 39)	Reclassification (of IAS 39 carrying amounts)	Remeasurement due to reclassification incl. reversal of IAS 39 / IAS 37 allowances / provisions	Recognition of ECL (IFRS 9)	
<b>Assets</b>						
Cash and balances at central banks	Loans and receivables	87,775			0	87,775
Loans and advances to banks	Loans and receivables	13,693	(17)		(3) <sup>12</sup>	13,673
to: Brokerage receivables	Loans and receivables		(17) <sup>1</sup>			
Receivables from securities financing transactions	Loans and receivables	89,633	(4,957)		(2) <sup>12</sup>	84,674
to: Financial assets at fair value not held for trading	Loans and receivables		(4,957) <sup>2</sup>			
Cash collateral receivables on derivative instruments	Loans and receivables	23,434			0	23,434
Loans and advances to customers	Loans and receivables	320,659	(7,822)		(235) <sup>12</sup>	312,602
to: Financial assets at fair value not held for trading	Loans and receivables		(2,678) <sup>3</sup>			
to: Brokerage receivables	Loans and receivables		(4,691) <sup>1</sup>			
to: Financial assets at fair value held for trading	Loans and receivables		(468) <sup>4</sup>			
from: Financial assets at fair value not held for trading	FVTPL (designated)		8 <sup>5</sup>		0	
from: Financial assets at fair value held for trading	FVTPL (held for trading)		6 <sup>5</sup>			
Other financial assets measured at amortized cost	Loans and receivables, held to maturity	36,935	(18,525)		(35) <sup>12</sup>	18,375
to: Brokerage receivables	Loans and receivables		(19,080) <sup>1</sup>			
from: Financial assets measured at fair value through other comprehensive income	Available-for-sale		55 <sup>6</sup>		0	
<b>Total financial assets measured at amortized cost</b>		572,129	(31,321)		0 (275)	540,533
Financial assets at fair value held for trading	FVTPL (held for trading)	126,244	(10,854)		(15)	115,375
to: Loans and advances to customers	FVTPL (held for trading)		(6) <sup>5</sup>			
to: Financial assets at fair value not held for trading	FVTPL (held for trading)		(11,316) <sup>7</sup>			
from: Loans and advances to customers	Loans and receivables		468 <sup>4</sup>		(15) <sup>4</sup>	
of which: assets pledged as collateral that may be sold or repledged by counterparties	FVTPL (held for trading)	35,363				35,363
Derivative financial instruments	FVTPL (derivatives)	118,229				118,229
Brokerage receivables	Loans and receivables		23,787			23,787
from: Loans and advances to banks	Loans and receivables		17 <sup>1</sup>			
from: Loans and advances to customers	Loans and receivables		4,691 <sup>1</sup>			
from: Other financial assets measured at amortized cost	Loans and receivables		19,080 <sup>1</sup>			
Financial assets at fair value not held for trading	FVTPL (designated)	58,556 <sup>9</sup>	20,297		(287)	78,566
to: Loans and advances to customers	FVTPL (designated)		(8) <sup>8</sup>			
from: Financial assets at fair value held for trading	FVTPL (held for trading)		11,316 <sup>7</sup>			
from: Receivables from securities financing transactions	Loans and receivables		4,957 <sup>2</sup>		(1)	
from: Loans and advances to customers	Loans and receivables		2,678 <sup>3</sup>		(286) <sup>3</sup>	
from: Financial assets measured at fair value through other comprehensive income	Available-for-sale		1,356 <sup>8</sup>			
<b>Total financial assets measured at fair value through profit or loss</b>		303,028	33,231		(303)	335,957
Financial assets measured at fair value through other comprehensive income	Available-for-sale	8,665	(1,911)			6,755 <sup>10</sup>
to: Other financial assets measured at amortized cost	Available-for-sale		(555) <sup>6</sup>			
to: Financial assets at fair value not held for trading	Available-for-sale		(1,356) <sup>8</sup>			
Investments in associates		1,018				1,018
Property, equipment and software		7,985				7,985
Goodwill and intangible assets		6,398				6,398
Deferred tax assets		9,783			58 <sup>11</sup> 64 <sup>11</sup>	9,905
Other non-financial assets		7,358				7,358
<b>Total assets</b>		916,363			(245) (211)	915,908

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)****Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9 (continued)**

CHF million	31.12.2017		1.1.2018			Carrying amount (IFRS 9)
	Classification under IAS 39	Carrying amount (IAS 39)	Reclassification (of IAS 39 carrying amounts)	Remeasurement due to reclassification incl. reversal of allowances / provisions	Recognition of ECL (IFRS 9)	
<b>Liabilities</b>						
Amounts due to banks	Amortized cost	7,533				7,533
Payables from securities financing transactions	Amortized cost	17,044	(5,081)			11,963
<i>to: Other financial liabilities designated at fair value</i>	<i>Amortized cost</i>		<i>(5,081)<sup>13</sup></i>			
Cash collateral payables on derivative instruments	Amortized cost	30,247				30,247
Customer deposits	Amortized cost	412,392	(5,268)			407,124
<i>to: Brokerage payables designated at fair value</i>	<i>Amortized cost</i>		<i>(5,268)<sup>14</sup></i>			
Funding from UBS Group AG and its subsidiaries	Amortized cost	34,749				34,749
Debt issued measured at amortized cost	Amortized cost	104,749				104,749
Other financial liabilities measured at amortized cost	Amortized cost	37,133	(29,646)	(4)		7,482
<i>to: Brokerage payables designated at fair value</i>	<i>Amortized cost</i>		<i>(29,646)<sup>14</sup></i>			
<i>Derecognition: deferred fees on other loan commitments</i>	<i>Amortized cost</i>			<i>(4)<sup>4</sup></i>		
<b>Total financial liabilities measured at amortized cost</b>		643,847	(39,996)	(4)		603,848
Financial liabilities at fair value held for trading	FVTPL (held for trading)	30,463				30,463
Derivative financial instruments	FVTPL (derivatives)	116,134		57		116,192
<i>Recognition: Loan commitments</i>	<i>Amortized cost – off-balance sheet</i>			<i>60<sup>4</sup></i>		
<i>Derecognition: Loan commitments</i>	<i>FVTPL (derivatives)</i>			<i>(2)<sup>5</sup></i>		
Brokerage payables designated at fair value	Amortized cost		34,915			34,915
<i>from: Customer deposits</i>	<i>Amortized cost</i>		<i>5,268<sup>14</sup></i>			
<i>from: Other financial liabilities measured at amortized cost</i>	<i>Amortized cost</i>		<i>29,646<sup>14</sup></i>			
Debt issued designated at fair value	FVTPL (designated)	49,502				49,502
Other financial liabilities designated at fair value	FVTPL (designated)	16,223	5,081	(5)		21,300
<i>from: Payables from securities financing transactions</i>	<i>Amortized cost</i>		<i>5,081<sup>13</sup></i>	<i>(5)<sup>13</sup></i>		
<b>Total financial liabilities measured at fair value through profit or loss</b>		212,323	39,996	53		252,371
Provisions		3,084			74 <sup>12</sup>	3,158
Other non-financial liabilities		6,335				6,335
<b>Total liabilities</b>		865,588		49	74	865,711
<b>Equity</b>						
Share capital		386				386
Share premium		26,966				26,966
Retained earnings		29,102	72 <sup>8,15</sup>	(293)	(284)	28,597
Other comprehensive income recognized directly in equity, net of tax		(5,736)	(72) <sup>8,15</sup>			(5,808)
<b>Equity attributable to shareholders</b>		50,718	0	(293) <sup>15</sup>	(284) <sup>15</sup>	50,141
Equity attributable to non-controlling interests		57				57
<b>Total equity</b>		50,775	0	(293)	(284)	50,198
<b>Total liabilities and equity</b>		916,363	0	(245)	(211)	915,908

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

Explanatory footnotes to the table "Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9"

Table ref.	Description of classification or remeasurement changes on adoption of IFRS 9 as of 1 January 2018
1	Certain customer and prime brokerage receivable balances, in the Investment Bank and Global Wealth Management, fail the solely payments of principal and interest (SPPI) criteria for measurement at amortized cost. These include CHF 4,691 million previously included within <i>Loans and advances to customers</i> , CHF 17 million from <i>Loans and advances to banks</i> and CHF 19,080 million previously included within <i>Other financial assets measured at amortized cost</i> . The receivables are managed under a business model whose objective is to hold the assets to collect contractual cash flows. However, the reported receivables represent an aggregation of cash receivable and payable balances that form a single unit of account at the client level and generate a return that does not constitute consideration for the time value of money, credit risk and other basic lending risks. The SPPI criterion is therefore not met and under IFRS 9 the receivables are mandatorily measured at FVTPL and separately presented as <i>Brokerage receivables</i> . There was no difference between the amortized cost carrying amount and the fair value as of 1 January 2018 and therefore no remeasurement gain or loss has been recognized.
2	Based on the business model assessment under IFRS 9, certain reverse repurchase agreements with a carrying amount of CHF 4,957 million as of 31 December 2017 were determined to be managed on a fair value basis and were therefore reclassified from amortized cost to FVTPL measurement under IFRS 9. The carrying value has been reclassified from <i>Receivables from securities financing transactions</i> to <i>Financial assets at fair value not held for trading</i> as of 1 January 2018. A remeasurement loss of CHF 1 million has been recorded in <i>Retained earnings</i> . CHF 11,490 million of forward starting reverse repurchase agreements are newly accounted for as derivatives, prior to settlement, from 1 January 2018 as they are managed on a fair value basis. The fair value of the derivatives as of 1 January 2018 was immaterial.
3	Certain positions previously included within <i>Loans and advances to customers</i> with a carrying amount of CHF 2,678 million as of 31 December 2017 were reclassified to <i>Financial assets at fair value not held for trading</i> upon adoption of IFRS 9. This includes: <ul style="list-style-type: none"> <li>– auction rate securities (CHF 2,114 million) that are held in Corporate Center and that contain an embedded leverage feature triggering the failure of the SPPI criteria, and</li> <li>– certain loans in the Investment Bank (CHF 552 million) and in Corporate Center (CHF 12 million), which either fail the SPPI criteria or are held within a business model with an intent to sell or substantially hedge the primary risks.</li> </ul> These assets are mandatorily measured at FVTPL under IFRS 9. A corresponding net remeasurement loss of CHF 286 million was recognized in <i>Retained earnings</i> related to these reclassifications. This remeasurement loss also included reversal of specific credit loss allowances (CHF 11 million).
4	Due to a change in the underlying business model, loans and advances to customers with a carrying amount of CHF 468 million as of 31 December 2017 have been reclassified to <i>Financial assets at fair value held for trading</i> as of 1 January 2018. A corresponding net remeasurement loss of CHF 15 million, which includes the reversal of specific IAS 39 credit loss allowances, was recognized in <i>Retained earnings</i> related to this reclassification. Irrevocable loan commitments that are contractually linked with these financial assets are now recognized as <i>Derivative financial instruments</i> (derivative liabilities) and are measured at FVTPL as of 1 January 2018. This reclassification resulted in a CHF 60 million loss with a corresponding entry to <i>Retained earnings</i> . Liabilities related to deferred fees of CHF 4 million related to these loan commitments recorded as <i>Other financial liabilities measured at amortized cost</i> at 31 December 2017 were derecognized with a corresponding entry to <i>Retained earnings</i> .
5	Financial assets with a carrying amount of CHF 14 million as of 31 December 2017 were reclassified to <i>Loans and advances to customers</i> from <i>Financial assets at fair value not held for trading</i> (CHF 8 million) and from <i>Financial assets at fair value held for trading</i> (CHF 6 million) given management's intent to hold these financial assets to collect contractual cash flows. Loan commitments related to these financial assets, which were recognized as derivative liabilities with a carrying value of CHF 2 million as of 31 December 2017, were accordingly derecognized on 1 January 2018 with a corresponding entry to <i>Retained earnings</i> .
6	Certain debt instruments with a carrying amount of CHF 555 million as of 31 December 2017 were formerly classified as available for sale and measured at FVOCI under IAS 39 but are measured at amortized cost under IFRS 9. Those positions, which are held to collect cash flows solely representing payment of principal and interest, are presented within <i>Other financial assets measured at amortized cost</i> as of 1 January 2018. The fair value of these assets was consistent with the amortized cost value as of 1 January 2018 and no remeasurement gain or loss has been recognized.
7	Upon adopting IFRS 9, UBS AG has elected to refine the assets classified within <i>Financial assets at fair value held for trading</i> to carve out those that are segregated from UBS AG's trading activities, where UBS AG's role is primarily to manage the assets on a fair value basis on behalf of others. Instead, such assets will be presented alongside others managed on a fair value basis within <i>Financial assets at fair value not held for trading</i> . As a consequence of this refinement, UBS AG has reclassified assets held to hedge unit-linked investment contracts of CHF 11,316 million from <i>Financial assets at fair value held for trading</i> to <i>Financial assets at fair value not held for trading</i> as of 1 January 2018. No remeasurement gain or loss has been recognized.

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)**

Table ref.	Description of classification or remeasurement changes on adoption of IFRS 9 as of 1 January 2018 (continued)
8	<p>UBS AG holds certain global and local liquidity buffers that were determined to be managed on a fair value basis as management utilizes fair value information for reporting and decision making purposes. Therefore, assets previously classified as available for sale under IAS 39 with a carrying amount of CHF 620 million as of 31 December 2017 were reclassified to <i>Financial assets at fair value not held for trading</i>. An unrealized gain of CHF 5 million related to these positions was reclassified from <i>Other comprehensive income</i> to <i>Retained earnings</i>.</p> <p>Additionally, equity instruments and investment fund units previously classified as available for sale under IAS 39 with a carrying amount of CHF 736 million as of 31 December 2017 were reclassified to <i>Financial assets at fair value not held for trading</i> under the revised IFRS 9 measurement rules. A related unrealized gain in OCI of CHF 199 million has been reclassified to <i>Retained earnings</i>.</p> <p>Additionally, a net tax expense of CHF 131 million was transferred from OCI to <i>Retained earnings</i> related to the positions above which were reclassified out of the IAS 39 available-for-sale category.</p>
9	<p>Assets previously designated at FVTPL with a carrying amount of CHF 58,556 million as of 31 December 2017 are no longer designated as such under IFRS 9, as it was determined that these assets were either held in a business model that is managed on a fair value basis, did not meet the SPPI criteria, or did meet the SPPI criteria and are held in a hold to collect business model.</p> <p>Of the total, assets with a carrying amount of CHF 58,548 million are now mandatorily measured at FVTPL and included within <i>Financial assets at fair value not held for trading</i>. The remaining assets with a carrying amount of CHF 8 million have been de-designated and were reclassified to <i>Loans and advances to customers</i> given a change in business model to hold to collect (refer to footnote 5).</p>
10	<p>Certain debt instruments with a carrying amount of CHF 6,755 million as of 31 December 2017 were formerly classified as available for sale under IAS 39 and are measured at FVOCI under IFRS 9. These instruments include US government bonds and US government sponsored mortgage-backed securities and other debt that are held in a business model whose objective is achieved by both collecting contractual cash flows and selling, and that meet the SPPI criteria. These positions are now presented within <i>Financial assets measured at fair value through other comprehensive income</i>.</p>
11	<p>Deferred tax assets of CHF 122 million have been recognized in connection with the adoption of IFRS 9. Of the total effect, CHF 64 million relates to the recognition of ECL and CHF 58 million relates to classification and measurement changes upon adoption of IFRS 9.</p>
12	<p>Upon adoption of the ECL requirements of IFRS 9, a transition impact of CHF 348 million was recognized, consisting of CHF 144 million of stage 1 allowances, CHF 188 million of stage 2 allowances and an incremental increase in stage 3 allowances of CHF 16 million. The effect was mainly recognized within <i>Loans and advances to customers</i> (CHF 235 million), with effects also recognized in <i>Other financial assets measured at amortized cost</i> (CHF 35 million), <i>Loans and advances to banks</i> (CHF 3 million), <i>Receivables from securities financing transactions</i> (CHF 2 million) and <i>Provisions</i> (CHF 74 million).</p>
13	<p>Certain repurchase agreements with a carrying amount of CHF 5,081 million as of 31 December 2017 have been designated at FVTPL as they are managed in conjunction with reverse repurchase agreements that are mandatorily measured at FVTPL under IFRS 9. These amounts are included within <i>Other financial liabilities designated at fair value</i> as of 1 January 2018. A remeasurement gain of CHF 5 million has been recognized in <i>Retained earnings</i> as of 1 January 2018 related to this reclassification.</p> <p>CHF 7,730 million of forward starting repurchase agreements are newly accounted for as derivatives, prior to settlement, from 1 January 2018 as they are managed on a fair value basis. The fair value of the derivatives as of 1 January 2018 was immaterial.</p>
14	<p>To achieve measurement consistency with reclassified customer and prime brokerage receivables that are measured at FVTPL following adoption of IFRS 9, certain customer deposits with a carrying amount of CHF 5,268 million and prime brokerage payables with a carrying amount of CHF 29,646 million as of 31 December 2017 have been designated at FVTPL and are presented within <i>Brokerage payables designated at fair value</i> as of 1 January 2018. There was no difference between the amortized cost carrying amount and the fair value as of 1 January 2018 and therefore no remeasurement gain or loss has been recognized.</p>
15	<p>The adoption of IFRS 9 has resulted in a reduction to IFRS consolidated equity as of 1 January 2018 of CHF 577 million.</p> <p>This effect is comprised of classification and measurement changes of CHF 351 million on a pre-tax basis and CHF 293 million net of tax, as well as effects from the implementation of ECL credit loss methodology of CHF 348 million on a pre-tax basis and CHF 284 million net of tax. In addition, CHF 72 million has been reclassified from <i>Other comprehensive income</i> recognized directly in equity, net of tax, to <i>Retained earnings</i> (refer to footnote 8 above), with no overall impact on equity attributable to shareholders.</p>

## Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)

### Reconciliation of allowances and provisions on adoption of IFRS 9 as of 1 January 2018

The table below provides a reconciliation from the IAS 39 allowances / IAS 37 provisions to the IFRS 9 ECL allowances / provisions recognized as of 1 January 2018 upon adoption of IFRS 9.

#### Reconciliation of allowances and provisions on adoption of IFRS 9

CHF million	31.12.2017	1.1.2018		
	Loss allowances and provisions (IAS 39 / IAS 37)	Reversal of allowances (IAS 39)	Recognition of ECL (IFRS 9) <sup>1</sup>	Allowances for ECL / Provisions for ECL (IFRS 9)
<b>On-balance sheet</b>				
Cash and balances at central banks			0	0
Loans and advances to banks	(3)		(3)	(5)
Receivables from securities financing transactions			(2)	(2)
Cash collateral receivables on derivative instruments			0	0
Loans and advances to customers	(658)	26 <sup>2</sup>	(235) <sup>3</sup>	(867)
Other financial assets measured at amortized cost	(101) <sup>4</sup>		(35)	(136)
<b>Total on-balance sheet</b>	<b>(761)</b>	<b>26</b>	<b>(275)</b>	<b>(1,011)</b>
<b>Off-balance sheet financial instruments and other credit lines</b>				
Guarantees	(29)		(8)	(37)
Loan commitments	(4)		(32)	(36)
Other credit lines			(34)	(34)
<b>Total off-balance sheet financial instruments and other credit lines</b>	<b>(33)</b>		<b>(74)</b>	<b>(107)</b>
<b>Total</b>	<b>(794)</b>	<b>26</b>	<b>(348)</b>	<b>(1,117)</b>
<i>of which: Stage 1</i>			<i>(144)</i>	<i>(144)</i>
<i>of which: Stage 2</i>			<i>(188)</i>	<i>(188)</i>
<i>of which: Stage 3</i>			<i>(16)<sup>5</sup></i>	<i>(785)</i>

<sup>1</sup> Includes stage 1 and stage 2 expected credit losses and additional stage 3 expected credit losses. <sup>2</sup> The reversal of CHF 26 million of IAS 39 loss allowances relates to instruments reclassified from amortized cost to fair value through profit or loss on transition to IFRS 9. Refer also to footnotes 3 and 4 to the table "Reclassification and remeasurement of carrying amounts and recognition of ECL upon adoption of IFRS 9." <sup>3</sup> Includes the reversal of collective allowances of CHF 13 million. <sup>4</sup> Includes CHF 82 million related to loans to financial advisors for which an allowance was reported as a direct reduction of the carrying amount as of 31 December 2017. <sup>5</sup> The incremental increase in stage 3 allowances of CHF 16 million arises from additional consideration of forward looking scenarios under IFRS 9.

**Note 19 Transition to IFRS 9 as of 1 January 2018 (continued)***IFRS 9 transition impact on other comprehensive income and retained earnings as of 1 January 2018*

The table below presents the transition effects recognized in OCI and retained earnings upon adoption of IFRS 9.

**IFRS 9 impact on other comprehensive income and retained earnings**

*CHF million*

**Other comprehensive income recognized directly in equity, net of tax**

Reclassification of financial assets (available for sale to fair value through profit or loss) – equity instruments	(199)
Reclassification of financial assets (available for sale to fair value through profit or loss) – debt instruments	(5)
Tax (expense) / benefit	131
<b>Total change in other comprehensive income</b>	<b>(72)</b>

**Retained earnings**

Remeasurement of financial assets (reclassified from amortized cost to fair value through profit or loss)	(303)
Reclassification of financial assets (reclassified from available for sale to fair value through profit or loss)	204
Recognition of ECL for on-balance sheet financial assets	(275)
Remeasurement of financial liabilities (reclassified from amortized cost to designated at fair value through profit or loss)	5
Recognition of derivative loan commitments measured at fair value through profit or loss	(60)
Derecognition of liabilities for deferred fees on other loan commitments	4
Derecognition of derivative loan commitments measured at fair value through profit or loss	2
Recognition of ECL for off-balance sheet positions	(74)
Tax (expense) / benefit	(9)
<b>Total change in retained earnings</b>	<b>(505)</b>
<b>Total change in equity due to the adoption of IFRS 9</b>	<b>(577)</b>

# UBS AG standalone financial information

Unaudited

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# UBS AG standalone financial information

## Income statement

CHF million	For the quarter ended			Year-to-date	
	30.6.18	31.3.18	30.6.17 <sup>1</sup>	30.6.18	30.6.17 <sup>1</sup>
Interest and discount income	1,510	1,491	1,329	3,001	2,585
Interest and dividend income from trading portfolio	766	657	639	1,423	1,159
Interest and dividend income from financial investments	99	78	55	177	106
Interest expense	(2,770)	(1,748)	(1,860)	(4,517)	(3,230)
Gross interest income	(396)	479	163	83	620
Credit loss (expense) / recovery	(14)	(10)	(17)	(24)	(23)
Net interest income	(410)	469	147	60	597
Fee and commission income from securities and investment business and other fee and commission income	633	718	614	1,351	1,209
Credit-related fees and commissions	40	42	51	82	109
Fee and commission expense	(233)	(223)	(226)	(456)	(433)
Net fee and commission income	440	538	439	977	885
Net trading income	1,755	1,025	1,171	2,780	1,937
Net income from disposal of financial investments	2	2	25	4	31
Dividend income from investments in subsidiaries and other participations <sup>2</sup>	3,057	84	707	3,140	764
Income from real estate holdings	153	159	152	313	273
Sundry ordinary income	475	424	631	899	1,651
Sundry ordinary expenses	(182)	(247)	(93)	(429)	(180)
Other income from ordinary activities	3,506	422	1,422	3,927	2,539
Total operating income	5,291	2,454	3,179	7,745	5,958
Personnel expenses	678	895	909	1,572	2,296
General and administrative expenses	992	1,041	1,102	2,032	2,197
Subtotal operating expenses	1,669	1,935	2,012	3,605	4,493
Impairment of investments in subsidiaries and other participations	115	95	84	210	106
Depreciation, amortization and impairment of property, equipment, software and intangible assets	164	156	157	320	354
Changes in provisions and other allowances and losses	25	(22)	5	3	12
Total operating expenses	1,973	2,165	2,257	4,138	4,965
Operating profit	3,318	289	922	3,607	992
Extraordinary income	(49)	105	183	56	321
<i>of which: reversal of impairments of investments in subsidiaries and other participations</i>	(55)	105	14	50	151
Extraordinary expenses	0	0	0	0	2
Tax expense / (benefit)	1	72	45	73	84
<b>Net profit / (loss) for the period</b>	<b>3,268</b>	<b>321</b>	<b>1,060</b>	<b>3,589</b>	<b>1,228</b>

<sup>1</sup> Comparative amounts presented for the quarter ended 30 June 2017 include the results of shared services functions in the UK, which were transferred from UBS AG to the UK branch of UBS Business Solutions AG in the fourth quarter of 2017. Year-to-date amounts presented for 2017 include the results of shared services functions in Switzerland, the UK and the US, which were substantially transferred to Group service companies in 2017. Refer to Note 2b Changes in accounting policies and / or comparability, Transfers of shared services functions to UBS Business Solutions AG and UBS Business Solutions US LLC of the 2017 UBS AG standalone financial statements under "Holding company and significant regulated subsidiaries and sub-groups" at [www.ubs.com/investors](http://www.ubs.com/investors) for information. <sup>2</sup> UBS AG received dividends from UBS Switzerland AG of CHF 2,351 million in the second quarter of 2018 and CHF 191 million in the second quarter of 2017.

**Balance sheet**

CHF million	30.6.18	31.3.18	31.12.17
<b>Assets</b>			
Cash and balances at central banks	46,885	31,958	36,514
Due from banks	45,214	43,821	40,978
<i>of which: total loss-absorbing capacity eligible at significant regulated subsidiary level</i>	13,213	12,298	12,301
Receivables from securities financing transactions	60,984	58,589	61,358
Due from customers	125,859	128,550	129,550
Mortgage loans	4,809	4,948	4,853
Trading portfolio assets	101,280	93,820	104,649
Derivative financial instruments	14,851	13,851	14,799
Financial investments	27,158	28,177	24,417
Accrued income and prepaid expenses	1,444	1,344	1,259
Investments in subsidiaries and other participations	48,408	48,011	47,962
Property, equipment and software	6,491	6,409	6,384
Intangible assets	4	5	6
Other assets	5,114	4,821	4,248
<b>Total assets</b>	<b>488,503</b>	<b>464,305</b>	<b>476,977</b>
<i>of which: subordinated assets</i>	5,572	5,300	5,348
<i>of which: subject to mandatory conversion and / or debt waiver</i>	3,349	3,024	3,013
<b>Liabilities</b>			
Due to banks	39,424	31,534	29,161
Payables from securities financing transactions	45,516	39,293	48,313
Due to customers	153,948	147,826	151,144
<i>of which: total loss-absorbing capacity eligible at UBS AG level</i>	39,734	36,749	32,629
Trading portfolio liabilities	24,746	25,946	24,358
Derivative financial instruments	15,838	15,026	18,292
Financial liabilities designated at fair value	60,393	53,747	51,171
<i>of which: debt issued designated at fair value</i>	54,449	49,390	46,812
<i>of which: other financial liabilities designated at fair value</i>	5,944	4,357	4,359
Bonds issued	91,178	94,371	96,588
<i>of which: total loss-absorbing capacity eligible at UBS AG level</i>	7,451	8,730	8,851
Accrued expenses and deferred income	2,592	2,608	3,347
Other liabilities	3,369	2,692	3,558
Provisions	1,028	994	1,097
<b>Total liabilities</b>	<b>438,031</b>	<b>414,036</b>	<b>427,030</b>
<b>Equity</b>			
Share capital	386	386	386
General reserve	35,649	35,649	35,649
<i>of which: statutory capital reserve</i>	35,649	35,649	35,649
<i>of which: capital contribution reserve</i>	35,649	35,649	35,649
Voluntary earnings reserve <sup>1</sup>	10,848	13,004	13,004
Profit / (loss) carried forward <sup>1</sup>	0	909	0
Net profit / (loss) for the period	3,589	321	909
<b>Total equity</b>	<b>50,472</b>	<b>50,269</b>	<b>49,947</b>
<b>Total liabilities and equity</b>	<b>488,503</b>	<b>464,305</b>	<b>476,977</b>
<i>of which: subordinated liabilities</i>	17,445	18,552	14,317
<i>of which: subject to mandatory conversion and / or debt waiver</i>	16,709	17,841	13,596

<sup>1</sup> During the second quarter of 2018, a payment of a cash dividend of CHF 3,065 million was made out of the voluntary earnings reserve (CHF 2,156 million) and out of retained earnings (CHF 909 million) to UBS Group AG, as approved at the Annual General Meeting of Shareholders held on 26 April 2018.

## Basis of accounting

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UBS AG standalone financial statements are prepared in accordance with Swiss GAAP (FINMA Circular 2015/1 and the Banking Ordinance).

The accounting policies are principally the same as the IFRS-based accounting policies for the consolidated financial statements outlined in Note 1 to the consolidated financial statements of UBS AG included in the Annual Report 2017. Major differences between Swiss GAAP and IFRS are described in Note 36 to the consolidated financial statements of UBS AG. Further information on the accounting policies applied for the standalone financial statements of UBS AG is provided in Note 2 to the UBS AG standalone financial statements as of 31 December 2017.

In preparing the interim financial information for UBS AG, the same accounting policies and methods of computation have been applied as in the annual standalone financial statements as of 31 December 2017, except for an amendment of the revenue recognition policy and a refinement of the credit loss calculation.

As of 1 January 2018, UBS AG amended its revenue recognition policy with regard to variable consideration that is contingent on an uncertain event. Such consideration can only be recognized to the extent that it is highly probable that a significant reversal of revenue will not occur when the

associated uncertainty is subsequently resolved. UBS AG does not consider the highly probable criteria to be met where the contingency is beyond the control of UBS AG. As a result, revenue recognized prior to 1 January 2018 that must be deferred under the amended policy was reversed in the current year's profit and loss and will be recognized only once the amended recognition criteria are met. The amended revenue recognition policy did not have a material impact on UBS AG financial statements.

As of 1 January 2018, UBS AG also made enhancements to its valuation methodology to calculate incurred losses for loans and receivables measured at amortized cost and off-balance sheet items, such as commitments. The enhancements, including consideration of forward-looking macroeconomic information and a selection of forward-looking scenarios, did not have a material impact on UBS AG financial statements.

This interim financial information is unaudited and should be read in conjunction with the audited 2017 standalone financial statements of UBS AG, available under "Holding company and significant regulated subsidiaries and sub-groups" at [www.ubs.com/investors](http://www.ubs.com/investors).

**Cautionary Statement Regarding Forward-Looking Statements** | This report contains statements that constitute “forward-looking statements,” including but not limited to management’s outlook for UBS’s financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS’s business and future development. While these forward-looking statements represent UBS’s judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS’s expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in the ongoing execution of its strategic plans, including its cost reduction and efficiency initiatives and its ability to manage its levels of risk-weighted assets (RWA), including to counteract regulatory-driven increases, leverage ratio denominator, liquidity coverage ratio and other financial resources, and the degree to which UBS is successful in implementing changes to its businesses to meet changing market, regulatory and other conditions; (ii) continuing low or negative interest rate environment, developments in the macroeconomic climate and in the markets in which UBS operates or to which it is exposed, including movements in securities prices or liquidity, credit spreads, and currency exchange rates, and the effects of economic conditions, market developments, and geopolitical tensions on the financial position or creditworthiness of UBS’s clients and counterparties as well as on client sentiment and levels of activity; (iii) changes in the availability of capital and funding, including any changes in UBS’s credit spreads and ratings, as well as availability and cost of funding to meet requirements for debt eligible for total loss-absorbing capacity (TLAC); (iv) changes in or the implementation of financial legislation and regulation in Switzerland, the US, the UK and other financial centers that have imposed, or resulted in, or may do so in the future, more stringent or entity-specific capital, TLAC, leverage ratio, liquidity and funding requirements, incremental tax requirements, additional levies, limitations on permitted activities, constraints on remuneration, constraints on transfers of capital and liquidity and sharing of operational costs across the Group or other measures, and the effect these will or would have on UBS’s business activities; (v) the degree to which UBS is successful in implementing further changes to its legal structure to improve its resolvability and meet related regulatory requirements and the potential need to make further changes to the legal structure or booking model of UBS Group in response to legal and regulatory requirements, to proposals in Switzerland and other jurisdictions for mandatory structural reform of banks or systemically important institutions or to other external developments, and the extent to which such changes will have the intended effects; (vi) uncertainty as to the extent to which the Swiss Financial Market Supervisory Authority (FINMA) will confirm limited reductions of gone concern requirements due to measures to reduce resolvability risk; (vii) the uncertainty arising from the timing and nature of the UK exit from the EU and the potential need to make changes in UBS’s legal structure and operations as a result of it; (viii) changes in UBS’s competitive position, including whether differences in regulatory capital and other requirements among the major financial centers will adversely affect UBS’s ability to compete in certain lines of business; (ix) changes in the standards of conduct applicable to our businesses that may result from new regulation or new enforcement of existing standards, including recently enacted and proposed measures to impose new and enhanced duties when interacting with customers and in the execution and handling of customer transactions; (x) the liability to which UBS may be exposed, or possible constraints or sanctions that regulatory authorities might impose on UBS, due to litigation, contractual claims and regulatory investigations, including the potential for disqualification from certain businesses or loss of licenses or privileges as a result of regulatory or other governmental sanctions, as well as the effect that litigation, regulatory and similar matters have on the operational risk component of our RWA; (xi) the effects on UBS’s cross-border banking business of tax or regulatory developments and of possible changes in UBS’s policies and practices relating to this business; (xii) UBS’s ability to retain and attract the employees necessary to generate revenues and to manage, support and control its businesses, which may be affected by competitive factors including differences in compensation practices; (xiii) changes in accounting or tax standards or policies, and determinations or interpretations affecting the recognition of gain or loss, the valuation of goodwill, the recognition of deferred tax assets and other matters, including from changes to US taxation under the Tax Cuts and Jobs Act; (xiv) UBS’s ability to implement new technologies and business methods, including digital services and technologies and ability to successfully compete with both existing and new financial service providers, some of which may not be regulated to the same extent; (xv) limitations on the effectiveness of UBS’s internal processes for risk management, risk control, measurement and modeling, and of financial models generally; (xvi) the occurrence of operational failures, such as fraud, misconduct, unauthorized trading, financial crime, cyberattacks, and systems failures; (xvii) restrictions on the ability of UBS AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA or the regulators of UBS’s operations in other countries of their broad statutory powers in relation to protective measures, restructuring and liquidation proceedings; (xviii) the degree to which changes in regulation, capital or legal structure, financial results or other factors may affect UBS’s ability to maintain its stated capital return objective; and (xix) the effect that these or other factors or unanticipated events may have on our reputation and the additional consequences that this may have on our business and performance. The sequence in which the factors above are presented is not indicative of their likelihood of occurrence or the potential magnitude of their consequences. Our business and financial performance could be affected by other factors identified in our past and future filings and reports, including those filed with the SEC. More detailed information about those factors is set forth in documents furnished by UBS and filings made by UBS with the SEC, including UBS’s Annual Report on Form 20-F for the year ended 31 December 2017. UBS is not under any obligation to (and expressly disclaims any obligation to) update or alter its forward-looking statements, whether as a result of new information, future events, or otherwise.

**Rounding** | Numbers presented throughout this report may not add up precisely to the totals provided in the tables and text. Starting in 2018, percentages, absolute and percent changes, and adjusted results are calculated on the basis of unrounded figures, with the exception of movement information provided in text that can be derived from figures displayed in the tables, which is calculated on a rounded basis. For prior periods, these values are calculated on the basis of rounded figures displayed in the tables and text.

**Tables** | Within tables, blank fields generally indicate that the field is not applicable or not meaningful, or that information is not available as of the relevant date or for the relevant period. Zero values generally indicate that the respective figure is zero on an actual or rounded basis. Percentage changes are presented as a mathematical calculation of the change between periods.



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This Form 6-K is hereby incorporated by reference into (1) each of the registration statements of UBS AG on Form F-3 (Registration Number 333-225551) and of UBS Group AG on Form S-8 (Registration Numbers 333-200634; 333-200635; 333-200641; 333-200665; 333-215254; and 333-215255), and into each prospectus outstanding under any of the foregoing registration statements, (2) any outstanding offering circular or similar document issued or authorized by UBS AG that incorporates by reference any Form 6-K's of UBS AG that are incorporated into its registration statements filed with the SEC, and (3) the base prospectus of Corporate Asset Backed Corporation ("CABCO") dated June 23, 2004 (Registration Number 333-111572), the Form 8-K of CABCO filed and dated June 23, 2004 (SEC File Number 001-13444), and the Prospectus Supplements relating to the CABCO Series 2004-101 Trust dated May 10, 2004 and May 17, 2004 (Registration Number 033-91744 and 033-91744-05).

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UBS AG

By: /s/ Sergio Ermotti  
Name: Sergio Ermotti  
Title: President of the Executive Board

By: /s/ Kirt Gardner  
Name: Kirt Gardner  
Title: Chief Financial Officer

By: /s/ Todd Tuckner  
Name: Todd Tuckner  
Title: Group Controller and  
Chief Accounting Officer

Date: July 27, 2018