UBS

# Our financial results

Second quarter 2018 report

## Corporate calendar UBS Group AG

| | |
|---|---|
| Publication of the third quarter 2018 report: | Thursday, 25 October 2018 |
| Publication of the fourth quarter 2018 report: | Monday, 21 January 2019 |
| Publication of the Annual Report 2018: | Friday, 1 March 2019 |
| Publication of the first quarter 2019 report: | Thursday, 25 April 2019 |

## Corporate calendar UBS AG*

| | |
|---|---|
| Publication of the second quarter 2018 report: | Friday, 27 July 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

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# Our key figures

| | As of or for the quarter ended | | | | As of or year-to-date | |
|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 31.12.17 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Group results** | | | | | | |
| Operating income | 7,554 | 7,698 | 7,122 | 7,269 | 15,252 | 14,801 |
| Operating expenses | 5,875 | 5,725 | 6,266 | 5,767 | 11,600 | 11,609 |
| Operating profit / (loss) before tax | 1,679 | 1,973 | 855 | 1,502 | 3,652 | 3,192 |
| Net profit / (loss) attributable to shareholders | 1,284 | 1,514 | (2,336) | 1,174 | 2,798 | 2,443 |
| Diluted earnings per share (CHF)[1] | 0.33 | 0.39 | (0.63) | 0.31 | 0.73 | 0.64 |
| **Key performance indicators[2]** | | | | | | |
| Profitability and growth | | | | | | |
| Return on tangible equity (%) | 11.6 | 13.6 | (20.2) | 10.3 | 12.6 | 10.6 |
| Adjusted return on tangible equity excluding deferred tax expense / benefit and deferred tax assets (%) | 16.7 | 17.8 | 8.6 | 15.9 | 17.3 | 16.6 |
| Cost / income ratio (%) | 77.5 | 74.1 | 86.9 | 78.8 | 75.8 | 78.2 |
| Adjusted cost / income ratio (%)[3] | 75.8 | 75.4 | 83.4 | 76.2 | 75.6 | 75.2 |
| Net profit growth (%) | 9.3 | 19.4 | | 13.5 | 14.5 | 40.3 |
| Resources | | | | | | |
| Common equity tier 1 capital ratio (%)[4] | 13.4 | 13.1 | 13.8 | 13.5 | 13.4 | 13.5 |
| Common equity tier 1 leverage ratio (%)[4] | 3.75 | 3.76 | 3.69 | 3.70 | 3.75 | 3.70 |
| Going concern leverage ratio (%)[4] | 5.0 | 5.0 | 4.7 | 4.7 | 5.0 | 4.7 |
| **Additional information** | | | | | | |
| Profitability | | | | | | |
| Return on equity (%) | 10.1 | 11.8 | (17.8) | 8.9 | 10.9 | 9.2 |
| Return on risk-weighted assets, gross (%)[5] | 12.0 | 12.6 | 12.1 | 12.8 | 12.3 | 13.2 |
| Return on leverage ratio denominator, gross (%)[5] | 3.4 | 3.5 | 3.3 | 3.4 | 3.4 | 3.4 |
| Resources | | | | | | |
| Total assets | 944,482 | 919,361 | 915,642 | 890,831 | 944,482 | 890,831 |
| Equity attributable to shareholders | 50,774 | 51,243 | 51,214 | 51,744 | 50,774 | 51,744 |
| Common equity tier 1 capital[4] | 33,817 | 33,151 | 32,671 | 31,887 | 33,817 | 31,887 |
| Risk-weighted assets[4] | 252,373 | 253,753 | 237,494 | 236,697 | 252,373 | 236,697 |
| Going concern capital ratio (%)[4] | 17.8 | 17.3 | 17.6 | 17.2 | 17.8 | 17.2 |
| Total loss-absorbing capacity ratio (%)[4] | 32.3 | 31.2 | 33.0 | 31.2 | 32.3 | 31.2 |
| Leverage ratio denominator[4] | 902,408 | 882,469 | 886,116 | 860,879 | 902,408 | 860,879 |
| Total loss-absorbing capacity leverage ratio (%)[4] | 9.0 | 9.0 | 8.8 | 8.6 | 9.0 | 8.6 |
| Liquidity coverage ratio (%)[6] | 144 | 136 | 143 | 131 | 144 | 131 |
| Other | | | | | | |
| Invested assets (CHF billion)[7] | 3,242 | 3,155 | 3,179 | 2,911 | 3,242 | 2,911 |
| Personnel (full-time equivalents) | 63,684 | 62,537 | 61,253 | 59,470 | 63,684 | 59,470 |
| Market capitalization[8] | 59,072 | 64,752 | 69,125 | 62,553 | 59,072 | 62,553 |
| Total book value per share (CHF)[8] | 13.62 | 13.62 | 13.76 | 13.92 | 13.62 | 13.92 |
| Tangible book value per share (CHF)[8] | 11.90 | 11.97 | 12.04 | 12.25 | 11.90 | 12.25 |

1 Refer to "Note 8 Earnings per share (EPS) and shares outstanding" in the "Consolidated financial statements" section of this report for more information. 2 Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. 3 Calculated as adjusted operating expenses / adjusted operating income before credit loss (expense) or recovery. 4 Based on the Swiss systemically relevant bank framework as of 1 January 2020. Refer to the "Capital management" section of this report for more information. 5 Calculated as operating income before credit loss (annualized as applicable) / average risk-weighted assets and average leverage ratio denominator, respectively. 6 Refer to the "Balance sheet, liquidity and funding management" section of this report for more information. 7 Includes invested assets for Personal & Corporate Banking. 8 Refer to "UBS shares" in the "Capital management" section of this report for more information.

# UBS Group

Management report

## Terms used in this report, unless the context requires otherwise

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

# Recent developments

## Regulatory and legal developments

### Swiss Parliament adopts FinSA and FinIA

In June 2018, the Swiss Parliament adopted the Financial Services Act (FinSA) and the Financial Institutions Act (FinIA). Entry into force of both laws will likely be in January 2020 with various transition periods. FinSA addresses many of the investor protection topics covered in the Markets in Financial Instruments Directive II, Packaged Retail and Insurance-based Investment Products Regulation and the European Union (EU) Prospectus Directive. In particular, FinSA introduces new investor protection rules, including enhanced information and documentation requirements to increase comparability and transparency of financial instruments and financial services provided by Swiss financial service providers, and depending on the circumstances, also by foreign financial service providers when providing financial services in Switzerland or to clients in Switzerland, covering all market segments. FinIA sets out new rules for the FINMA license approval and prudential supervision of financial institutions that are managed in or from Switzerland. We have begun preparing for implementation of the new rules ahead of their effective date.

### Swiss Federal Council consults on amendments to Anti-Money Laundering Act

In June 2018, the Swiss Federal Council initiated a consultation on amendments to the Anti-Money Laundering Act, aiming to implement the recommendations from the Financial Action Task Force's Mutual Evaluation Report of Switzerland. The consultation proposes changes to enhance due diligence obligations for certain services, beneficial owner verification, and monitoring and reporting of suspicious activities. Implementation of these amendments may require changes to our client onboarding and ongoing compliance processes and may lead to increased costs. The consultation ends in September 2018. The precise effect on UBS depends on the final law, which is subject to parliamentary debate.

### Contingency measures to protect the Swiss stock exchange infrastructure

In 2017, Switzerland applied to the European Commission (EC) to have its trading venues recognized as equivalent to EU venues, thereby allowing Swiss institutions access to European markets and allowing EU investment firms to trade shares within Switzerland. Switzerland received a temporary, one-year recognition of equivalence that expires in December 2018. In June 2018, the Swiss Federal Council adopted contingency measures to protect Switzerland's stock exchange infrastructure in the event that the EC does not extend recognition of equivalence at the end of the temporary period. The contingency plan would introduce a new Swiss standard recognizing non-EU foreign trading venues that admit Swiss shares to trading, but disallowing trading in Swiss shares on EU trading venues. If the EC does not extend recognition of Switzerland's stock market equivalence and the Swiss contingency measures come into effect, we would be required to significantly alter our trading arrangements.

### UK withdrawal from the EU

Although negotiations between the UK and the EU over the transition continue, we expect that the UK will leave the EU in March 2019, and that any transition arrangements will be agreed to only relatively close to the exit date. Given the continuing uncertainty on transition arrangements and the potential future restrictions on providing financial services into the EU from the UK, we have commenced the process of seeking regulatory approvals for the merger of UBS Limited, our UK-headquartered subsidiary, into UBS Europe SE, our German-headquartered European bank. We expect to complete the merger prior to the UK leaving the EU. Following completion of the merger, we expect that UBS Europe SE will become subject to direct supervision by the European Central Bank.

As reported in our Annual Report 2017, certain clients and other counterparties of UBS Limited would become clients or counterparties of UBS Europe SE through the planned merger of the two entities. During the third quarter of 2018, we expect to commence a business transfer proceeding in the UK to facilitate the transfer of client business in connection with the merger. We also expect to commence German merger proceedings in the same timeframe.

We anticipate that clients of UBS Limited who can be serviced by UBS AG, London Branch would generally be migrated to UBS AG, London Branch prior to this merger. In connection with the merger of UBS Limited into UBS Europe SE, some staff will be relocated, although the number of staff and roles have not yet been finally determined. We also expect to increase the capitalization of UBS Europe SE, primarily through internal subordinated debt issuance, to reflect the additional activities it would acquire. The timing and extent of the actions we take may vary considerably from our current plan depending on regulatory requirements and the nature of any transition or successor agreements between the UK and the EU.

### Developments related to the US financial regulatory framework

In April 2018, the Federal Reserve Board issued a proposal to introduce a bank-specific stress capital buffer (SCB), replacing the existing capital conservation buffer of 2.5% applicable to firms subject to the Comprehensive Capital Analysis and Review (CCAR) and taking effect in October 2019. The SCB would apply to the common equity tier 1 (CET1) and tier 1 leverage ratios and would be set at the higher of 2.5% or the difference between the starting and minimum projected level of the firm's CET1 capital ratio over the nine-quarter projection period under the supervisory severely adverse scenario. The Federal Reserve Board would no longer separately make quantitative objections to a covered firm's capital plans as any losses projected under the stress test would effectively become an additional minimum capital requirement. We expect UBS Americas Holding LLC, our US intermediate holding company, to be subject to the SCB and to remain a covered firm under the Federal Reserve Board's CCAR program.

Separately, in June 2018, the Federal Reserve Board released the 2018 CCAR results and did not object to UBS Americas Holding LLC's capital plan.

In June 2018, the five agencies that administer the Volcker rule published a proposal to modify the existing regulation that was finalized in 2013. The proposal is intended to simplify and tailor the existing regulations and puts forth a number of revisions to the rule's proprietary trading and covered funds restrictions and questions on potential modifications regarding aspects of the proprietary trading prohibition and covered funds activities and investments. If amended as proposed, the revised rule would require changes to our compliance monitoring activities and may expand the pool of covered transactions that fall under the proposed trading account definition.

### BCBS consults on revisions to market risk framework

A consultation on the Basel Committee on Banking Supervision's (BCBS) market risk standard (Fundamental Review of the Trading Book (FRTB)), previously finalized in 2016 but not yet in effect, ended in June 2018. Certain elements of the 2016 FRTB rules are likely to be revised by the BCBS based on the consultation. The probable revisions, while they may provide some relief compared with the 2016 version, would likely continue to lead to an increase in market risk risk-weighted assets as previously highlighted. The final standard is expected to be announced by the end of 2018 and expected to be in effect starting 1 January 2022.

→ **Refer to the "Capital Management" section of our Annual Report 2017 for more information on estimated RWA increases**

### Global cyber security developments

In April 2018, the Swiss Federal Council adopted the National strategy for Switzerland's protection against cyber risks 2018–2022. The financial sector is deemed a critical infrastructure and will be required to implement measures to strengthen its resilience in terms of cybersecurity and further enhance its cooperation with relevant public sector bodies as a result of the national strategy. Also in April 2018, the European Central Bank (ECB) consulted on its cyber resilience oversight expectations for financial market infrastructures (FMIs) and banks. The ECB proposal is based on global guidance by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions and aims to avoid further fragmentation of approaches, but stops short of imposing a single set of standards. In addition, in July 2018, the UK Prudential Regulation Authority and Financial Conduct Authority published a joint discussion paper on an approach to improve the operational resilience of FMIs that, among other things, envisages that boards and senior management can achieve better standards of operational resilience through increased focus on setting, monitoring and testing specific impact tolerances for key business services. Separately, the BCBS confirmed in its June 2018 update on the 2018–2019 work program that cyber risk and operational resilience remain priorities.

→ **Refer to the "Risk management and control" section of this report for more information**

### Developments related to the transition away from IBOR

Efforts to transition from the interbank offered rate (IBOR) benchmarks to alternative benchmark rates are continuing in various jurisdictions, given that they are expected to be phased out after 2021. The working group on euro risk-free rates, led by the ECB, released a consultation in June 2018 aiming to assess the potential advantages and disadvantages of three euro risk-free rates, which could replace the Euro OverNight Index Average (EONIA) as of 2020. In July 2018, the International Swaps and Derivatives Association launched a market-wide consultation on technical issues related to new benchmark fallbacks for derivatives contracts that reference certain IBORs. The consultation sets out four options for adjustments that would apply to the fallback rate in the event an IBOR is permanently discontinued. UBS has significant contractual rights and obligations referenced to IBOR benchmarks. Discontinuance of, or changes to, benchmark rates as a result of these developments or other initiatives or investigations, as well as uncertainty as to the timing and manner of implementation of such changes or discontinuance, may require adjustments to agreements by us, our clients and other market participants, as well as to our systems and processes.

## Other developments

### Increase in stake in UBS Securities China

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, we submitted in May 2018 a preliminary application to increase the shareholding in our 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 we acquire majority ownership, we would consolidate our investment in UBSS under International Financial Reporting Standards (IFRS) and would be required to remeasure our current 24.99% holding in UBSS at fair value, likely resulting in a loss. The loss should not materially affect our CET1 capital as the loss is expected to be largely offset by the release of a capital deduction for the goodwill included within the initial stake.

### Transfer of AT1 capital instruments issued to UBS Group Funding (Switzerland) AG

In May 2018, we substituted UBS Group AG where it was the issuer of outstanding additional tier 1 (AT1) capital instruments with UBS Group Funding (Switzerland) AG. Following the substitution, the relevant AT1 capital instruments are guaranteed by UBS Group AG, and investors' seniority of claim against UBS Group AG remains unchanged. The Swiss Federal Council has proposed amendments to Swiss tax law that, if enacted, would reduce the additional tax burden on debt issuances by bank top holding companies. If such changes become effective, we expect subsequent loss-absorbing AT1 capital instruments and total loss-absorbing capacity (TLAC)-eligible senior unsecured debt to be issued directly by UBS Group AG. At that point, we also expect to substitute UBS Group AG as issuer of the outstanding capital and debt instruments of UBS Group Funding (Switzerland) AG. Both loss-absorbing AT1 capital instruments and TLAC-eligible senior unsecured debt are exempt from withholding tax under Swiss law.

### Publication of 2017 EU CRD IV disclosures

Our legal entity-specific disclosures in accordance with article 89 of the European Union Capital Requirements Directive IV (CRD IV) were published concurrently with this report in July 2018. Information is as of 31 December 2017 and is available under "EU CRD IV disclosures" at *www.ubs.com/investors*.

# Group performance

## Income statement

| | For the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| Net interest income | 985 | 1,743 | 1,417 | (44) | (30) | 2,729 | 3,113 |
| Other net income from fair value changes on financial instruments | 2,187 | 1,466 | 1,456 | 49 | 50 | 3,653 | 2,896 |
| Credit loss (expense) / recovery | (28) | (25) | (46) | 14 | (38) | (53) | (46) |
| Fee and commission income | 4,793 | 4,882 | 4,744 | (2) | 1 | 9,675 | 9,533 |
| Fee and commission expense | (417) | (409) | (449) | 2 | (7) | (826) | (885) |
| Net fee and commission income | 4,377 | 4,473 | 4,295 | (2) | 2 | 8,850 | 8,648 |
| Other income | 34 | 40 | 147 | (16) | (77) | 74 | 190 |
| Total operating income | 7,554 | 7,698 | 7,269 | (2) | 4 | 15,252 | 14,801 |
| *of which: net interest income and other net income from fair value changes on financial instruments* | *3,172* | *3,210* | *2,873* | *(1)* | *10* | *6,382* | *6,009* |
| Personnel expenses | 4,059 | 4,014 | 4,014 | 1 | 1 | 8,073 | 8,074 |
| General and administrative expenses | 1,516 | 1,424 | 1,488 | 6 | 2 | 2,940 | 2,994 |
| Depreciation and impairment of property, equipment and software | 284 | 272 | 249 | 4 | 14 | 556 | 505 |
| Amortization and impairment of intangible assets | 16 | 16 | 16 | 3 | 1 | 32 | 37 |
| Total operating expenses | 5,875 | 5,725 | 5,767 | 3 | 2 | 11,600 | 11,609 |
| Operating profit / (loss) before tax | 1,679 | 1,973 | 1,502 | (15) | 12 | 3,652 | 3,192 |
| Tax expense / (benefit) | 394 | 457 | 327 | (14) | 20 | 851 | 701 |
| Net profit / (loss) | 1,285 | 1,516 | 1,175 | (15) | 9 | 2,801 | 2,490 |
| Net profit / (loss) attributable to non-controlling interests | 1 | 1 | 1 | (7) | 65 | 3 | 47 |
| **Net profit / (loss) attributable to shareholders** | 1,284 | 1,514 | 1,174 | (15) | 9 | 2,798 | 2,443 |

## Comprehensive income

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total comprehensive income | 2,342 | 696 | 103 | 237 | | 3,039 | 769 |
| Total comprehensive income attributable to non-controlling interests | (1) | 1 | 14 | | | 1 | 61 |
| **Total comprehensive income attributable to shareholders** | 2,343 | 695 | 89 | 237 | | 3,038 | 708 |

**Performance by business division and Corporate Center unit – reported and adjusted[1,2]**

| | For the quarter ended 30.6.18 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | Global Wealth Management | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services[3] | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 4,157 | 933 | 458 | 2,171 | (78) | (185) | 98 | 7,554 |
| *of which: net foreign currency translation losses[4]* | | | | | | *(15)* | | *(15)* |
| Operating income (adjusted) | 4,157 | 933 | 458 | 2,171 | (78) | (169) | 98 | 7,569 |
| Operating expenses as reported | 3,120 | 566 | 357 | 1,602 | 94 | 21 | 116 | 5,875 |
| *of which: personnel-related restructuring expenses[5]* | *3* | *1* | *15* | *2* | *43* | *0* | *0* | *63* |
| *of which: non-personnel-related restructuring expenses[5]* | *5* | *0* | *3* | *3* | *39* | *0* | *0* | *51* |
| *of which: restructuring expenses allocated from CC – Services[5]* | *39* | *9* | *8* | *32* | *(88)* | *0* | *1* | *0* |
| Operating expenses (adjusted) | 3,073 | 556 | 331 | 1,566 | 100 | 20 | 115 | 5,761 |
| *of which: net expenses for litigation, regulatory and similar matters[6]* | *52* | *0* | *0* | *2* | *0* | *0* | *76* | *131* |
| **Operating profit / (loss) before tax as reported** | 1,037 | 368 | 101 | 569 | (172) | (206) | (18) | 1,679 |
| **Operating profit / (loss) before tax (adjusted)** | 1,084 | 378 | 126 | 605 | (178) | (190) | (17) | 1,808 |

| | For the quarter ended 31.3.18 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | Global Wealth Management | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services[3] | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 4,195 | 947 | 441 | 2,308 | (38) | (204) | 49 | 7,698 |
| Operating income (adjusted) | 4,195 | 947 | 441 | 2,308 | (38) | (204) | 49 | 7,698 |
| Operating expenses as reported | 3,067 | 528 | 335 | 1,719 | (2) | 18 | 61 | 5,725 |
| *of which: personnel-related restructuring expenses[5]* | *3* | *1* | *1* | *11* | *47* | *0* | *0* | *64* |
| *of which: non-personnel-related restructuring expenses[5]* | *9* | *0* | *3* | *2* | *50* | *0* | *0* | *64* |
| *of which: restructuring expenses allocated from CC – Services[5]* | *47* | *9* | *7* | *32* | *(96)* | *1* | *1* | *0* |
| *of which: gain related to changes to the Swiss pension plan[7]* | *(61)* | *(35)* | *(10)* | *(5)* | *(114)* | | | *(225)* |
| Operating expenses (adjusted) | 3,069 | 553 | 333 | 1,679 | 110 | 18 | 60 | 5,822 |
| *of which: net expenses for litigation, regulatory and similar matters[6]* | *31* | *0* | *0* | *(2)* | *(24)* | *0* | *(16)* | *(11)* |
| **Operating profit / (loss) before tax as reported** | 1,129 | 419 | 106 | 589 | (35) | (222) | (12) | 1,973 |
| **Operating profit / (loss) before tax (adjusted)** | 1,126 | 393 | 108 | 629 | (147) | (222) | (11) | 1,876 |

**Performance by business division and Corporate Center unit – reported and adjusted (continued)[1,2]**

| | For the quarter ended 30.6.17 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | Global Wealth Management | Personal & Corporate Banking | Asset Manage-ment | Investment Bank | CC – Services[3] | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 3,959 | 935 | 479 | 2,026 | (20) | (94) | (16) | 7,269 |
| *of which: gains on sale of financial assets at fair value through OCI[8]* | | | | *107* | | | | *107* |
| *of which: net foreign currency translation losses[4]* | | | | | | *(22)* | | *(22)* |
| Operating income (adjusted) | 3,959 | 935 | 479 | 1,919 | (20) | (72) | (16) | 7,184 |
| Operating expenses as reported | 3,080 | 579 | 369 | 1,575 | 117 | 10 | 37 | 5,767 |
| *of which: personnel-related restructuring expenses[5]* | *14* | *2* | *3* | *4* | *93* | *1* | *0* | *117* |
| *of which: non-personnel-related restructuring expenses[5]* | *16* | *0* | *6* | *3* | *115* | *0* | *0* | *141* |
| *of which: restructuring expenses allocated from CC – Services[5]* | *104* | *21* | *15* | *67* | *(209)* | *0* | *2* | *0* |
| Operating expenses (adjusted) | 2,946 | 556 | 346 | 1,500 | 117 | 9 | 35 | 5,509 |
| *of which: net expenses for litigation, regulatory and similar matters[6]* | *42* | *0* | *1* | *0* | *0* | *0* | *(34)* | *9* |
| **Operating profit / (loss) before tax as reported** | **879** | **356** | **110** | **451** | **(137)** | **(104)** | **(53)** | **1,502** |
| **Operating profit / (loss) before tax (adjusted)** | **1,013** | **379** | **133** | **419** | **(137)** | **(81)** | **(51)** | **1,675** |

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 3 Corporate Center – Services operating expenses presented in this table are after service allocations to business divisions and other Corporate Center units. 4 Related to the disposal of foreign subsidiaries and branches. 5 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives in 2018 for Global Wealth Management and Asset Management. 6 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). 7 Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of this report for more information. 8 Reflects a gain on sale of our remaining investment in IHS Markit in the Investment Bank. Figures presented for periods prior to the first quarter of 2018 relate to financial assets available for sale. With the adoption of IFRS 9, certain financial assets were reclassified from available for sale under IAS 39 to measured at fair value through OCI under IFRS 9. Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information.

**Performance by business division and Corporate Center unit – reported and adjusted[1,2]**

| | Year-to-date 30.6.18 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | Global Wealth Management | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services[3] | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 8,352 | 1,880 | 899 | 4,478 | (116) | (389) | 147 | 15,252 |
| *of which: net foreign currency translation losses[4]* | | | | | | *(15)* | | *(15)* |
| Operating income (adjusted) | 8,352 | 1,880 | 899 | 4,478 | (116) | (373) | 147 | 15,267 |
| | | | | | | | | |
| Operating expenses as reported | 6,187 | 1,093 | 692 | 3,320 | 92 | 39 | 177 | 11,600 |
| *of which: personnel-related restructuring expenses[5]* | *6* | *2* | *16* | *13* | *90* | *0* | *0* | *127* |
| *of which: non-personnel-related restructuring expenses[5]* | *14* | *0* | *6* | *5* | *89* | *0* | *0* | *115* |
| *of which: restructuring expenses allocated from CC – Services[5]* | *86* | *17* | *14* | *63* | *(184)* | *1* | *2* | *0* |
| *of which: gain related to changes to the Swiss pension plan[6]* | *(61)* | *(35)* | *(10)* | *(5)* | *(114)* | | | *(225)* |
| Operating expenses (adjusted) | 6,142 | 1,109 | 665 | 3,244 | 210 | 38 | 175 | 11,583 |
| *of which: net expenses for litigation, regulatory and similar matters[7]* | *83* | *0* | *0* | *0* | *(24)* | *0* | *61* | *120* |
| | | | | | | | | |
| **Operating profit / (loss) before tax as reported** | 2,165 | 787 | 207 | 1,158 | (207) | (428) | (30) | 3,652 |
| **Operating profit / (loss) before tax (adjusted)** | 2,210 | 771 | 234 | 1,234 | (326) | (412) | (28) | 3,684 |

| | Year-to-date 30.6.17 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | Global Wealth Management | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services[3] | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
| Operating income as reported | 7,938 | 1,893 | 929 | 4,124 | (37) | (30) | (16) | 14,801 |
| *of which: gains on sale of financial assets at fair value through OCI[8]* | | | | *107* | | | | *107* |
| *of which: net foreign currency translation losses[4]* | | | | | | *(22)* | | *(22)* |
| Operating income (adjusted) | 7,938 | 1,893 | 929 | 4,017 | (37) | (8) | (16) | 14,716 |
| | | | | | | | | |
| Operating expenses as reported | 6,119 | 1,119 | 716 | 3,194 | 321 | 12 | 129 | 11,609 |
| *of which: personnel-related restructuring expenses[5]* | *15* | *4* | *5* | *22* | *186* | *1* | *0* | *233* |
| *of which: non-personnel-related restructuring expenses[5]* | *27* | *0* | *11* | *6* | *225* | *0* | *0* | *269* |
| *of which: restructuring expenses allocated from CC – Services[5]* | *202* | *38* | *28* | *124* | *(396)* | *1* | *4* | *0* |
| Operating expenses (adjusted) | 5,875 | 1,077 | 673 | 3,042 | 307 | 11 | 125 | 11,107 |
| *of which: net expenses for litigation, regulatory and similar matters[7]* | *78* | *0* | *1* | *0* | *(3)* | *0* | *(33)* | *42* |
| | | | | | | | | |
| **Operating profit / (loss) before tax as reported** | **1,819** | **774** | **213** | **931** | **(358)** | **(41)** | **(146)** | **3,192** |
| **Operating profit / (loss) before tax (adjusted)** | **2,063** | **816** | **256** | **976** | **(344)** | **(18)** | **(142)** | **3,609** |

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 3 Corporate Center – Services operating expenses presented in this table are after service allocations to business divisions and other Corporate Center units. 4 Related to the disposal of foreign subsidiaries and branches. 5 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives in 2018 for Global Wealth Management and Asset Management. 6 Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of this report for more information. 7 Includes recoveries from third parties of CHF 27 million and CHF 1 million for the first six months of 2018 and 2017, respectively. 8 Reflects a gain on sale of our remaining investment in IHS Markit in the Investment Bank. Figures presented for periods prior to 2018 relate to financial assets available for sale. With the adoption of IFRS 9, certain financial assets were reclassified from available for sale under IAS 39 to measured at fair value through OCI under IFRS 9. Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information.

## Results: 2Q18 vs 2Q17

Profit before tax increased by CHF 177 million or 12% to CHF 1,679 million, reflecting higher operating income, partly offset by an increase in operating expenses. Operating income increased by CHF 285 million or 4%, mainly reflecting CHF 299 million higher net interest income and other net income from fair value changes on financial instruments. Operating expenses increased by CHF 108 million or 2%, primarily due to CHF 45 million higher personnel expenses and a CHF 35 million increase in amortization expenses.

In addition to reporting our results in accordance with International Financial Reporting Standards (IFRS), we report adjusted results that exclude items that management believes are not representative of the underlying performance of our businesses. Such adjusted results are non-GAAP financial measures as defined by US Securities and Exchange Commission (SEC) regulations. Following the completion of our CHF 2.1 billion cost reduction program at the end of 2017, which we refer to as our "legacy cost programs" in this report, we expect residual restructuring expenses incurred in connection with legacy cost programs, as well as expenses relating to new restructuring initiatives, of approximately CHF 0.5 billion for the full year 2018 and approximately CHF 0.2 billion in 2019.

For the purpose of determining adjusted results for the second quarter of 2018, we excluded net foreign currency translation losses of CHF 15 million and net restructuring expenses of CHF 114 million related to legacy cost programs and new restructuring initiatives. For the second quarter of 2017, we excluded a gain of CHF 107 million on the sale of our remaining investment in IHS Markit, net foreign currency translation losses of CHF 22 million and net restructuring expenses of CHF 258 million.

On this adjusted basis, profit before tax for the second quarter of 2018 increased by CHF 133 million or 8% to CHF 1,808 million, driven by CHF 385 million or 5% higher operating income, partly offset by CHF 252 million or 5% higher operating expenses. In US dollar terms, adjusted profit before tax increased 6%.

## Operating income: 2Q18 vs 2Q17

Total operating income increased by CHF 285 million or 4% to CHF 7,554 million. On an adjusted basis, total operating income increased by CHF 385 million or 5% to CHF 7,569 million, mainly reflecting a CHF 299 million increase in net interest income and other net income from fair value changes on financial instruments and CHF 82 million higher net fee and commission income.

**Net interest income and other net income from fair value changes on financial instruments**

| | For the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| Net interest income from financial instruments measured at amortized cost and fair value through other comprehensive income (AC / FVOCI) | 910 | 940 | 1,211 | (3) | (25) | 1,850 | 2,462 |
| Net interest income from financial instruments measured at fair value through profit or loss (FVTPL) | 75 | 803 | 205 | (91) | (63) | 879 | 651 |
| Other net income from fair value changes on financial instruments | 2,187 | 1,466 | 1,456 | 49 | 50 | 3,653 | 2,896 |
| Total | 3,172 | 3,210 | 2,873 | (1) | 10 | 6,382 | 6,009 |
| Global Wealth Management | 1,315 | 1,294 | 1,256 | 2 | 5 | 2,610 | 2,507 |
| *of which: net interest income* | *1,081* | *1,018* | *986* | *6* | *10* | *2,099* | *1,954* |
| *of which: transaction-based income from foreign exchange and other intermediary activity* [1] | *234* | *277* | *270* | *(15)* | *(13)* | *511* | *553* |
| Personal & Corporate Banking | 606 | 609 | 616 | (1) | (2) | 1,216 | 1,213 |
| *of which: net interest income* | *509* | *507* | *525* | *0* | *(3)* | *1,016* | *1,038* |
| *of which: transaction-based income from foreign exchange and other intermediary activity* [1] | *97* | *102* | *91* | *(5)* | *7* | *199* | *175* |
| Asset Management | (3) | (5) | (5) | (34) | (30) | (9) | (11) |
| Investment Bank[2] | 1,363 | 1,450 | 1,071 | (6) | 27 | 2,813 | 2,284 |
| *Corporate Client Solutions* | *254* | *394* | *263* | *(36)* | *(3)* | *648* | *510* |
| *Investor Client Services* | *1,109* | *1,056* | *808* | *5* | *37* | *2,165* | *1,775* |
| Corporate Center[2] | (109) | (139) | (65) | (22) | 68 | (248) | 15 |
| *CC – Services* | *(48)* | *(6)* | *0* | *677* | | *(54)* | *0* |
| *CC – Group ALM* | *(159)* | *(183)* | *(56)* | *(13)* | *184* | *(341)* | *30* |
| *CC – Non-core and Legacy Portfolio* | *98* | *49* | *(8)* | *99* | | *148* | *(15)* |

1 Mainly includes spread-related income in connection with client-driven transactions, foreign currency translation effects and income and expenses from precious metals, which is included in the income statement line "Other net income from fair value changes on financial instruments." The amounts reported on this line are one component of "Transaction-based income" in the management discussion and analysis of Global Wealth Management and Personal & Corporate Banking in the "UBS business divisions and Corporate Center" section of this report. 2 Investment Bank and Corporate Center information is provided at the business line level rather than by financial statement reporting line in order to reflect the underlying business activities, which is consistent with the structure of their management discussion and analysis in the "UBS business divisions and Corporate Center" section of this report.

## Net interest income and other net income from fair value changes on financial instruments

Total combined net interest income and other net income from fair value changes on financial instruments increased by CHF 299 million to CHF 3,172 million, mainly driven by increases in the Investment Bank and Global Wealth Management, partly offset by a decrease in Corporate Center.

### *Global Wealth Management*

In Global Wealth Management, net interest income increased by CHF 95 million to CHF 1,081 million, primarily due to an increase in net interest margin on deposits as well as higher loan volumes. This was partly offset by lower allocated treasury-related income from Corporate Center – Group Asset and Liability Management (Group ALM).

Transaction-based income from foreign exchange and other intermediary activity decreased by CHF 36 million to CHF 234 million, mainly driven by lower revenues from fixed-income products.

### *Personal & Corporate Banking*

In Personal & Corporate Banking, net interest income decreased by CHF 16 million to CHF 509 million, mainly due to lower allocated treasury-related income from Corporate Center – Group ALM, partly offset by higher deposit revenues.

Transaction-based income from foreign exchange and other intermediary activity increased by CHF 6 million to CHF 97 million, primarily due to higher net income from foreign exchange transactions.

### *Investment Bank*

In the Investment Bank, net interest income and other net income from fair value changes on financial instruments increased by CHF 292 million. This was predominantly due to a CHF 301 million increase in Investor Client Services, primarily in Foreign Exchange, Rates and Credit, mainly driven by increased revenues across all products, reflecting higher client activity levels and improved trading performance. It also included the recognition of net income of around CHF 100 million, comprised mainly of previously deferred day-1 profits, due to enhanced observability and revised valuations in the funding curve used to value UBS interest rate-linked notes. In addition, net interest income and other net income from fair value changes on financial instruments increased in Equities, mainly in Derivatives and Financing Services driven by increased client activity. Net interest income and other net income from fair value changes on financial instruments in Corporate Client Solutions was broadly unchanged at CHF 254 million.

→ **Refer to "Note 10 Fair value measurement" in the "Consolidated financial statements" section of this report for more information on the release of deferred day-1 profit**

*Corporate Center*

In Corporate Center, net interest income and other net income from fair value changes on financial instruments decreased by CHF 44 million, reflecting a CHF 103 million decrease in Group ALM, primarily due to higher net interest expense in Group ALM's unsecured funding portfolio. In addition, there was a CHF 48 million decrease in Corporate Center – Services, mainly driven by higher funding costs relating to Corporate Center – Services' balance sheet assets, and lower allocated treasury-related income from Group ALM. This was partly offset by a CHF 106 million increase in Non-core and Legacy Portfolio, primarily as the second quarter of 2018 included valuation gains on auction preferred securities that were previously measured at amortized cost and that are now measured at fair value through profit or loss effective 1 January 2018 upon adoption of IFRS 9.

## Net fee and commission income

Net fee and commission income was CHF 4,377 million compared with CHF 4,295 million.

Investment fund fees and fees for portfolio management and related services increased by CHF 217 million to CHF 3,115 million, mainly in Global Wealth Management, predominantly driven by higher average invested assets and an increase in mandate penetration. These factors were partly offset by the effects of cross-border outflows in 2017.

Net brokerage fees increased by CHF 36 million to CHF 802 million, primarily reflecting an increase in the Investment Bank due to improved client activity, partly offset by a decrease in Global Wealth Management.

Underwriting fees decreased by CHF 91 million to CHF 183 million, mainly due to lower equity underwriting fees in the Investment Bank.

Other fee and commission expense increased by CHF 72 million to CHF 342 million, primarily in Asset Management, mainly due to the inclusion of fund administration expenses, which were reported as operating expenses prior to the sale of Asset Management's fund administration units in the fourth quarter of 2017.

→ **Refer to "Note 3 Net fee and commission income" in the "Consolidated financial statements" section of this report for more information**

## Other income

Other income was CHF 34 million compared with CHF 147 million. The second quarter of 2018 included net foreign currency translation losses of CHF 15 million related to the disposal of a bank subsidiary in Mexico. The prior-year quarter included a gain of CHF 107 million on the sale of our remaining investment in IHS Markit and net foreign currency translation losses of CHF 22 million. Excluding these items, adjusted other income decreased by CHF 13 million.

→ **Refer to "Note 4 Other income" in the "Consolidated financial statements" section of this report for more information**

### Credit loss (expense) / recovery

| | For the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| Global Wealth Management | (1) | 3 | (1) | | 46 | 2 | (2) |
| Personal & Corporate Banking | (22) | (13) | (28) | 69 | (23) | (35) | (21) |
| Investment Bank | (6) | (15) | (6) | (64) | (12) | (21) | (12) |
| Corporate Center | 0 | 0 | (11) | 128 | (98) | 0 | (11) |
| **Total** | (28) | (25) | (46) | 14 | (38) | (53) | (46) |

## Credit loss expense / recovery

We have adopted IFRS 9, *Financial Instruments* effective 1 January 2018. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, *Financial Instruments: Recognition and Measurement* and the loss-provisioning approach for financial guarantees and loan commitments under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Total net credit loss expenses were CHF 28 million in the second quarter of 2018, reflecting stage 1 and 2 net expected credit losses of CHF 21 million, predominantly in Personal & Corporate Banking and to a lesser extent in the Investment Bank and Global Wealth Management, and net losses of CHF 7 million related to credit-impaired (stage 3) positions, mainly in Personal & Corporate Banking.

→ **Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information on the adoption of IFRS 9**

→ **Refer to "Note 9 Expected credit loss measurement" in the "Consolidated financial statements" section of this report for more information on credit loss expense / recovery**

## Operating expenses

| | For the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Operating expenses as reported** | | | | | | | |
| Personnel expenses | 4,059 | 4,014 | 4,014 | 1 | 1 | 8,073 | 8,074 |
| General and administrative expenses | 1,516 | 1,424 | 1,488 | 6 | 2 | 2,940 | 2,994 |
| Depreciation and impairment of property, equipment and software | 284 | 272 | 249 | 4 | 14 | 556 | 505 |
| Amortization and impairment of intangible assets | 16 | 16 | 16 | 3 | 1 | 32 | 37 |
| Total operating expenses as reported | 5,875 | 5,725 | 5,767 | 3 | 2 | 11,600 | 11,609 |
| **Adjusting items** | | | | | | | |
| Personnel expenses | 63 | (161) | 117 | | | (98) | 233 |
| *of which: restructuring expenses [1]* | *63* | *64* | *117* | | | *127* | *233* |
| *of which: gain related to changes to the Swiss pension plan [2]* | | *(225)* | | | | *(225)* | |
| General and administrative expenses[1] | 49 | 64 | 141 | | | 113 | 264 |
| Depreciation and impairment of property, equipment and software[1] | 2 | 0 | 0 | | | 2 | 4 |
| Amortization and impairment of intangible assets[1] | 0 | 0 | 0 | | | 0 | 0 |
| Total adjusting items | 114 | (97) | 258 | | | 17 | 502 |
| **Operating expenses (adjusted)[3]** | | | | | | | |
| Personnel expenses | 3,996 | 4,175 | 3,897 | (4) | 3 | 8,171 | 7,841 |
| *of which: salaries and variable compensation* | *2,376* | *2,533* | *2,319* | *(6)* | *2* | *4,908* | *4,659* |
| *of which: financial advisor variable compensation [4]* | *996* | *974* | *992* | *2* | *0* | *1,970* | *1,979* |
| *of which: other personnel expenses [5]* | *623* | *668* | *586* | *(7)* | *6* | *1,292* | *1,203* |
| General and administrative expenses | 1,467 | 1,360 | 1,347 | 8 | 9 | 2,827 | 2,730 |
| *of which: net expenses for litigation, regulatory and similar matters* | *131* | *(11)* | *9* | | | *120* | *42* |
| *of which: other general and administrative expenses* | *1,337* | *1,371* | *1,338* | *(2)* | *0* | *2,708* | *2,688* |
| Depreciation and impairment of property, equipment and software | 282 | 272 | 249 | 4 | 13 | 553 | 501 |
| Amortization and impairment of intangible assets | 16 | 16 | 16 | 3 | 1 | 32 | 37 |
| Total operating expenses (adjusted) | 5,761 | 5,822 | 5,509 | (1) | 5 | 11,583 | 11,107 |

1 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives in 2018 for Global Wealth Management and Asset Management. 2 Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of this report for more information. 3 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 4 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. 5 Consists of expenses related to contractors, social security, pension and other post-employment benefit plans and other personnel expenses. Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of this report for more information.

## Operating expenses: 2Q18 vs 2Q17

Total operating expenses increased by CHF 108 million or 2% to CHF 5,875 million. Excluding net restructuring expenses of CHF 114 million (second quarter of 2017: CHF 258 million) related to legacy cost programs and new restructuring initiatives, adjusted total operating expenses increased by CHF 252 million or 5% to CHF 5,761 million.

### Personnel expenses

Personnel expenses increased by CHF 45 million to CHF 4,059 million on a reported basis and by CHF 99 million to CHF 3,996 million on an adjusted basis, primarily due to higher salary expenses, mostly in Corporate Center – Services, mainly driven by continued insourcing of certain activities and staff from third-party vendors to our Business Solutions Centers, as well as in Global Wealth Management. In addition, there was an increase in costs for contractors. These increases were partly offset by lower variable compensation.

→ **Refer to "Note 5 Personnel expenses" in the "Consolidated financial statements" section of this report for more information**

### General and administrative expenses

General and administrative expenses increased by CHF 28 million to CHF 1,516 million, mainly due to CHF 122 million higher net expenses for litigation, regulatory and similar matters, largely offset by CHF 92 million lower restructuring expenses. The second quarter of 2018 included a UK bank levy credit of CHF 45 million related to prior years (second quarter of 2017: credit of CHF 46 million).

On an adjusted basis, general and administrative expenses increased by CHF 120 million to CHF 1,467 million, primarily due to the aforementioned increase in net expenses for litigation, regulatory and similar matters and CHF 31 million higher expenses for rent and maintenance of IT and other equipment, partly offset by a credit of CHF 30 million related to a release of value-added tax accruals, mainly in Global Wealth Management.

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

→ **Refer to "Note 6 General and administrative expenses" in the "Consolidated financial statements" section of this report for more information**

→ **Refer to "Note 15 Provisions and contingent liabilities" in the "Consolidated financial statements" section of this report and to "Material legal and regulatory risks arise in the conduct of our business" in the "Risk factors" section of our Annual Report 2017 for more information on litigation, regulatory and similar matters**

### Depreciation, amortization and impairment

Depreciation, amortization and impairment of property, equipment and software was CHF 284 million compared with CHF 249 million, mainly resulting from higher expenses for internally generated capitalized software. This increase was driven by newly developed software that has been placed in service over the last 12 months.

## Tax: 2Q18 vs 2Q17

We recognized an income tax expense of CHF 394 million for the second quarter of 2018 compared with an income tax expense of CHF 327 million for the second quarter of 2017.

Deferred tax expenses were CHF 198 million compared with CHF 133 million and mainly related to the amortization of deferred tax assets (DTAs) previously recognized in relation to tax losses carried forward and deductible temporary differences to reflect their offset against profits for the quarter.

The net current tax expense was CHF 196 million compared with CHF 194 million and primarily related to taxable profits of UBS Switzerland AG and other legal entities in the UBS Group. It also included a benefit of CHF 13 million related to the release of an expense accrued in the first quarter of 2018 in respect of the US base erosion and anti-abuse tax (BEAT), which was introduced as part of the Tax Cuts and Jobs Act (TCJA) enacted in the fourth quarter of 2017. Following a continuing assessment of the new law's application, the accrual was reversed in the second quarter of 2018 as we no longer expect a material BEAT expense in 2018 and for the foreseeable future.

Following the reduction in the US federal corporate tax rate to 21% from 35%, which was also included in the TCJA, and the reduction in timeframe between the end of our seven-year profit forecast period and the expiry of our US tax losses carried forward, we are reviewing our approach to the remeasurement of our US DTAs and the timing for recognizing deferred taxes in our income statement. As a result of this review, which is ongoing and will depend in part on legal entity business plans developed later this year, we expect to remeasure our DTAs in Switzerland and the US in the fourth quarter of 2018.

We currently forecast a full-year tax rate for 2018 of approximately 25%, excluding the effect of any remeasurement of DTAs and any change in the manner in which we remeasure DTAs.

→ **Refer to "Regulatory and legal developments" section of our Annual Report 2017 for more information on BEAT**

## Total comprehensive income attributable to shareholders: 2Q18 vs 2Q17

Total comprehensive income attributable to shareholders was CHF 2,343 million compared with CHF 89 million. Net profit attributable to shareholders was CHF 1,284 million compared with CHF 1,174 million and other comprehensive income (OCI) attributable to shareholders was positive CHF 1,060 million compared with negative CHF 1,086 million.

In the second quarter of 2018, foreign currency translation OCI was positive CHF 747 million, primarily resulting from the strengthening of the US dollar against the Swiss franc. OCI related to foreign currency translation in the same quarter last year was negative CHF 971 million.

OCI related to own credit on financial liabilities designated at fair value was positive CHF 248 million compared with negative CHF 73 million and mainly reflected increased observability of our own credit adjustment (OCA) curve upon issuance of a 30-year senior unsecured bond during the quarter.

Defined benefit plan OCI was CHF 244 million compared with CHF 108 million. We recorded net pre-tax OCI gains of CHF 268 million related to our non-Swiss pension plans, largely driven by the UK defined benefit plans that recorded OCI gains of CHF 218 million from the remeasurement of the defined benefit obligation, primarily due to an increase in the applicable discount rate. Net pre-tax OCI losses related to the Swiss pension plan amounted to CHF 28 million.

OCI related to cash flow hedges was negative CHF 161 million in the second quarter of 2018, mainly reflecting an increase in unrealized losses on hedging derivatives resulting from increases in US dollar long-term interest rates. In the second quarter of 2017, OCI related to cash flow hedges was negative CHF 35 million.

OCI associated with financial assets measured at fair value through OCI was negative CHF 18 million compared with negative CHF 115 million and mainly reflected net unrealized losses following increases in the respective long-term interest rates.

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

→ **Refer to "Note 10 Fair value measurement" in the "Consolidated financial statements" section of this report for more information on the OCA curve**

→ **Refer to "Note 26 Pension and other post-employment benefit plans" in the "Consolidated financial statements" section of our Annual Report 2017 for more information on other comprehensive income related to defined benefit plans**

## Sensitivity to interest rate movements

As of 30 June 2018, we estimate that a parallel shift in yield curves by +100 basis points could lead to a combined increase in annual net interest income of approximately CHF 0.6 billion in Global Wealth Management and Personal & Corporate Banking. Of this increase, approximately CHF 0.2 billion would result from changes in US dollar interest rates.

The immediate effect on shareholders' equity of such a shift in yield curves would be a decrease of approximately CHF 1.9 billion recognized in OCI, of which approximately CHF 1.4 billion would result from changes in US dollar interest rates. Since the majority of this effect on shareholders' equity is related to cash flow hedge OCI, which is not recognized for the purposes of calculating regulatory capital, the immediate effect on regulatory capital would be a decrease of approximately CHF 0.2 billion, primarily related to the impact from debt instruments measured at fair value through OCI, partly offset by a positive effect from pension fund assets and liabilities.

The aforementioned estimates are based on an immediate increase in interest rates, equal across all currencies and relative to implied forward rates applied to our banking book and financial assets measured at fair value through OCI. These estimates further assume no change to balance sheet size and structure, constant foreign exchange rates and no specific management action.

## Key figures and personnel

### Return on tangible equity: 2Q18 vs 2Q17

The annualized return on tangible equity (RoTE) was 11.6% compared with 10.3%. The annualized adjusted RoTE excluding deferred tax expense / benefit and DTAs was 16.7% compared with 15.9%.

### Cost / income ratio: 2Q18 vs 2Q17

The cost / income ratio was 77.5% compared with 78.8%. On an adjusted basis, the cost / income ratio was 75.8% compared with 76.2%.

### Common equity tier 1 capital ratio: 2Q18 vs 1Q18

Our common equity tier 1 (CET1) capital ratio increased 0.3 percentage points to 13.4%, reflecting a CHF 0.7 billion increase in CET1 capital and a CHF 1.4 billion decrease in risk-weighted assets (RWA).

→ **Refer to the "Capital management" section of this report for more information**

## Risk-weighted assets: 2Q18 vs 1Q18

During the second quarter of 2018, RWA decreased by CHF 1.4 billion to CHF 252.4 billion, reflecting a decrease from asset size and other movements of CHF 7.0 billion, partly offset by model updates of CHF 2.5 billion, an increase related to currency effects of CHF 1.8 billion and regulatory add-ons of CHF 1.0 billion, as well as methodology and policy changes of CHF 0.3 billion.

→ **Refer to the "Capital management" section of this report for more information**

## Common equity tier 1 leverage ratio: 2Q18 vs 1Q18

Our CET1 leverage ratio decreased from 3.76% to 3.75% in the second quarter of 2018, reflecting a CHF 20 billion increase in the leverage ratio denominator (LRD), partly offset by the aforementioned increase in CET1 capital.

→ **Refer to the "Capital management" section of this report for more information**

## Going concern leverage ratio: 2Q18 vs 1Q18

Our going concern leverage ratio was stable at 5.0% as of 30 June 2018, reflecting an increase of CHF 0.9 billion in going concern capital, offset by the aforementioned increase of CHF 20 billion in the LRD.

→ **Refer to the "Capital management" section of this report for more information**

## Leverage ratio denominator: 2Q18 vs 1Q18

During the second quarter of 2018, the LRD increased by CHF 20 billion to CHF 902 billion. This increase was driven by currency effects of CHF 12 billion and asset size and other movements of CHF 8 billion.

→ **Refer to the "Capital management" section of this report for more information**

## Net new money and invested assets

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

## Personnel: 2Q18 vs 1Q18

We employed 63,684 personnel as of 30 June 2018, a net increase of 1,147 compared with 31 March 2018. Corporate Center – Services personnel increased by 1,215, primarily due to higher staffing levels related to continued insourcing of certain activities from third-party vendors to our Business Solutions Centers, mainly related to Group Technology.

### Return on equity

| | As of or for the quarter ended | | | As of or year-to-date | |
|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Net profit** | | | | | |
| Net profit / (loss) attributable to shareholders | 1,284 | 1,514 | 1,174 | 2,798 | 2,443 |
| Amortization and impairment of intangible assets | 16 | 16 | 16 | 32 | 37 |
| Pre-tax adjusting items[1,2] | 129 | (97) | 173 | 33 | 417 |
| Tax effect on adjusting items[3] | (28) | 21 | (38) | (7) | (92) |
| Adjusted net profit / (loss) attributable to shareholders | 1,401 | 1,455 | 1,325 | 2,855 | 2,805 |
| *of which: deferred tax (expense) / benefit[4]* | *(198)* | *(257)* | *(133)* | *(455)* | *(264)* |
| Adjusted net profit / (loss) attributable to shareholders excluding deferred tax expense / benefit | 1,598 | 1,711 | 1,458 | 3,310 | 3,069 |
| **Equity** | | | | | |
| Equity attributable to shareholders | 50,774 | 51,243 | 51,744 | 50,774 | 51,744 |
| Less: goodwill and intangible assets | 6,391 | 6,235 | 6,226 | 6,391 | 6,226 |
| Tangible equity attributable to shareholders | 44,382 | 45,008 | 45,518 | 44,382 | 45,518 |
| *of which: DTAs not eligible as CET1 capital[5]* | *6,402* | *6,365* | *9,319* | *6,402* | *9,319* |
| Tangible equity attributable to shareholders excluding DTAs | 37,980 | 38,643 | 36,199 | 37,980 | 36,199 |
| **Return on equity** | | | | | |
| Return on equity (%) | 10.1 | 11.8 | 8.9 | 10.9 | 9.2 |
| Return on tangible equity (%) | 11.6 | 13.6 | 10.3 | 12.6 | 10.6 |
| Adjusted return on tangible equity (%)[1] | 12.5 | 13.0 | 11.4 | 12.7 | 12.0 |
| Adjusted return on tangible equity excluding deferred tax expense / benefit and DTAs (%)[1,6] | 16.7 | 17.8 | 15.9 | 17.3 | 16.6 |

1 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 2 Refer to the "Performance by business division and Corporate Center unit – reported and adjusted" table in this section for more information. 3 Generally reflects an indicative tax rate of 22% on pre-tax adjusting items. 4 Deferred tax expense / benefit in respect of taxable profits and any remeasurements of DTAs, such as the net write-down due to the Tax Cuts and Jobs Act enacted in the fourth quarter of 2017. 5 DTAs that do not qualify as CET1 capital, reflecting DTAs recognized for tax loss carry-forwards of CHF 6,113 million as of 30 June 2018 (31 March 2018: CHF 5,907 million; 30 June 2017: CHF 8,207 million) as well as DTAs on temporary differences, excess over threshold of CHF 289 million as of 30 June 2018 (31 March 2018: CHF 458 million; 30 June 2017: CHF 1,112 million), in accordance with Swiss SRB rules. Refer to the "Capital management" section of this report for more information. 6 Calculated as adjusted net profit / loss attributable to shareholders excluding amortization and impairment of goodwill and intangible assets and deferred tax expense / benefit (annualized as applicable), divided by average tangible equity attributable to shareholders excluding any DTAs that do not qualify as CET1 capital.

## Net new money[1]

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF billion* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| Global Wealth Management | (1.2) | 19.0 | 7.5 | 17.7 | 28.1 |
| Asset Management | (2.1) | 31.4 | 10.7 | 29.3 | 33.6 |
| *of which: excluding money market flows* | *0.9* | *26.6* | *10.2* | *27.6* | *29.9* |
| *of which: money market flows* | *(3.1)* | *4.7* | *0.5* | *1.7* | *3.7* |

1 Net new money excludes interest and dividend income.

## Invested assets

| | As of | | | % change from | |
|---|---|---|---|---|---|
| *CHF billion* | 30.6.18 | 31.3.18 | 30.6.17 | 31.3.18 | 30.6.17 |
| Global Wealth Management | 2,372 | 2,302 | 2,149 | 3 | 10 |
| Asset Management | 810 | 792 | 703 | 2 | 15 |
| *of which: excluding money market funds* | *732* | *713* | *636* | *3* | *15* |
| *of which: money market funds* | *78* | *79* | *67* | *(1)* | *17* |

## Results: 6M18 vs 6M17

Profit before tax increased by CHF 460 million or 14% to CHF 3,652 million. Operating income increased by CHF 451 million or 3%, mainly reflecting CHF 373 million higher net interest income and other net income from fair value changes on financial instruments as well as a CHF 202 million increase in net fee and commission income, partly offset by CHF 116 million lower other income. Operating expenses were broadly unchanged at CHF 11,600 million, primarily as CHF 54 million lower general and administrative expenses were almost entirely offset by a CHF 51 million increase in amortization expenses. Personnel expenses were broadly unchanged at CHF 8,073 million as a gain of CHF 225 million related to changes to our Swiss pension plan was almost entirely offset by higher expenses for salaries, contractors and social security, mainly in Corporate Center – Services, primarily driven by the aforementioned insourcing of certain activities and staff from third-party vendors to our Business Solutions Centers, as well as in Global Wealth Management.

On an adjusted basis, profit before tax increased by CHF 75 million or 2%, reflecting higher operating income, largely offset by an increase in operating expenses.

Adjusted operating income increased by CHF 551 million or 4%, mainly due to a CHF 373 million increase in net interest income and other net income from fair value changes on financial instruments, primarily reflecting increases in the Investment Bank and in Global Wealth Management, partly offset by a decrease in Corporate Center. In addition, net fee and commission increased by CHF 202 million, mainly due to a CHF 406 million increase in investment fund fees and fees for portfolio management and related services, primarily in Global Wealth Management, as well as CHF 62 million higher net brokerage fees. These increases were partly offset by CHF 145 million lower underwriting fees, primarily reflecting lower equity underwriting fees in the Investment Bank, and a CHF 125 million increase in other fee and commission expense, mainly in Asset Management and predominantly due to the inclusion of fund administration expenses, which were previously reported as operating expenses prior to the sale of Asset Management's fund administration units in the fourth quarter of 2017.

Adjusted operating expenses increased by CHF 476 million or 4%, mainly due to a CHF 330 million increase in adjusted personnel expenses, primarily reflecting higher expenses for salaries and contractors. In addition, adjusted general and administrative expenses increased by CHF 97 million, primarily due to higher net expenses for litigation, regulatory and similar matters, as well as a CHF 52 million increase in adjusted amortization expenses.

## Outlook

Global economic growth prospects continue to provide a supportive backdrop to markets, although ongoing geopolitical tensions and rising protectionism have dampened investor confidence and remain a threat. We continue to expect US dollar interest rates to rise gradually, which, despite margin pressure, is likely to support net interest income in Global Wealth Management.

In addition to typical seasonality factors in the third quarter, market volatility remains muted overall which is usually less conducive to client activity. Funding costs related to long-term debt and capital instruments issued to comply with regulatory funding and liquidity requirements will be higher than in the previous year, but should be broadly stable compared with the second quarter.

As in the first half of the year, our diversified business model should help us make continued progress towards achieving our strategic and financial targets.

# UBS business divisions and Corporate Center

Management report

# Global Wealth Management

## Global Wealth Management[1]

| | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Results** | | | | | | | |
| Net interest income | 1,081 | 1,018 | 986 | 6 | 10 | 2,099 | 1,954 |
| Recurring net fee income[2] | 2,350 | 2,283 | 2,164 | 3 | 9 | 4,633 | 4,292 |
| Transaction-based income[3] | 718 | 880 | 796 | (18) | (10) | 1,599 | 1,670 |
| Other income | 9 | 11 | 14 | (15) | (35) | 20 | 24 |
| Income | 4,158 | 4,192 | 3,960 | (1) | 5 | 8,350 | 7,940 |
| Credit loss (expense) / recovery[4] | (1) | 3 | (1) | | 46 | 2 | (2) |
| Total operating income | 4,157 | 4,195 | 3,959 | (1) | 5 | 8,352 | 7,938 |
| Personnel expenses | 1,904 | 1,861 | 1,880 | 2 | 1 | 3,766 | 3,758 |
| Salaries and other personnel costs | 908 | 888 | 888 | 2 | 2 | 1,796 | 1,779 |
| Financial advisor variable compensation[5,6] | 852 | 828 | 808 | 3 | 5 | 1,680 | 1,599 |
| Compensation commitments with recruited financial advisors[5,7] | 144 | 146 | 184 | (1) | (22) | 290 | 381 |
| General and administrative expenses | 302 | 287 | 304 | 5 | (1) | 589 | 578 |
| Services (to) / from Corporate Center and other business divisions | 900 | 905 | 884 | 0 | 2 | 1,805 | 1,757 |
| *of which: services from CC – Services* | *877* | *878* | *860* | *0* | *2* | *1,755* | *1,703* |
| Depreciation and impairment of property, equipment and software | 1 | 1 | 1 | (4) | (30) | 2 | 2 |
| Amortization and impairment of intangible assets | 13 | 12 | 11 | 4 | 20 | 25 | 23 |
| Total operating expenses | 3,120 | 3,067 | 3,080 | 2 | 1 | 6,187 | 6,119 |
| Business division operating profit / (loss) before tax | 1,037 | 1,129 | 879 | (8) | 18 | 2,165 | 1,819 |
| **Adjusted results[8]** | | | | | | | |
| Total operating income as reported | 4,157 | 4,195 | 3,959 | (1) | 5 | 8,352 | 7,938 |
| Total operating income (adjusted) | 4,157 | 4,195 | 3,959 | (1) | 5 | 8,352 | 7,938 |
| Total operating expenses as reported | 3,120 | 3,067 | 3,080 | 2 | 1 | 6,187 | 6,119 |
| *of which: personnel-related restructuring expenses[9]* | *3* | *3* | *14* | | | *6* | *15* |
| *of which: non-personnel-related restructuring expenses[9]* | *5* | *9* | *16* | | | *14* | *27* |
| *of which: restructuring expenses allocated from CC – Services[9]* | *39* | *47* | *104* | | | *86* | *202* |
| *of which: gain related to changes to the Swiss pension plan* | | *(61)* | | | | *(61)* | |
| Total operating expenses (adjusted) | 3,073 | 3,069 | 2,946 | 0 | 4 | 6,142 | 5,875 |
| Business division operating profit / (loss) before tax as reported | 1,037 | 1,129 | 879 | (8) | 18 | 2,165 | 1,819 |
| Business division operating profit / (loss) before tax (adjusted) | 1,084 | 1,126 | 1,013 | (4) | 7 | 2,210 | 2,063 |
| **Key performance indicators[10]** | | | | | | | |
| Pre-tax profit growth (%) | 17.9 | 20.0 | 16.4 | | | 19.0 | 19.4 |
| Cost / income ratio (%) | 75.0 | 73.2 | 77.8 | | | 74.1 | 77.1 |
| Net new money growth (%) | (0.2) | 3.2 | 1.4 | | | 1.5 | 2.7 |
| Net margin on invested assets (bps) | 18 | 19 | 16 | (9) | 9 | 19 | 17 |
| **Adjusted key performance indicators[8,10]** | | | | | | | |
| Pre-tax profit growth (%) | 7.0 | 7.2 | 15.0 | | | 7.1 | 17.1 |
| Cost / income ratio (%) | 73.9 | 73.2 | 74.4 | | | 73.6 | 74.0 |
| Net new money growth (%) | (0.2) | 3.2 | 1.4 | | | 1.5 | 2.7 |
| Net margin on invested assets (bps) | 19 | 19 | 19 | (4) | (1) | 19 | 19 |

## Global Wealth Management (continued)[1]

| CHF million, except where indicated | As of or for the quarter ended 30.6.18 | 31.3.18 | 30.6.17 | % change from 1Q18 | 2Q17 | Year-to-date 30.6.18 | 30.6.17 |
|---|---|---|---|---|---|---|---|
| **Additional information** | | | | | | | |
| Recurring income[11] | 3,430 | 3,301 | 3,150 | 4 | 9 | 6,732 | 6,246 |
| Recurring income as a percentage of income (%) | 82.5 | 78.7 | 79.5 | | | 80.6 | 78.7 |
| Average attributed equity (CHF billion)[12] | 13.2 | 12.9 | 12.7 | 2 | 4 | 13.0 | 12.7 |
| Return on attributed equity (%)[12] | 31.5 | 34.9 | 27.7 | | | 33.3 | 28.7 |
| Return on attributed tangible equity (%)[12] | 50.9 | 56.9 | 45.6 | | | 53.9 | 47.5 |
| Risk-weighted assets (CHF billion)[12] | 60.0 | 58.6 | 55.0 | 2 | 9 | 60.0 | 55.0 |
| *of which: held by Global Wealth Management (CHF billion)* | *57.9* | *56.5* | *52.7* | *2* | *10* | *57.9* | *52.7* |
| *of which: held by CC – Group ALM on behalf of Global Wealth Management (CHF billion)*[13] | *2.1* | *2.1* | *2.3* | *3* | *(6)* | *2.1* | *2.3* |
| Leverage ratio denominator (CHF billion)[12] | 263.7 | 258.8 | 252.4 | 2 | 4 | 263.7 | 252.4 |
| *of which: held by Global Wealth Management (CHF billion)* | *207.3* | *202.3* | *185.9* | *2* | *12* | *207.3* | *185.9* |
| *of which: held by CC – Group ALM on behalf of Global Wealth Management (CHF billion)*[13] | *56.4* | *56.5* | *66.5* | *0* | *(15)* | *56.4* | *66.5* |
| Goodwill and intangible assets (CHF billion) | 5.0 | 4.8 | 4.8 | 3 | 4 | 5.0 | 4.8 |
| Net new money (CHF billion) | (1.2) | 19.0 | 7.5 | | | 17.7 | 28.1 |
| Invested assets (CHF billion) | 2,372 | 2,302 | 2,149 | 3 | 10 | 2,372 | 2,149 |
| Gross margin on invested assets (bps) | 71 | 72 | 73 | (1) | (3) | 72 | 74 |
| Adjusted gross margin on invested assets (bps) | 71 | 72 | 73 | (1) | (3) | 72 | 74 |
| Client assets (CHF billion) | 2,633 | 2,551 | 2,381 | 3 | 11 | 2,633 | 2,381 |
| Loans, gross (CHF billion)[14] | 175.6 | 171.7 | 157.5 | 2 | 11 | 175.6 | 157.5 |
| Due to customers (CHF billion)[14] | 268.4 | 264.1 | 263.4 | 2 | 2 | 268.4 | 263.4 |
| Recruitment loans to financial advisors[5] | 2,384 | 2,374 | 2,643 | 0 | (10) | 2,384 | 2,643 |
| Other loans to financial advisors[5] | 1,010 | 952 | 557 | 6 | 81 | 1,010 | 557 |
| Personnel (full-time equivalents) | 23,458 | 23,383 | 23,070 | 0 | 2 | 23,458 | 23,070 |
| Advisors (full-time equivalents) | 10,682 | 10,654 | 10,698 | 0 | 0 | 10,682 | 10,698 |

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Recurring net fee income consists of fees for services provided on an ongoing basis such as portfolio management fees, asset-based investment fund fees, custody fees and account-keeping fees, which are generated on client assets. 3 Transaction-based income consists of the non-recurring portion of net fee and commission income, mainly consisting of brokerage and transaction-based investment fund fees as well as credit card fees and fees for payment transactions, together with Other net income from fair value changes on financial instruments. 4 Upon adoption of IFRS 9 effective 1 January 2018, credit loss expenses include credit losses on recruitment loans to financial advisors previously recognized in personnel expenses. Prior periods were not restated. 5 Relates to licensed professionals with the ability to provide investment advice to clients in the Americas. 6 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. 7 Compensation commitments with recruited financial advisors represent expenses related to compensation commitments granted to financial advisors at the time of recruitment that are subject to vesting requirements. 8 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 9 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives in 2018. 10 Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. 11 Recurring income consists of net interest income and recurring net fee income. 12 Refer to the "Capital management" section of this report for more information. 13 Represents risk-weighted assets and leverage ratio denominator held by Corporate Center – Group ALM that are directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information. 14 Loans and Due to customers in this table include customer brokerage receivables and payables, respectively, which with the adoption of IFRS 9 effective 1 January 2018 have been reclassified to a separate reporting line on the balance sheet.

## Regional breakdown of key figures[1]

| *As of or for the quarter ended 30.6.18*<br>*CHF billion, except where indicated* | CHF<br>Americas | *USD*<br>*Americas* | CHF<br>EMEA | CHF<br>Asia Pacific | CHF<br>Switzerland | CHF<br>Total of regions[2] | *CHF*<br>*of which: ultra high net worth (UHNW)* |
|---|---|---|---|---|---|---|---|
| Net new money | (7.0) | *(7.1)* | 0.0 | 2.2 | 4.4 | (0.4) | *3.3* |
| Net new money growth (%) | (2.3) | *(2.2)* | 0.0 | 2.3 | 8.8 | (0.1) | *1.2* |
| Invested assets | 1,257 | *1,268* | 518 | 387 | 207 | 2,369 | *1,195* |
| Loans, gross | 58[3] | *58*[3] | 37 | 47 | 34 | 175 | |
| Advisors (full-time equivalents) | 6,937 | *6,937* | 1,792 | 1,095 | 731 | 10,555 | *1,039*[4] |

1 Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. 2 Excluding minor functions with 127 advisors, CHF 3 billion of invested assets and CHF 0.8 billion of net new money outflows in the second quarter of 2018. 3 Loans include customer brokerage receivables which with the adoption of IFRS 9 effective 1 January 2018 have been reclassified to a separate reporting line on the balance sheet. 4 Represents advisors who exclusively serve ultra high net worth clients in a globally managed unit.

## Results: 2Q18 vs 2Q17

Profit before tax increased by CHF 158 million or 18% to CHF 1,037 million and adjusted profit before tax increased by CHF 71 million or 7% to CHF 1,084 million, reflecting higher operating income, partly offset by higher operating expenses.

In US dollar terms, adjusted profit before tax increased by 5%.

### Operating income

Total operating income increased by CHF 198 million or 5% to CHF 4,157 million, mainly driven by higher recurring net fee income and net interest income, partly offset by lower transaction-based income.

Net interest income increased by CHF 95 million to CHF 1,081 million, primarily due to an increase in net interest margin on deposits as well as higher loan volumes. This was partly offset by lower allocated treasury-related income from Corporate Center – Group Asset and Liability Management (Group ALM).

→ **Refer to the "Corporate Center – Group Asset and Liability Management" section of this report for more information**

Recurring net fee income increased by CHF 186 million to CHF 2,350 million, predominantly driven by higher average invested assets and an increase in mandate penetration. These factors were partly offset by the effects of cross-border outflows in 2017.

Transaction-based income decreased by CHF 78 million to CHF 718 million, mainly due to reduced client activity, most notably in the Americas and Asia Pacific.

Other income decreased by CHF 5 million to CHF 9 million.

### Operating expenses

Total operating expenses increased by CHF 40 million or 1% to CHF 3,120 million and adjusted operating expenses increased by CHF 127 million or 4% to CHF 3,073 million. Personnel expenses increased by CHF 24 million to CHF 1,904 million and adjusted personnel expenses increased by CHF 35 million to CHF 1,901 million. This increase was mainly due to increases in salaries and staff levels, partly offset by lower other variable compensation, while the increase in financial advisor variable compensation was mostly offset by lower expenses for compensation commitments to recruited financial advisors in the Americas. General and administrative expenses were broadly unchanged at CHF 302 million, while adjusted general and administrative expenses increased by CHF 9 million to CHF 297 million, predominantly driven by higher regulatory costs and higher provisions for litigation matters, partly offset by the release of a CHF 23 million value-added tax accrual. Net expenses for services from Corporate Center and other business divisions increased by CHF 16 million to CHF 900 million and adjusted net expenses for services increased by CHF 81 million to CHF 861 million, mainly reflecting higher expenses from Group Technology, Group Risk Control and Group Operations.

Global Wealth Management continues to take measures to improve its overall efficiency and has undertaken a review of its organizational structures. We expect to realize cost savings from these measures and the related restructuring expenses to be booked in the second half of the year will be treated as adjusting items.

## Net new money: 2Q18 vs 2Q17

Net new money outflows were CHF 1.2 billion compared with inflows of CHF 7.5 billion, an annualized net new money growth rate of negative 0.2% compared with positive 1.4%. The outflows were mainly driven by seasonal income tax payments in the Americas of approximately CHF 4.6 billion, compared with CHF 3.2 billion, and a single outflow of around CHF 4.4 billion in the Americas from a corporate employee share program, partly offset by a transfer from Personal & Corporate Banking of CHF 2.3 billion reflecting higher service levels. Net new money from ultra high net worth clients was CHF 3.3 billion compared with CHF 6.7 billion.

## Invested assets: 2Q18 vs 1Q18

Invested assets increased by CHF 69 billion to CHF 2,372 billion, due to positive foreign currency translation effects of CHF 62 billion and positive market performance of CHF 13 billion, slightly offset by reclassifications of CHF 4 billion and net new money outflows of CHF 1 billion. Mandate penetration increased to 33.3% from 33.1%.

## Results: 6M18 vs 6M17

Profit before tax increased by CHF 346 million or 19% to CHF 2,165 million partly due to a credit of CHF 61 million related to our Swiss pension plan recognized in the first quarter of 2018. Adjusted profit before tax increased by CHF 147 million or 7% to CHF 2,210 million, reflecting higher operating income, partly offset by higher operating expenses. In US dollar terms, adjusted profit before tax increased by 9%.

Total operating income increased by CHF 414 million or 5% to CHF 8,352 million, mainly driven by higher recurring net fee income and net interest income, partly offset by lower transaction-based income. Net interest income increased by CHF 145 million to CHF 2,099 million, primarily due to an increase in net interest margin as well as an increase in lending revenues. This was partly offset by lower allocated treasury-related income from Corporate Center – Group ALM.

→ **Refer to the "Corporate Center – Group Asset and Liability Management" section of this report for more information**

Recurring net fee income increased by CHF 341 million to CHF 4,633 million, predominantly driven by higher average invested assets and an increase in mandate penetration. These factors were partly offset by the effects of cross-border outflows in 2017. Transaction-based income decreased by CHF 71 million to CHF 1,599 million, mainly due to reduced client activity and higher fees paid to Personal & Corporate Banking, reflecting increased volumes of referrals and net client shifts.

Total operating expenses increased by CHF 68 million or 1% to CHF 6,187 million and adjusted operating expenses increased by CHF 267 million or 5% to CHF 6,142 million. Including the aforementioned credit related to changes to our Swiss pension plan, personnel expenses increased by CHF 8 million to CHF 3,766 million and increased by CHF 78 million to CHF 3,821 million on an adjusted basis, driven by higher salaries and other personnel costs and higher financial advisor variable compensation, partly offset by lower expenses for compensation commitments to recruited financial advisors in the Americas. General and administrative expenses increased by CHF 11 million to CHF 589 million and adjusted general and administrative expenses increased by CHF 24 million to CHF 575 million, mainly due to higher regulatory costs and higher provisions for litigation matters. Net expenses for services from Corporate Center and other business divisions increased by CHF 48 million to CHF 1,805 million and adjusted net expenses for services increased by CHF 164 million to CHF 1,719 million. This increase was driven by higher net expenses from Group Technology, Group Risk Control and higher costs related to strategic and regulatory initiatives.

# Personal & Corporate Banking

**Personal & Corporate Banking[1]**

| | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Results** | | | | | | | |
| Net interest income | 509 | 507 | 525 | 0 | (3) | 1,016 | 1,038 |
| Recurring net fee income[2] | 157 | 154 | 151 | 2 | 4 | 311 | 290 |
| Transaction-based income[3] | 275 | 282 | 272 | (3) | 1 | 557 | 534 |
| Other income | 14 | 17 | 16 | (14) | (11) | 31 | 52 |
| Income | 955 | 960 | 963 | 0 | (1) | 1,915 | 1,914 |
| Credit loss (expense) / recovery | (22) | (13) | (28) | 69 | (23) | (35) | (21) |
| **Total operating income** | 933 | 947 | 935 | (1) | 0 | 1,880 | 1,893 |
| Personnel expenses | 221 | 178 | 225 | 24 | (2) | 398 | 437 |
| General and administrative expenses | 56 | 59 | 75 | (4) | (24) | 115 | 134 |
| Services (to) / from Corporate Center and other business divisions | 285 | 288 | 277 | (1) | 3 | 573 | 542 |
| *of which: services from CC – Services* | *304* | *311* | *294* | *(2)* | *3* | *615* | *587* |
| Depreciation and impairment of property, equipment and software | 3 | 3 | 3 | 4 | 6 | 6 | 6 |
| Amortization and impairment of intangible assets | 0 | 0 | 0 | | | 0 | 0 |
| **Total operating expenses** | 566 | 528 | 579 | 7 | (2) | 1,093 | 1,119 |
| **Business division operating profit / (loss) before tax** | 368 | 419 | 356 | (12) | 3 | 787 | 774 |
| **Adjusted results[4]** | | | | | | | |
| **Total operating income as reported** | 933 | 947 | 935 | (1) | 0 | 1,880 | 1,893 |
| **Total operating income (adjusted)** | 933 | 947 | 935 | (1) | 0 | 1,880 | 1,893 |
| **Total operating expenses as reported** | 566 | 528 | 579 | 7 | (2) | 1,093 | 1,119 |
| *of which: personnel-related restructuring expenses[5]* | *1* | *1* | *2* | | | *2* | *4* |
| *of which: non-personnel-related restructuring expenses[5]* | *0* | *0* | *0* | | | *0* | *0* |
| *of which: restructuring expenses allocated from CC – Services[5]* | *9* | *9* | *21* | | | *17* | *38* |
| *of which: gain related to changes to the Swiss pension plan* | | *(35)* | | | | *(35)* | |
| **Total operating expenses (adjusted)** | 556 | 553 | 556 | 0 | 0 | 1,109 | 1,077 |
| **Business division operating profit / (loss) before tax as reported** | 368 | 419 | 356 | (12) | 3 | 787 | 774 |
| **Business division operating profit / (loss) before tax (adjusted)** | 378 | 393 | 379 | (4) | 0 | 771 | 816 |
| **Key performance indicators[6]** | | | | | | | |
| Pre-tax profit growth (%) | 3.4 | 0.2 | (33.3) | | | 1.7 | (17.0) |
| Cost / income ratio (%) | 59.2 | 55.0 | 60.1 | | | 57.1 | 58.5 |
| Net interest margin (bps) | 156 | 155 | 157 | 1 | (1) | 155 | 155 |
| Net new business volume growth for personal banking (%) | 3.9 | 6.3 | 4.5 | | | 5.1 | 5.6 |
| **Adjusted key performance indicators[4,6]** | | | | | | | |
| Pre-tax profit growth (%) | (0.2) | (10.0) | (18.1) | | | (5.5) | (7.9) |
| Cost / income ratio (%) | 58.2 | 57.7 | 57.7 | | | 57.9 | 56.3 |
| Net interest margin (bps) | 156 | 155 | 157 | 1 | (1) | 155 | 155 |
| Net new business volume growth for personal banking (%) | 3.9 | 6.3 | 4.5 | | | 5.1 | 5.6 |

**Personal & Corporate Banking (continued)**[1]

| | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Additional information** | | | | | | | |
| Average attributed equity (CHF billion)[7] | 6.4 | 6.2 | 6.1 | 3 | 5 | 6.3 | 6.1 |
| Return on attributed equity (%)[7] | 23.0 | 27.0 | 23.4 | | | 25.0 | 25.6 |
| Return on attributed tangible equity (%)[7] | 23.0 | 27.0 | 23.4 | | | 25.0 | 25.6 |
| Risk-weighted assets (CHF billion)[7] | 53.2 | 50.5 | 47.9 | 5 | 11 | 53.2 | 47.9 |
| *of which: held by Personal & Corporate Banking (CHF billion)* | *52.2* | *49.5* | *46.9* | *5* | *11* | *52.2* | *46.9* |
| *of which: held by CC – Group ALM on behalf of Personal & Corporate Banking (CHF billion)*[8] | *1.0* | *1.0* | *1.1* | *0* | *(1)* | *1.0* | *1.1* |
| Leverage ratio denominator (CHF billion)[7] | 187.8 | 186.6 | 188.7 | 1 | 0 | 187.8 | 188.7 |
| *of which: held by Personal & Corporate Banking (CHF billion)* | *148.8* | *148.0* | *149.5* | *1* | *(1)* | *148.8* | *149.5* |
| *of which: held by CC – Group ALM on behalf of Personal & Corporate Banking (CHF billion)*[8] | *39.0* | *38.6* | *39.2* | *1* | *0* | *39.0* | *39.2* |
| Business volume for personal banking (CHF billion) | 156 | 156 | 153 | 0 | 2 | 156 | 153 |
| Net new business volume for personal banking (CHF billion) | 1.5 | 2.4 | 1.7 | | | 3.9 | 4.2 |
| Client assets (CHF billion)[9] | 658 | 652 | 651 | 1 | 1 | 658 | 651 |
| Loans, gross (CHF billion) | 130.6 | 130.8 | 132.8 | 0 | (2) | 130.6 | 132.8 |
| Due to customers (CHF billion) | 138.0 | 137.6 | 135.0 | 0 | 2 | 138.0 | 135.0 |
| Secured loan portfolio as a percentage of total loan portfolio, gross (%) | 92.1 | 92.2 | 92.6 | | | 92.1 | 92.6 |
| Impaired loan portfolio as a percentage of total loan portfolio, gross (%)[10] | 1.2 | 1.2 | 0.5 | | | 1.2 | 0.5 |
| Personnel (full-time equivalents) | 5,141 | 5,160 | 5,072 | 0 | 1 | 5,141 | 5,072 |

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Recurring net fee income consists of fees for services provided on an ongoing basis such as portfolio management fees, asset-based investment fund fees, custody fees and account-keeping fees, which are generated on client assets. 3 Transaction-based income comprises the non-recurring portion of net fee and commission income, mainly consisting of brokerage and transaction-based investment fund fees as well as credit card fees and fees for payment transactions, together with net income from fair value changes on financial instruments. 4 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 5 Reflects restructuring expenses related to legacy cost programs. 6 Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. 7 Refer to the "Capital management" section of this report for more information. 8 Represents risk-weighted assets and leverage ratio denominator held by Corporate Center – Group ALM that are directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information. 9 Client assets are comprised of invested assets and other assets held purely for transactional purposes or custody only. We do not measure net new money for Personal & Corporate Banking. 10 Refer to the "Risk management and control" section of this report for more information on (credit-) impaired exposures.

## Results: 2Q18 vs 2Q17

Profit before tax increased by CHF 12 million or 3% to CHF 368 million. Adjusted profit before tax was broadly unchanged at CHF 378 million.

Effective from 1 January 2018, we have reclassified certain expenses for clearing, credit card add-on services and the client loyalty program, which are incremental and incidental to revenues on a prospective basis, to better align these costs with their associated revenues within operating income. This resulted in a CHF 17 million reduction in total operating income in the second quarter of 2018, of which CHF 15 million related to transaction-based income, and a roughly corresponding decrease in total operating expenses, including a CHF 16 million reduction in general and administrative expenses.

### Operating income

Total operating income was broadly unchanged at CHF 933 million, including the aforementioned CHF 17 million effect from the reclassification of expenses to revenues and mainly reflecting lower net interest income, mostly offset by higher recurring net fee income and lower credit loss expenses.

Net interest income decreased by CHF 16 million to CHF 509 million. Higher deposit revenues were more than offset by lower allocated treasury-related income from Corporate Center – Group Asset and Liability Management (Group ALM).

→ **Refer to the "Corporate Center – Group Asset and Liability Management" section of this report for more information**

Recurring net fee income increased by CHF 6 million to CHF 157 million, mainly reflecting higher fees from bundled products and higher volumes of investment funds.

Transaction-based income increased by CHF 3 million to CHF 275 million, mainly due to higher revenues from foreign exchange transactions and credit-related fees as well as higher fees received from Global Wealth Management, reflecting increased referral volumes. This was partly offset by the aforementioned reclassification from expenses to revenues.

Other income was broadly unchanged at CHF 14 million.

Net credit loss expenses were CHF 22 million compared with CHF 28 million in the prior-year quarter and included CHF 15 million of stage 1 and 2 expected credit losses.

→ **Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information on the adoption of IFRS 9**

### Operating expenses

Total operating expenses decreased by CHF 13 million or 2% to CHF 566 million and adjusted operating expenses were unchanged, after a CHF 16 million reduction in general and administrative expenses due to the reclassification from expenses to revenues. The net expenses for services from Corporate Center and other business divisions increased by CHF 8 million, and by CHF 20 million on an adjusted basis, mainly reflecting higher expenses from Group Technology and for strategic and regulatory initiatives.

## Net new business volume growth for personal banking: 2Q18 vs 2Q17

The annualized net new business volume growth rate for our personal banking business was 3.9% compared with 4.5%. Net new client assets and, to a lesser extent, net new loans were positive.

## Results: 6M18 vs 6M17

Profit before tax increased by CHF 13 million or 2% to CHF 787 million and adjusted profit before tax decreased by CHF 45 million or 5% to CHF 771 million, mainly reflecting higher operating and credit loss expenses while income remained broadly unchanged.

Total operating income decreased by CHF 13 million or 1% to CHF 1,880 million, reflecting a negative effect of CHF 34 million due to the aforementioned reclassification of expenses to revenues. Net interest income decreased by CHF 22 million to CHF 1,016 million, driven by lower allocated treasury-related income from Corporate Center – Group ALM.

→ **Refer to the "Corporate Center – Group Asset and Liability Management" section of this report for more information**

Recurring net fee income increased by CHF 21 million to CHF 311 million, mainly reflecting higher custody and mandate fees. Transaction-based income increased by CHF 23 million to CHF 557 million, mainly due to higher fees received from Global Wealth Management, reflecting increased volumes of referrals and net client shifts as well as higher revenues from foreign exchange transactions, partly offset by the aforementioned reclassification from expenses to revenues. Other income was down CHF 21 million to CHF 31 million, primarily as a result of a CHF 20 million gain in the prior year on the sale of an income-producing real estate loan portfolio to a non-consolidated investment foundation in connection with our mortgage financing platform, UBS Atrium.

Net credit loss expenses were CHF 35 million compared with CHF 21 million in the same period in the prior year and included CHF 17 million of stage 1 and 2 expected credit losses.

Total operating expenses decreased by CHF 26 million or 2% to CHF 1,093 million and adjusted operating expenses increased by CHF 32 million or 3% to CHF 1,109 million. Personnel expenses decreased by CHF 39 million to CHF 398 million and decreased by CHF 2 million to CHF 431 million on an adjusted basis. General and administrative expenses decreased by CHF 19 million to CHF 115 million as the aforementioned reclassification of expenses to revenues reduced general and administrative expenses by CHF 32 million. Net expenses for services from Corporate Center and other business divisions increased by CHF 31 million, and by CHF 52 million on an adjusted basis, reflecting higher costs from Group Technology and for strategic and regulatory initiatives.

# Asset Management

**Asset Management[1]**

| CHF million, except where indicated | As of or for the quarter ended 30.6.18 | 31.3.18 | 30.6.17 | % change from 1Q18 | 2Q17 | Year-to-date 30.6.18 | 30.6.17 |
|---|---|---|---|---|---|---|---|
| **Results** | | | | | | | |
| Net management fees[2] | 439 | 427 | 443 | 3 | (1) | 865 | 866 |
| Performance fees | 19 | 14 | 36 | 31 | (47) | 33 | 62 |
| **Total operating income** | 458 | 441 | 479 | 4 | (4) | 899 | 929 |
| Personnel expenses | 189 | 167 | 196 | 13 | (3) | 356 | 357 |
| General and administrative expenses | 48 | 49 | 52 | (1) | (7) | 97 | 109 |
| Services (to) / from Corporate Center and other business divisions | 119 | 118 | 120 | 0 | (1) | 237 | 247 |
| *of which: services from CC – Services* | *129* | *129* | *131* | *0* | *(1)* | *258* | *266* |
| Depreciation and impairment of property, equipment and software | 1 | 0 | 0 | | | 1 | 1 |
| Amortization and impairment of intangible assets | 0 | 0 | 1 | | (76) | 1 | 2 |
| **Total operating expenses** | 357 | 335 | 369 | 7 | (3) | 692 | 716 |
| **Business division operating profit / (loss) before tax** | 101 | 106 | 110 | (5) | (8) | 207 | 213 |
| **Adjusted results[3]** | | | | | | | |
| **Total operating income as reported** | 458 | 441 | 479 | 4 | (4) | 899 | 929 |
| **Total operating income (adjusted)** | 458 | 441 | 479 | 4 | (4) | 899 | 929 |
| **Total operating expenses as reported** | 357 | 335 | 369 | 7 | (3) | 692 | 716 |
| *of which: personnel-related restructuring expenses[4]* | *15* | *1* | *3* | | | *16* | *5* |
| *of which: non-personnel-related restructuring expenses[4]* | *3* | *3* | *6* | | | *6* | *11* |
| *of which: restructuring expenses allocated from CC – Services[4]* | *8* | *7* | *15* | | | *14* | *28* |
| *of which: gain related to changes to the Swiss pension plan* | | *(10)* | | | | *(10)* | |
| **Total operating expenses (adjusted)** | 331 | 333 | 346 | (1) | (4) | 665 | 673 |
| **Business division operating profit / (loss) before tax as reported** | 101 | 106 | 110 | (5) | (8) | 207 | 213 |
| **Business division operating profit / (loss) before tax (adjusted)** | 126 | 108 | 133 | 17 | (5) | 234 | 256 |
| **Key performance indicators[5]** | | | | | | | |
| Pre-tax profit growth (%) | (8.3) | 3.0 | (3.5) | | | (2.8) | 4.4 |
| Cost / income ratio (%) | 78.0 | 75.9 | 77.0 | | | 77.0 | 77.1 |
| Net new money growth excluding money market flows (%) | 0.5 | 15.2 | 6.5 | | | 7.9 | 10.1 |
| Net margin on invested assets (bps) | 5 | 5 | 6 | (7) | (20) | 5 | 6 |
| **Adjusted key performance indicators[3,5]** | | | | | | | |
| Pre-tax profit growth (%)[6] | 0.8 | (6.6) | (10.1) | | | (2.7) | 0.4 |
| Cost / income ratio (%) | 72.4 | 75.6 | 72.2 | | | 73.9 | 72.4 |
| Net new money growth excluding money market flows (%) | 0.5 | 15.2 | 6.5 | | | 7.9 | 10.1 |
| Net margin on invested assets (bps) | 6 | 5 | 8 | 15 | (17) | 6 | 7 |
| **Information by business line / asset class** | | | | | | | |
| **Net new money (CHF billion)** | | | | | | | |
| Equities | 3.3 | 26.8 | 4.0 | | | 30.1 | 14.0 |
| Fixed Income | (9.7) | 3.7 | 2.6 | | | (6.0) | 12.3 |
| *of which: money market* | *(3.1)* | *4.7* | *0.5* | | | *1.7* | *3.7* |
| Multi Assets & Solutions | 1.9 | 1.3 | 2.5 | | | 3.3 | 4.1 |
| Hedge Fund Businesses | 1.9 | (0.7) | 0.8 | | | 1.1 | 1.5 |
| Real Estate & Private Markets | 0.5 | 0.3 | 0.7 | | | 0.8 | 1.8 |
| **Total net new money** | (2.1) | 31.4 | 10.7 | | | 29.3 | 33.6 |

## Asset Management (continued)[1]

| | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Invested assets (CHF billion)** | | | | | | | |
| Equities | 325 | 312 | 255 | 4 | 28 | 325 | 255 |
| Fixed Income | 235 | 241 | 217 | (2) | 8 | 235 | 217 |
| *of which: money market* | *78* | *79* | *67* | *(1)* | *17* | *78* | *67* |
| Multi Assets & Solutions | 128 | 124 | 124 | 3 | 3 | 128 | 124 |
| Hedge Fund Businesses | 44 | 41 | 39 | 8 | 11 | 44 | 39 |
| Real Estate & Private Markets | 78 | 75 | 68 | 4 | 16 | 78 | 68 |
| **Total invested assets** | 810 | 792 | 703 | 2 | 15 | 810 | 703 |
| *of which: passive strategies* | *315* | *305* | *247* | *4* | *28* | *315* | *247* |
| **Information by region** | | | | | | | |
| **Invested assets (CHF billion)** | | | | | | | |
| Americas | 186 | 179 | 164 | 4 | 13 | 186 | 164 |
| Asia Pacific | 160 | 159 | 144 | 1 | 11 | 160 | 144 |
| Europe, Middle East and Africa | 200 | 194 | 156 | 3 | 29 | 200 | 156 |
| Switzerland | 265 | 259 | 239 | 2 | 11 | 265 | 239 |
| **Total invested assets** | 810 | 792 | 703 | 2 | 15 | 810 | 703 |
| **Information by channel** | | | | | | | |
| **Invested assets (CHF billion)** | | | | | | | |
| Third-party institutional | 510 | 501 | 436 | 2 | 17 | 510 | 436 |
| Third-party wholesale | 82 | 81 | 75 | 2 | 10 | 82 | 75 |
| UBS's wealth management businesses | 218 | 210 | 192 | 4 | 13 | 218 | 192 |
| **Total invested assets** | 810 | 792 | 703 | 2 | 15 | 810 | 703 |
| **Assets under administration[7]** | | | | | | | |
| Assets under administration (CHF billion)[8] | | | 441 | | | | 441 |
| Net new assets under administration (CHF billion)[9] | | | (0.8) | | | | 7.6 |
| Gross margin on assets under administration (bps) | | | 3 | | | | 3 |
| **Additional information** | | | | | | | |
| Average attributed equity (CHF billion)[10] | 1.7 | 1.7 | 1.7 | 0 | (1) | 1.7 | 1.7 |
| Return on attributed equity (%)[10] | 24.3 | 25.5 | 26.1 | | | 25.0 | 25.0 |
| Return on attributed tangible equity (%)[10] | 125.7 | 137.1 | 144.3 | | | 131.3 | 135.8 |
| Risk-weighted assets (CHF billion)[10] | 4.2 | 4.1 | 4.1 | 1 | 3 | 4.2 | 4.1 |
| *of which: held by Asset Management (CHF billion)* | *4.1* | *4.1* | *4.0* | *1* | *3* | *4.1* | *4.0* |
| *of which: held by CC – Group ALM on behalf of Asset Management (CHF billion)[11]* | *0.1* | *0.1* | *0.1* | *1* | *20* | *0.1* | *0.1* |
| Leverage ratio denominator (CHF billion)[10] | 4.9 | 4.9 | 4.4 | (1) | 10 | 4.9 | 4.4 |
| *of which: held by Asset Management (CHF billion)* | *2.6* | *2.7* | *2.5* | *(3)* | *3* | *2.6* | *2.5* |
| *of which: held by CC – Group ALM on behalf of Asset Management (CHF billion)[11]* | *2.3* | *2.2* | *1.9* | *1* | *20* | *2.3* | *1.9* |
| Goodwill and intangible assets (CHF billion) | 1.4 | 1.3 | 1.4 | 2 | 0 | 1.4 | 1.4 |
| Gross margin on invested assets (bps) | 23 | 22 | 27 | 2 | (16) | 23 | 27 |
| Adjusted gross margin on invested assets (bps) | 23 | 22 | 27 | 2 | (16) | 23 | 27 |
| Personnel (full-time equivalents) | 2,329 | 2,361 | 2,300 | (1) | 1 | 2,329 | 2,300 |

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Net management fees include transaction fees, fund administration revenues (including net interest and trading income from lending activities and foreign exchange hedging as part of the fund services offering), gains or losses from seed money and co-investments, funding costs, and other items that are not performance fees. Beginning 1 January 2018, net management fees additionally include fund and custody expenses recognized as contra revenues and previously included in operating expenses. Prior periods were not restated. 3 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 4 Reflects restructuring expenses related to legacy cost programs as well as expenses for new restructuring initiatives in 2018. 5 Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. 6 Excluding the impact of business exits. Prior-period information for the periods ending before 1 January 2018 has been restated. 7 Following the sale of our fund administration business in Luxembourg and Switzerland to Northern Trust on 1 October 2017, we no longer report assets under administration. 8 Includes UBS and third-party fund assets for which the fund services unit provided professional services, including fund setup, accounting and reporting for traditional investment funds and alternative funds. 9 Inflows of assets under administration from new and existing funds less outflows from existing funds or fund exits. 10 Refer to the "Capital management" section of this report for more information. 11 Represents risk-weighted assets and leverage ratio denominator held by Corporate Center – Group ALM that are directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information.

## Results: 2Q18 vs 2Q17

Profit before tax decreased by CHF 9 million or 8% to CHF 101 million. Adjusted profit before tax decreased by CHF 7 million or 5% to CHF 126 million. During the second quarter of 2018, we have taken actions to adjust our costs and create capacity for investment in future growth and, as a result, incurred restructuring expenses of CHF 13 million.

### Operating income

Total operating income decreased by CHF 21 million or 4% to CHF 458 million. Net management fees decreased by CHF 4 million, as higher income driven by higher average invested assets was more than offset by the effects of the sale of our fund administration business in October 2017 and continued pressure on margins.

Performance fees declined by CHF 17 million to CHF 19 million, mainly driven by Equities and our hedge fund businesses.

As of 30 June 2018, 79% of performance fee-eligible assets within our hedge fund businesses exceeded high-water marks, which is broadly unchanged from the same quarter last year.

### Operating expenses

Total operating expenses decreased by CHF 12 million or 3% to CHF 357 million, while adjusted operating expenses decreased by CHF 15 million or 4% to CHF 331 million.

Personnel expenses decreased by CHF 7 million to CHF 189 million. Personnel expenses included expenses of CHF 13 million related to our cost actions. On an adjusted basis, personnel expenses decreased by CHF 18 million to CHF 175 million, primarily due to lower expenses for variable compensation.

General and administrative expenses decreased by CHF 4 million to CHF 48 million, while adjusted general and administrative expenses remained broadly unchanged at CHF 45 million. Net expenses for services from Corporate Center and other business divisions remained broadly unchanged at CHF 119 million, while on an adjusted basis net expenses increased by CHF 6 million to CHF 111 million, primarily reflecting higher expenses from Group Technology and for strategic and regulatory initiatives, partly offset by lower expenses from Group Operations following the sale of our fund administration business.

## Net new money: 2Q18 vs 2Q17

Excluding money market flows, net new money was CHF 0.9 billion compared with CHF 10.2 billion, an annualized net new money growth rate of 0.5% compared with 6.5%. We expect to see a continuation of the trend for clients to move invested assets into lower-margin passive products, which will have a dampening effect on margins in future periods.

## Invested assets: 2Q18 vs 1Q18

Invested assets increased to CHF 810 billion from CHF 792 billion, mainly reflecting net new money outflows (including money market flows) of CHF 2 billion, positive market performance of CHF 10 billion and foreign currency translation effects of CHF 11 billion, resulting primarily from the strengthening of the US dollar against the Swiss franc.

## Results: 6M18 vs 6M17

Profit before tax decreased by CHF 6 million or 3% to CHF 207 million. Adjusted profit before tax decreased by CHF 22 million to CHF 234 million, reflecting a combination of lower operating income and lower operating expenses.

Total operating income decreased by CHF 30 million or 3% to CHF 899 million, mainly due to CHF 29 million lower performance fees, reflecting a declining contribution from our hedge fund businesses, Real Estate and Equities. Net management fees were largely unchanged as the effect from higher average invested assets was offset by the absence of administration fees following the sale of our fund administration business, the reclassification of fund and custody expenses from operating expenses to operating income to better align these costs with their associated revenues within operating income and continued pressure on margins. In addition, the first half of 2017 included an impairment loss of CHF 12 million on a co-investment in an infrastructure fund.

Total operating expenses decreased by CHF 24 million or 3% to CHF 692 million and adjusted operating expenses decreased by CHF 7 million or 1% to CHF 665 million. Personnel expenses decreased by CHF 1 million to CHF 356 million and, excluding a credit of CHF 10 million related to our Swiss pension plan recognized in the first quarter of 2018, adjusted personnel expenses decreased by CHF 2 million to CHF 350 million, driven predominantly by lower expenses for variable compensation. General and administrative expenses decreased by CHF 12 million to CHF 97 million and adjusted general and administrative expenses decreased by CHF 7 million to CHF 91 million, primarily due to the aforementioned reclassification of fund and custody expenses to revenues and the exclusion of expenses associated with our sold fund administration business, partially offset by higher research expenses. Net expenses for Services from Corporate Center and other business divisions decreased by CHF 10 million to CHF 237 million, while adjusted net expenses for services increased by CHF 4 million to CHF 223 million, primarily reflecting higher expenses from Group Technology and for strategic and regulatory initiatives, partly offset by lower expenses from Group Operations.

# Investment Bank

## Investment Bank[1]

| | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Results** | | | | | | | |
| Corporate Client Solutions | 624 | 825 | 732 | (24) | (15) | 1,449 | 1,450 |
| Advisory | 167 | 186 | 164 | (10) | 2 | 352 | 330 |
| Equity Capital Markets | 189 | 294 | 289 | (36) | (35) | 482 | 542 |
| Debt Capital Markets | 162 | 247 | 179 | (34) | (9) | 409 | 389 |
| Financing Solutions | 78 | 69 | 90 | 14 | (12) | 147 | 183 |
| Risk Management | 28 | 31 | 10 | (9) | 168 | 58 | 7 |
| Investor Client Services | 1,552 | 1,498 | 1,300 | 4 | 19 | 3,049 | 2,687 |
| Equities | 1,050 | 1,097 | 928 | (4) | 13 | 2,147 | 1,862 |
| Foreign Exchange, Rates and Credit | 502 | 400 | 373 | 25 | 35 | 902 | 825 |
| Income | 2,176 | 2,323 | 2,032 | (6) | 7 | 4,499 | 4,137 |
| Credit loss (expense) / recovery | (6) | (15) | (6) | (64) | (12) | (21) | (12) |
| Total operating income | 2,171 | 2,308 | 2,026 | (6) | 7 | 4,478 | 4,124 |
| Personnel expenses | 771 | 897 | 773 | (14) | 0 | 1,667 | 1,591 |
| General and administrative expenses | 144 | 143 | 127 | 0 | 14 | 287 | 256 |
| Services (to) / from Corporate Center and other business divisions | 683 | 674 | 671 | 1 | 2 | 1,357 | 1,335 |
| *of which: services from CC – Services* | *662* | *651* | *647* | *2* | *2* | *1,313* | *1,287* |
| Depreciation and impairment of property, equipment and software | 2 | 2 | 2 | 0 | (8) | 4 | 5 |
| Amortization and impairment of intangible assets | 2 | 2 | 3 | 1 | (20) | 5 | 6 |
| Total operating expenses | 1,602 | 1,719 | 1,575 | (7) | 2 | 3,320 | 3,194 |
| Business division operating profit / (loss) before tax | 569 | 589 | 451 | (3) | 26 | 1,158 | 931 |
| **Adjusted results[2]** | | | | | | | |
| Total operating income as reported | 2,171 | 2,308 | 2,026 | (6) | 7 | 4,478 | 4,124 |
| *of which: gains on sale of financial assets measured at fair value through OCI[3]* | | | *107* | | | | *107* |
| Total operating income (adjusted) | 2,171 | 2,308 | 1,919 | (6) | 13 | 4,478 | 4,017 |
| Total operating expenses as reported | 1,602 | 1,719 | 1,575 | (7) | 2 | 3,320 | 3,194 |
| *of which: personnel-related restructuring expenses[4]* | *2* | *11* | *4* | | | *13* | *22* |
| *of which: non-personnel-related restructuring expenses[4]* | *3* | *2* | *3* | | | *5* | *6* |
| *of which: restructuring expenses allocated from CC – Services[4]* | *32* | *32* | *67* | | | *63* | *124* |
| *of which: gain related to changes to the Swiss pension plan* | | *(5)* | | | | *(5)* | |
| Total operating expenses (adjusted) | 1,566 | 1,679 | 1,500 | (7) | 4 | 3,244 | 3,042 |
| Business division operating profit / (loss) before tax as reported | 569 | 589 | 451 | (3) | 26 | 1,158 | 931 |
| Business division operating profit / (loss) before tax (adjusted) | 605 | 629 | 419 | (4) | 44 | 1,234 | 976 |
| **Key performance indicators[5]** | | | | | | | |
| Pre-tax profit growth (%) | 26.2 | 22.7 | 58.8 | | | 24.4 | 73.4 |
| Cost / income ratio (%) | 73.6 | 74.0 | 77.5 | | | 73.8 | 77.2 |
| Return on attributed equity (%)[6] | 21.8 | 23.8 | 19.7 | | | 22.8 | 20.4 |
| **Adjusted key performance indicators[2,5]** | | | | | | | |
| Pre-tax profit growth (%) | 44.4 | 12.8 | (6.3) | | | 26.5 | 19.5 |
| Cost / income ratio (%) | 71.9 | 72.3 | 77.9 | | | 72.1 | 75.5 |
| Return on attributed equity (%)[6] | 23.2 | 25.4 | 18.3 | | | 24.3 | 21.4 |

**Investment Bank (continued)[1]**

| CHF million, except where indicated | As of or for the quarter ended 30.6.18 | 31.3.18 | 30.6.17 | % change from 1Q18 | 2Q17 | Year-to-date 30.6.18 | 30.6.17 |
|---|---|---|---|---|---|---|---|
| **Additional information** | | | | | | | |
| Total assets (CHF billion)[7] | 262.2 | 252.4 | 232.9 | 4 | 13 | 262.2 | 232.9 |
| Average attributed equity (CHF billion)[6] | 10.4 | 9.9 | 9.1 | 6 | 14 | 10.2 | 9.1 |
| Return on attributed tangible equity (%)[6] | 22.0 | 24.1 | 20.0 | | | 23.0 | 20.7 |
| Risk-weighted assets (CHF billion)[6] | 81.8 | 87.1 | 75.7 | (6) | 8 | 81.8 | 75.7 |
| *of which: held by the Investment Bank (CHF billion)* | *81.2* | *86.6* | *74.9* | *(6)* | *8* | *81.2* | *74.9* |
| *of which: held by CC – Group ALM on behalf of the Investment Bank (CHF billion)[8]* | *0.6* | *0.5* | *0.7* | *27* | *(18)* | *0.6* | *0.7* |
| Return on risk-weighted assets, gross (%)[9] | 10.3 | 11.5 | 11.5 | | | 10.9 | 11.9 |
| Leverage ratio denominator (CHF billion)[6] | 283.7 | 276.7 | 267.4 | 3 | 6 | 283.7 | 267.4 |
| *of which: held by the Investment Bank (CHF billion)* | *260.2* | *257.6* | *239.7* | *1* | *9* | *260.2* | *239.7* |
| *of which: held by CC – Group ALM on behalf of the Investment Bank (CHF billion)[8]* | *23.5* | *19.1* | *27.6* | *23* | *(15)* | *23.5* | *27.6* |
| Return on leverage ratio denominator, gross (%)[9] | 3.1 | 3.3 | 3.0 | | | 3.2 | 3.1 |
| Goodwill and intangible assets (CHF billion) | 0.1 | 0.1 | 0.1 | (11) | (21) | 0.1 | 0.1 |
| Compensation ratio (%) | 35.4 | 38.6 | 38.0 | | | 37.1 | 38.5 |
| Average VaR (1-day, 95% confidence, 5 years of historical data) | 10 | 15 | 10 | (37) | (5) | 12 | 9 |
| Impaired loan portfolio as a percentage of total loan portfolio, gross (%)[10] | 1.2 | 1.0 | 1.0 | | | 1.2 | 1.0 |
| Personnel (full-time equivalents) | 4,778 | 4,867 | 4,748 | (2) | 1 | 4,778 | 4,748 |

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 3 Reflects a gain on the sale of our remaining investment in IHS Markit. Figures presented for periods prior to the first quarter of 2018 relate to financial assets available for sale. With the adoption of IFRS 9, certain financial assets were reclassified from available for sale under IAS 39 to measured at fair value through OCI under IFRS 9. Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information. 4 Reflects restructuring expenses related to legacy cost programs. 5 Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. 6 Refer to the "Capital management" section of this report for more information. 7 Based on third-party view, i.e., without intercompany balances. 8 Represents risk-weighted assets (RWA) and leverage ratio denominator (LRD) held by Corporate Center – Group ALM that are directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information. 9 Based on total RWA and LRD. 10 Refer to the "Risk management and control" section of this report for more information on (credit-) impaired loan exposures.

## Results: 2Q18 vs 2Q17

Profit before tax increased by CHF 118 million or 26% to CHF 569 million and adjusted profit before tax increased by CHF 186 million or 44% to CHF 605 million, driven by higher revenues in Equities and Foreign Exchange, Rates and Credit. In US dollar terms, adjusted profit before tax increased 42%.

### Operating income

Total operating income increased by CHF 145 million or 7% to CHF 2,171 million. Excluding a gain of CHF 107 million on the sale of our remaining investment in IHS Markit in the second quarter of 2017, of which CHF 27 million related to Equities and CHF 80 million to Foreign Exchange, Rates and Credit, adjusted operating income increased by CHF 252 million, driven by a CHF 149 million increase in Equities revenues and a CHF 209 million increase in Foreign Exchange, Rates and Credit revenues, partly offset by a CHF 108 million decrease in Corporate Client Solutions revenues. In US dollar terms, adjusted operating income increased 11%.

#### *Corporate Client Solutions*

Corporate Client Solutions revenues decreased by CHF 108 million or 15% to CHF 624 million, mainly reflecting lower revenues in Equity Capital Markets. In US dollar terms, revenues decreased 16%.

Advisory revenues increased to CHF 167 million from CHF 164 million, reflecting slightly higher revenues from private transactions, partly offset by lower revenues from merger and acquisition transactions where the global fee pool declined 4%.

Equity Capital Markets revenues decreased to CHF 189 million from a strong prior-year quarter of CHF 289 million, driven by lower revenues from both public offerings, where the global fee pool decreased 2%, and private transactions.

Debt Capital Markets revenues decreased to CHF 162 million from CHF 179 million, driven by lower investment grade revenues as the global fee pool decreased 3%, partly offset by higher leveraged finance revenues against a global fee pool increase of 1%.

Financing Solutions revenues decreased to CHF 78 million from CHF 90 million, mainly reflecting lower real estate finance and structured finance revenues.

Risk Management revenues increased to CHF 28 million from CHF 10 million, mainly resulting from valuation gains on a restructured debt position that is now measured at fair value through profit or loss effective 1 January 2018 upon adoption of IFRS 9.

*Investor Client Services*

Investor Client Services revenues increased by CHF 252 million or 19% to CHF 1,552 million. Excluding the aforementioned gain of CHF 107 million related to IHS Markit in the second quarter of 2017, Investor Client Services revenues increased by CHF 359 million, due to an increase in Equities and Foreign Exchange, Rates and Credit revenues. In US dollar terms, adjusted revenues increased 28%.

*Equities*

Equities revenues increased by CHF 122 million or 13% to CHF 1,050 million. Excluding the aforementioned gain of CHF 27 million related to IHS Markit in the second quarter of 2017, adjusted revenues increased by CHF 149 million, as revenues rose in all products. In US dollar terms, adjusted revenues increased 15%.

Cash revenues were broadly unchanged at CHF 321 million and adjusted Cash revenues increased to CHF 321 million from CHF 293 million, mainly due to improved client activity.

Derivatives revenues increased to CHF 277 million from CHF 219 million, driven by increased client activity and stronger trading performance.

Financing Services revenues increased to CHF 463 million from CHF 395 million as a result of higher prime brokerage revenues and increased client activity.

*Foreign Exchange, Rates and Credit*

Foreign Exchange, Rates and Credit revenues increased by CHF 129 million or 35% to CHF 502 million. Excluding the aforementioned gain of CHF 80 million related to IHS Markit in the second quarter of 2017, adjusted revenues increased by CHF 209 million. This was mainly due to increased revenues across all products, reflecting higher client activity levels and improved trading performance, including the recognition of net income of around CHF 100 million, comprised mainly of previously deferred day-1 profits, due to enhanced observability and revised valuations in the funding curve used to value UBS interest rate-linked notes. In US dollar terms, adjusted revenues increased 69%.

### Operating expenses

Total operating expenses increased by CHF 27 million or 2% to CHF 1,602 million, while adjusted operating expenses increased by CHF 66 million or 4% to CHF 1,566 million.

Personnel expenses were stable at CHF 771 million and adjusted personnel expenses were unchanged at CHF 769 million.

General and administrative expenses increased by CHF 17 million to CHF 144 million and on an adjusted basis increased by CHF 17 million to CHF 141 million, mainly due to a UK bank levy credit of CHF 20 million, compared with a similar credit of CHF 28 million in the prior-year quarter.

Net expenses for services from Corporate Center and other business divisions increased to CHF 683 million from CHF 671 million and adjusted net expenses increased to CHF 651 million from CHF 604 million, mainly driven by higher net expenses from Group Technology, Group Risk, Group Operations and for strategic and regulatory initiatives.

## Risk-weighted assets and leverage ratio denominator: 2Q18 vs 1Q18

### Risk-weighted assets

Total risk-weighted assets (RWA), including RWA held by Corporate Center – Group Asset and Liability Management (Group ALM) on behalf of the Investment Bank, decreased by CHF 5 billion to CHF 82 billion as of 30 June 2018, mainly due to a CHF 9 billion decrease in market risk RWA, driven by lower average regulatory and stressed value-at-risk levels, partly offset by a CHF 4 billion increase in credit and counterparty credit risk RWA, reflecting temporary increases in unutilized credit facilities, currency effects and regulatory add-ons.

→ **Refer to the "Capital management" section of this report for more information**

### Leverage ratio denominator

The leverage ratio denominator (LRD), including LRD held by Corporate Center – Group ALM on behalf of the Investment Bank, increased by CHF 7 billion to CHF 284 billion as of 30 June 2018. LRD held by Corporate Center – Group ALM on behalf of the Investment Bank increased by CHF 4 billion to CHF 24 billion, mainly due to higher net cash outflows as a result of regulatory-driven changes in the liquidity coverage ratio calculation. LRD held by the Investment Bank increased by CHF 3 billion to CHF 260 billion, mainly due to higher trading portfolio assets and currency effects, partly offset by a decrease in securities financing transactions.

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

**Results: 6M18 vs 6M17**

Profit before tax increased by CHF 227 million or 24% to CHF 1,158 million and adjusted profit before tax increased by CHF 258 million or 26% to CHF 1,234 million, mainly as a result of higher Investor Client Services revenues, partly offset by higher expenses. In US dollar terms, adjusted profit before tax increased 30%.

Revenues in Corporate Client Solutions were broadly unchanged at CHF 1,449 million. Advisory revenues increased by CHF 22 million to CHF 352 million, reflecting higher revenues from private transactions as well as stable revenues from merger and acquisition transactions, against a global fee pool decrease of 6%. Equity Capital Markets revenues decreased to CHF 482 million from CHF 542 million, largely due to lower revenues from public offerings, where the global fee pool decreased 6%, partly offset by increased revenues from private transactions. Debt Capital Markets revenues increased to CHF 409 million from CHF 389 million, mainly reflecting higher leveraged finance revenues against a global fee pool decrease of 6%. Financing Solutions revenues decreased to CHF 147 million from CHF 183 million, primarily reflecting lower real estate finance and structured finance revenues. Risk Management revenues increased to CHF 58 million from CHF 7 million, reflecting lower losses on portfolio hedges and valuation gains on the aforementioned restructured debt position. In US dollar terms, Corporate Client Solutions revenues increased 2%.

Investor Client Services revenues increased 13% to CHF 3,049 million from CHF 2,687 million. Excluding the aforementioned gain of CHF 107 million on the sale of our remaining investment in IHS Markit in the second quarter of 2017, adjusted revenues increased 18% or CHF 469 million, due to higher revenues across Equities and Foreign Exchange, Rates and Credit. Equities revenues increased by CHF 285 million to CHF 2,147 million and increased by CHF 312 million to CHF 2,147 million on an adjusted basis. Cash revenues increased to CHF 657 million from CHF 611 million, mainly due to improved client activity. Derivatives revenues increased to CHF 617 million from CHF 460 million, reflecting increased client activity and stronger trading performance as market volatility increased. Financing Services revenues increased to CHF 886 million from CHF 774 million, mainly driven by higher Equity Finance revenues, as a result of increased client activity. Foreign Exchange, Rates and Credit revenues increased to CHF 902 million from CHF 825 million, and increased to CHF 902 million from CHF 745 million on an adjusted basis, due to the recognition of net income of around CHF 100 million, comprised mainly of previously deferred day-1 profits, due to enhanced observability and revised valuations in the funding curve used to value UBS interest rate-linked notes, and due to higher client activity and improved trading performance across the majority of products in the second quarter of 2018 compared with the prior-year period. In US dollar terms, adjusted Investor Client Services revenues increased 21%, adjusted Equities revenues increased 20% and adjusted Foreign Exchange, Rates and Credit revenues increased 24%.

Total operating expenses increased by CHF 126 million or 4% to CHF 3,320 million and adjusted operating expenses increased by CHF 202 million or 7% to CHF 3,244 million. Personnel expenses increased to CHF 1,667 million from CHF 1,591 million and adjusted personnel expenses increased to CHF 1,659 million from CHF 1,569 million, mainly reflecting higher variable compensation expenses. General and administrative expenses increased by CHF 31 million to CHF 287 million and on an adjusted basis increased by CHF 32 million to CHF 282 million, mainly due to a UK bank levy credit of CHF 20 million, compared with a credit of CHF 41 million in the prior-year period. Net expenses for services from Corporate Center and other business divisions increased to CHF 1,357 million from CHF 1,335 million and adjusted net expenses increased to CHF 1,294 million from CHF 1,211 million, mainly driven by higher net expenses from Group Technology, Group Risk, Group Operations and for strategic and regulatory initiatives.

# Corporate Center

## Corporate Center[1]

| | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Results** | | | | | | | |
| Total operating income | (165) | (193) | (130) | (14) | 27 | (358) | (83) |
| Personnel expenses | 974 | 911 | 941 | 7 | 4 | 1,885 | 1,930 |
| General and administrative expenses | 966 | 886 | 931 | 9 | 4 | 1,852 | 1,916 |
| Services (to) / from business divisions | (1,986) | (1,986) | (1,952) | 0 | 2 | (3,972) | (3,881) |
| Depreciation and impairment of property, equipment and software | 277 | 265 | 243 | 4 | 14 | 543 | 491 |
| Amortization and impairment of intangible assets | 0 | 0 | 1 | | (51) | 1 | 6 |
| Total operating expenses | 231 | 77 | 164 | 200 | 41 | 308 | 462 |
| Operating profit / (loss) before tax | (396) | (270) | (294) | 47 | 35 | (665) | (545) |
| **Adjusted results[2]** | | | | | | | |
| Total operating income as reported | (165) | (193) | (130) | (14) | 27 | (358) | (83) |
| *of which: net foreign currency translation gains / (losses)[3]* | *(15)* | | *(22)* | | *(30)* | *(15)* | *(22)* |
| Total operating income (adjusted) | (149) | (193) | (108) | (22) | 38 | (342) | (61) |
| Total operating expenses as reported | 231 | 77 | 164 | 200 | 41 | 308 | 462 |
| *of which: personnel-related restructuring expenses[4]* | *43* | *47* | *94* | | | *90* | *187* |
| *of which: non-personnel-related restructuring expenses[4]* | *39* | *50* | *116* | | | *89* | *225* |
| *of which: restructuring expenses allocated from CC – Services[4]* | *(87)* | *(94)* | *(207)* | | | *(181)* | *(392)* |
| *of which: gain related to changes to the Swiss pension plan* | | *(114)* | | | | *(114)* | |
| Total operating expenses (adjusted) | 235 | 187 | 161 | 26 | 47 | 423 | 442 |
| Operating profit / (loss) before tax as reported | (396) | (270) | (294) | 47 | 35 | (665) | (545) |
| Operating profit / (loss) before tax (adjusted) | (385) | (380) | (269) | 1 | 43 | (765) | (503) |
| **Additional information** | | | | | | | |
| Average attributed equity (CHF billion)[5] | 19.3 | 20.5 | 23.1 | (6) | (16) | 19.9 | 23.6 |
| Total assets (CHF billion)[6] | 321.0 | 310.5 | 330.3 | 3 | (3) | 321.0 | 330.3 |
| Risk-weighted assets (fully applied, CHF billion)[5,7] | 57.0 | 57.1 | 58.2 | 0 | (2) | 57.0 | 58.2 |
| Leverage ratio denominator (fully applied, CHF billion)[5,7] | 283.6 | 272.0 | 283.2 | 4 | 0 | 283.6 | 283.2 |
| Personnel (full-time equivalents) | 27,978 | 26,766 | 24,280 | 5 | 15 | 27,978 | 24,280 |

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 3 Related to the disposal of foreign subsidiaries and branches. 4 Reflects restructuring expenses related to legacy cost programs. 5 Refer to the "Capital management" section of this report for more information. 6 Based on third-party view, i.e., without intercompany balances. 7 Prior to attributions to business divisions and other Corporate Center units for the purpose of attributing equity.

# Corporate Center – Services

**Corporate Center – Services[1]**

| CHF million, except where indicated | As of or for the quarter ended 30.6.18 | 31.3.18 | 30.6.17 | % change from 1Q18 | 2Q17 | Year-to-date 30.6.18 | 30.6.17 |
|---|---|---|---|---|---|---|---|
| **Results** | | | | | | | |
| Total operating income | (78) | (38) | (20) | 109 | 299 | (116) | (37) |
| Personnel expenses | 959 | 888 | 921 | 8 | 4 | 1,847 | 1,888 |
| General and administrative expenses | 890 | 877 | 956 | 1 | (7) | 1,766 | 1,920 |
| Depreciation and impairment of property, equipment and software | 277 | 265 | 243 | 4 | 14 | 542 | 491 |
| Amortization and impairment of intangible assets | 0 | 0 | 1 | | (52) | 1 | 6 |
| Total operating expenses before allocations to BDs and other CC units | 2,126 | 2,031 | 2,121 | 5 | 0 | 4,157 | 4,305 |
| Services (to) / from business divisions and other CC units | (2,032) | (2,033) | (2,004) | 0 | 1 | (4,065) | (3,984) |
| *of which: services to Global Wealth Management* | *(877)* | *(878)* | *(860)* | *0* | *2* | *(1,755)* | *(1,703)* |
| *of which: services to Personal & Corporate Banking* | *(304)* | *(311)* | *(294)* | *(2)* | *3* | *(615)* | *(587)* |
| *of which: services to Asset Management* | *(129)* | *(129)* | *(131)* | *0* | *(1)* | *(258)* | *(266)* |
| *of which: services to Investment Bank* | *(662)* | *(651)* | *(647)* | *2* | *2* | *(1,313)* | *(1,287)* |
| *of which: services to CC – Group ALM* | *(39)* | *(42)* | *(36)* | *(8)* | *8* | *(81)* | *(65)* |
| *of which: services to CC – Non-core and Legacy Portfolio* | *(38)* | *(41)* | *(46)* | *(9)* | *(19)* | *(79)* | *(97)* |
| Total operating expenses | 94 | (2) | 117 | | (20) | 92 | 321 |
| Operating profit / (loss) before tax | (172) | (35) | (137) | 388 | 26 | (207) | (358) |
| **Adjusted results[2]** | | | | | | | |
| Total operating income as reported | (78) | (38) | (20) | 109 | 299 | (116) | (37) |
| Total operating income (adjusted) | (78) | (38) | (20) | 109 | 299 | (116) | (37) |
| Total operating expenses as reported before allocations | 2,126 | 2,031 | 2,121 | 5 | 0 | 4,157 | 4,305 |
| *of which: personnel-related restructuring expenses[3]* | *43* | *47* | *93* | | | *90* | *186* |
| *of which: non-personnel-related restructuring expenses[3]* | *39* | *50* | *115* | | | *89* | *225* |
| Total operating expenses (adjusted) before allocations | 2,044 | 2,047 | 1,912 | 0 | 7 | 4,091 | 3,894 |
| Services (to) / from BDs and other CC units | (2,032) | (2,033) | (2,004) | 0 | 1 | (4,065) | (3,984) |
| *of which: restructuring expenses allocated to BDs and other CC units[3]* | *(88)* | *(96)* | *(209)* | | | *(184)* | *(396)* |
| *of which: gain related to changes to the Swiss pension plan* | | *(114)* | | | | *(114)* | |
| Total operating expenses as reported after allocations | 94 | (2) | 117 | | (20) | 92 | 321 |
| Total operating expenses (adjusted) after allocations | 100 | 110 | 117 | (9) | (15) | 210 | 307 |
| Operating profit / (loss) before tax as reported | (172) | (35) | (137) | 388 | 26 | (207) | (358) |
| Operating profit / (loss) before tax (adjusted) | (178) | (147) | (137) | 21 | 30 | (326) | (344) |
| **Additional information** | | | | | | | |
| Average attributed equity (CHF billion)[4] | 15.2 | 16.4 | 19.1 | (8) | (21) | 15.8 | 19.7 |
| Total assets (CHF billion)[5] | 20.9 | 20.8 | 23.2 | 1 | (10) | 20.9 | 23.2 |
| Risk-weighted assets (fully applied, CHF billion)[4] | 30.1 | 30.1 | 28.7 | 0 | 5 | 30.1 | 28.7 |
| *of which: held by CC – Services (fully applied, CHF billion)* | *30.1* | *30.1* | *28.7* | *0* | *5* | *30.1* | *28.7* |
| Leverage ratio denominator (fully applied, CHF billion)[4] | 7.9 | 8.1 | 6.7 | (2) | 18 | 7.9 | 6.7 |
| *of which: held by CC – Services (fully applied, CHF billion)* | *7.4* | *7.5* | *6.6* | *(2)* | *11* | *7.4* | *6.6* |
| *of which: held by CC – Group ALM on behalf of CC – Services (fully applied, CHF billion)[6]* | *0.5* | *0.6* | *0.0* | *(9)* | | *0.5* | *0.0* |
| Personnel (full-time equivalents) | 27,781 | 26,566 | 24,083 | 5 | 15 | 27,781 | 24,083 |

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 3 Reflects restructuring expenses related to legacy cost programs. 4 Refer to the "Capital management" section of this report for more information. 5 Based on third-party view, i.e., without intercompany balances. 6 Represents leverage ratio denominator held by Corporate Center – Group ALM that is directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information.

## Results: 2Q18 vs 2Q17

Corporate Center – Services recorded a loss before tax of CHF 172 million, compared with a loss of CHF 137 million, and an adjusted loss before tax of CHF 178 million compared with a loss of CHF 137 million.

### Operating income

Operating income was negative CHF 78 million compared with negative CHF 20 million, mainly driven by higher funding costs relating to Corporate Center – Services' balance sheet assets and lower treasury-related income from Group ALM.

### Operating expenses

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

Before allocations to business divisions and other Corporate Center units, total operating expenses increased by CHF 5 million to CHF 2,126 million. Adjusted operating expenses before allocations increased by CHF 132 million or 7% to CHF 2,044 million.

Personnel expenses increased by CHF 38 million to CHF 959 million and on an adjusted basis increased by CHF 88 million to CHF 916 million, mainly driven by continued insourcing of certain activities and staff from third-party vendors to our Business Solutions Centers.

General and administrative expenses decreased by CHF 66 million to CHF 890 million and on an adjusted basis increased by CHF 11 million to CHF 852 million, mainly due to higher regulatory costs and expenses from Group Technology, partly offset by a reduction in outsourcing costs. Further, the second quarter of 2018 included lower professional fees. Depreciation expenses increased to CHF 277 million from CHF 243 million, primarily reflecting higher amortization expenses for internally generated capitalized software.

#### *Services to / from business divisions and other Corporate Center units*

Corporate Center – Services allocated net expenses of CHF 2,032 million to the business divisions and other Corporate Center units compared with CHF 2,004 million. Adjusted allocated net expenses for services to business divisions and other Corporate Center units were CHF 1,944 million compared with CHF 1,795 million, mainly reflecting the aforementioned cost movements.

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

Corporate Center – Services retains costs related to Group governance functions and other corporate activities, certain strategic and regulatory projects and certain restructuring expenses. Total operating expenses remaining in Corporate Center – Services after allocations were CHF 94 million compared with CHF 117 million and CHF 100 million compared with CHF 117 million on an adjusted basis.

## Results: 6M18 vs 6M17

Corporate Center – Services recorded a loss before tax of CHF 207 million, including a credit of CHF 114 million related to changes to our Swiss pension plan, compared with a loss of CHF 358 million, and an adjusted loss before tax of CHF 326 million compared with CHF 344 million.

Total operating income was negative CHF 116 million compared with negative CHF 37 million, mainly due to higher funding costs relating to Corporate Center – Services' balance sheet assets and lower treasury-related income from Group ALM.

Before allocations, total operating expenses decreased CHF 148 million or 3% to CHF 4,157 million, mainly due to the aforementioned credit of CHF 114 million related to changes to our Swiss pension plan. Adjusted operating expenses before allocations increased by CHF 197 million to CHF 4,091 million, mainly reflecting higher personnel expenses, expenses from Group Technology and increased amortization expenses related to internally generated capitalized software. These increases were partly offset by a reduction in outsourcing costs and lower professional fees. Further, the first half of 2018 included a credit of CHF 24 million related to litigation, regulatory and similar matters compared with a credit of CHF 3 million.

Corporate Center – Services allocated net expenses of CHF 4,065 million to the business divisions and other Corporate Center units compared with CHF 3,984 million, while adjusted allocated net expenses increased by CHF 294 million to CHF 3,881 million. Total operating expenses remaining in Corporate Center – Services after allocations were CHF 92 million compared with CHF 321 million and CHF 210 million compared with CHF 307 million on an adjusted basis, partly due to the aforementioned credit related to litigation, regulatory and similar matters.

## Personnel: 2Q18 vs 1Q18

As of 30 June 2018, Corporate Center – Services employed 27,781 personnel, a net increase of 1,215 compared with 31 March 2018, primarily due to higher staffing levels related to continued insourcing of certain activities from third-party vendors to our Business Solutions Centers.

# Corporate Center – Group Asset and Liability Management

**Corporate Center – Group ALM[1]**

| | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Results** | | | | | | | |
| Business division-aligned risk management net income | 119 | 130 | 166 | (8) | (28) | 249 | 375 |
| Capital investment and issuance net income | (101) | (69) | (27) | 48 | 276 | (170) | (62) |
| Group structural risk management net income | (228) | (249) | (121) | (8) | 88 | (477) | (164) |
| Total risk management net income before allocations | (210) | (188) | 18 | 12 | | (398) | 148 |
| Allocations to business divisions and other CC units | 81 | 19 | (51) | 323 | | 100 | (139) |
| *of which: Global Wealth Management* | *(33)* | *(55)* | *(87)* | *(41)* | *(62)* | *(88)* | *(190)* |
| *of which: Personal & Corporate Banking* | *(10)* | *(18)* | *(44)* | *(45)* | *(77)* | *(29)* | *(103)* |
| *of which: Asset Management* | *(3)* | *(4)* | *(5)* | *(11)* | *(31)* | *(7)* | *(9)* |
| *of which: Investment Bank* | *100* | *104* | *88* | *(4)* | *13* | *204* | *174* |
| *of which: CC – Services* | *(2)* | *(23)* | *(30)* | *(89)* | *(92)* | *(25)* | *(60)* |
| *of which: CC – Non-core and Legacy Portfolio* | *29* | *15* | *27* | *97* | *9* | *44* | *50* |
| Total risk management net income after allocations | (129) | (169) | (33) | (23) | 297 | (298) | 10 |
| Accounting asymmetries related to economic hedges | (34) | 9 | (47) | | (29) | (25) | (25) |
| Hedge accounting ineffectiveness[2] | (19) | (29) | 14 | (33) | | (49) | 7 |
| Net foreign currency translation gains / (losses)[3] | (15) | | (22) | | (30) | (15) | (22) |
| Other | 13 | (14) | (7) | | | (1) | 1 |
| Total operating income as reported | (185) | (204) | (94) | (9) | 96 | (389) | (30) |
| Total operating income (adjusted)[4] | (169) | (204) | (72) | (17) | 134 | (373) | (8) |
| Personnel expenses | 10 | 9 | 9 | 12 | 13 | 18 | 17 |
| General and administrative expenses | 9 | 10 | 4 | (10) | 159 | 20 | 7 |
| Depreciation and impairment of property, equipment and software | 0 | 0 | 0 | | | 0 | 0 |
| Amortization and impairment of intangible assets | 0 | 0 | 0 | | | 0 | 0 |
| Services (to) / from business divisions and other CC units | 2 | (1) | (2) | | | 1 | (13) |
| Total operating expenses as reported | 21 | 18 | 10 | 13 | 111 | 39 | 12 |
| *of which: personnel-related restructuring expenses[5]* | *0* | *0* | *1* | | | *0* | *1* |
| *of which: non-personnel-related restructuring expenses[5]* | *0* | *0* | *0* | | | *0* | *0* |
| *of which: restructuring expenses allocated from CC – Services[5]* | *0* | *1* | *0* | | | *1* | *1* |
| Total operating expenses (adjusted) | 20 | 18 | 9 | 15 | 130 | 38 | 11 |
| Operating profit / (loss) before tax as reported | (206) | (222) | (104) | (7) | 97 | (428) | (41) |
| Operating profit / (loss) before tax (adjusted)[4] | (190) | (222) | (81) | (14) | 133 | (412) | (18) |
| **Additional information** | | | | | | | |
| Average attributed equity (CHF billion)[6] | 3.0 | 2.9 | 2.6 | 3 | 16 | 3.0 | 2.5 |
| Total assets (CHF billion)[7] | 261.3 | 249.1 | 253.1 | 5 | 3 | 261.3 | 253.1 |
| Risk-weighted assets (CHF billion)[6] | 11.3 | 11.1 | 12.0 | 2 | (6) | 11.3 | 12.0 |
| *of which: held by CC – Group ALM on behalf of BDs and other CC units (CHF billion)[8]* | *3.9* | *3.7* | *4.2* | *6* | *(6)* | *3.9* | *4.2* |
| Leverage ratio denominator (CHF billion)[6] | 263.8 | 251.1 | 258.7 | 5 | 2 | 263.8 | 258.7 |
| *of which: held by CC – Group ALM on behalf of BDs and other CC units (CHF billion)[8]* | *124.2* | *119.3* | *136.9* | *4* | *(9)* | *124.2* | *136.9* |
| Personnel (full-time equivalents) | 151 | 150 | 141 | 1 | 7 | 151 | 141 |

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Excludes ineffectiveness of hedges of net investments in foreign operations. 3 Related to the disposal of foreign subsidiaries and branches. 4 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 5 Reflects restructuring expenses related to legacy cost programs. 6 Refer to the "Capital management" section of this report for more information. 7 Based on third-party view, i.e., without intercompany balances. 8 Represents risk-weighted assets and leverage ratio denominator held by Corporate Center – Group ALM that are directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information.

## Results: 2Q18 vs 2Q17

Corporate Center – Group Asset and Liability Management (Group ALM) recorded a loss before tax of CHF 206 million compared with a loss before tax of CHF 104 million, mainly as a result of unfavorable market developments together with structural factors including higher outstanding long-term debt compared with the second quarter of 2017. On an adjusted basis, Group ALM recorded a loss before tax of CHF 190 million compared with a loss before tax of CHF 81 million.

### Operating income

Total operating income after allocations to business divisions and other Corporate Center units was negative CHF 185 million compared with negative CHF 94 million, mainly due to lower retained income from Group structural risk management activities.

Total risk management net income before allocations to business divisions and other Corporate Center units was negative CHF 210 million compared with positive CHF 18 million, reflecting lower net income from all risk management and capital investment activities.

#### *Business division-aligned risk management net income*

Net income from business division-aligned risk management activities before allocations to business divisions and other Corporate Center units was CHF 119 million compared with CHF 166 million. This was mainly driven by the ongoing effect of negative Swiss franc and euro interest rates and the expiration of an interest rate hedge portfolio in 2017.

#### *Capital investment and issuance net income*

Net income from capital investment and issuance activities before allocations to business divisions and other Corporate Center units was negative CHF 101 million compared with negative CHF 27 million. During the second quarter of 2018, additional net negative income from capital investment and issuance activities was allocated to Global Wealth Management and Personal & Corporate Banking as a result of changes we made to our internal funds transfer pricing rates. Interest income from the investment of the Group's equity continued to be affected by lower interest rates on reinvestments. In addition, interest expenses increased as a result of higher outstanding long-term debt that contributes to total loss-absorbing capacity (TLAC) to meet the Swiss gone concern requirements.

#### *Group structural risk management net income*

Net income from Group structural risk management activities before allocations to business divisions and other Corporate Center units was negative CHF 228 million compared with negative CHF 121 million. Income related to the management of the Group's high-quality liquid assets (HQLA) increased by CHF 50 million, mainly due to market-driven shifts during the second quarter of 2018, predominantly the tightening of spreads between debt instruments held in our HQLA portfolio and overnight index swap (OIS)-based instruments we use to hedge this portfolio.

Net interest expense from the management of Group ALM's portfolio of internal funding increased by CHF 154 million, mainly as the result of higher London Interbank Offered Rate (LIBOR) rates on floating rate liabilities and the inclusion, following a change in accounting policy in the first quarter of 2018, of the interest expense on a portfolio of long-dated cross-currency swaps that was previously recognized in Other net income from fair value changes on financial instruments (prior to 1 January 2018: Net trading income) and reported in accounting asymmetries related to economic hedges. These effects were partially offset by the aforementioned changes made to our internal funds transfer pricing rates.

#### *Allocations to business divisions and other Corporate Center units*

Total net income allocations from risk management activities to business divisions and other Corporate Center units were negative CHF 81 million compared with positive CHF 51 million, mainly reflecting the aforementioned lower net income from business division-aligned risk management activities, which is fully allocated to the business divisions, in particular Global Wealth Management and Personal & Corporate Banking.

#### *Total risk management net income after allocations*

Group ALM retained negative income of CHF 129 million from its risk management activities after allocations compared with negative CHF 33 million, mainly resulting from the higher net interest expense in Group ALM's portfolio of internal funding.

Retained income from risk management activities is entirely related to Group structural risk management and is mainly the net result of costs from buffers that are maintained by Group ALM at levels above the total consumption of the business divisions, including as a result of the build out of our legal entity structure, and the revenues generated by Group ALM from the management of the Group's HQLA portfolio relative to the benchmark rates used to allocate the costs. Retained income from risk management activities can vary significantly quarter on quarter dependent on funding consumption, interest rates, interest rate basis spreads and currency effects. Over time, we expect it to average around negative CHF 100 million per quarter.

*Accounting asymmetries related to economic hedges*

Net income retained by Group ALM due to accounting asymmetries related to economic hedges was negative CHF 34 million compared with negative CHF 47 million. In addition, the second quarter of 2017 included interest expense of CHF 36 million relating to a portfolio of long-dated cross-currency basis swaps that are now reported in Group structural risk management net income as a result of the aforementioned accounting policy change.

*Hedge accounting ineffectiveness*

Net income related to hedge accounting ineffectiveness was negative CHF 19 million compared with positive CHF 14 million. This ineffectiveness primarily arises from changes in the spread between LIBOR and the OIS rate due to differences in the way these affect the valuation of the hedged items and hedging instruments through either the benchmark rate determining cash flows or the discount rate. In the second quarter of 2018, the spread between LIBOR and OIS was relatively stable. However, hedge ineffectiveness also arises from changes in short-end LIBOR rates as fixed-receiver hedging swaps reprice, resulting in a loss in the second quarter of 2018 as the US dollar weakened against all other major currencies.

*Other*

Other net income was positive CHF 13 million compared with negative CHF 7 million. The increase was mainly due to lower losses related to own-bond market-making activity in the Investment Bank, partly offset by lower retained investment of equity income.

## Balance sheet, risk-weighted assets, leverage ratio denominator: 2Q18 vs 1Q18

### Balance sheet assets

Balance sheet assets increased by CHF 12 billion to CHF 261 billion, primarily reflecting an increase in cash and balances at central banks.

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

### Risk-weighted assets

Risk-weighted assets were stable at CHF 11 billion as of 30 June 2018.

→ **Refer to the "Capital management" section of this report for more information**

### Leverage ratio denominator

The leverage ratio denominator increased by CHF 13 billion to CHF 264 billion, consistent with the increase in balance sheet assets.

→ **Refer to the "Capital management" section of this report for more information**

**Results: 6M18 vs 6M17**

Group ALM recorded a loss before tax of CHF 428 million compared with a loss of CHF 41 million and on an adjusted basis recorded a loss before tax of CHF 412 million compared with a loss of CHF 18 million.

Total operating income was negative CHF 389 million compared with negative CHF 30 million. Excluding net foreign currency translation losses of CHF 15 million compared with CHF 22 million, adjusted total operating income was negative CHF 373 million compared with negative CHF 8 million.

Net income from risk management activities before allocations decreased by CHF 546 million to negative CHF 398 million. This was mainly due to net income from Group structural risk management activities that was negative CHF 477 million compared with negative CHF 164 million, driven by higher net interest expense in Group ALM's portfolio of internal funding and the aforementioned accounting policy change for long dated cross-currency basis swaps, along with CHF 60 million lower income from the effect of spreads between debt instruments held in our HQLA portfolio and OIS-based instruments we use to hedge this portfolio.

Net income from capital investment and issuance activities were lower by CHF 108 million, driven by higher net interest expenses as a result of an increase in total outstanding long-term debt issued that contributes to TLAC, and by lower revenues from the investment of the Group's equity, along with the aforementioned changes to our internal funds transfer pricing rates.

Revenues related to business division-aligned risk management decreased by CHF 126 million to CHF 249 million, mainly due to a decrease in interest rate risk management revenues in the banking book for Global Wealth Management and Personal & Corporate Banking.

Net income allocations to business divisions and other Corporate Center units were negative CHF 100 million compared with positive CHF 139 million, mainly due to the aforementioned reductions in all three risk management categories.

Retained income from risk management activities was negative CHF 298 million compared with positive CHF 10 million, reflecting the higher net interest expense in Group ALM's portfolio of internal funding, the aforementioned accounting policy change for long dated cross-currency basis swaps and the CHF 56 million lower income from the effect of spreads between debt instruments held in our HQLA portfolio and OIS-based instruments we use to hedge this portfolio.

Net income retained by Group ALM due to accounting asymmetries related to economic hedges was unchanged at negative CHF 25 million.

Net income related to hedge accounting ineffectiveness on hedge-accounted derivatives was negative CHF 49 million compared with positive CHF 7 million following LIBOR-OIS basis widening effect seen in the first quarter of 2018.

Other net income was negative CHF 1 million compared with positive CHF 1 million.

# Corporate Center – Non-core and Legacy Portfolio

## Corporate Center – Non-core and Legacy Portfolio[1]

| | As of or for the quarter ended | | | % change from | | Year-to-date | |
|---|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 30.6.17 | 1Q18 | 2Q17 | 30.6.18 | 30.6.17 |
| **Results** | | | | | | | |
| Income | 99 | 49 | (5) | 104 | | 148 | (6) |
| Credit loss (expense) / recovery | (1) | 0 | (11) | | (94) | (1) | (11) |
| Total operating income | 98 | 49 | (16) | 102 | | 147 | (16) |
| Personnel expenses | 5 | 14 | 11 | (61) | (50) | 19 | 25 |
| General and administrative expenses | 67 | (1) | (28) | | | 66 | (12) |
| Services (to) / from business divisions and other CC units | 44 | 48 | 54 | (8) | (19) | 91 | 116 |
| *of which: services from CC – Services* | *38* | *41* | *46* | *(9)* | *(18)* | *79* | *97* |
| Depreciation and impairment of property, equipment and software | 0 | 0 | 0 | | (82) | 0 | 0 |
| Amortization and impairment of intangible assets | 0 | 0 | 0 | | | 0 | 0 |
| Total operating expenses | 116 | 61 | 37 | 91 | 216 | 177 | 129 |
| Operating profit / (loss) before tax | (18) | (12) | (53) | 46 | (66) | (30) | (146) |
| **Adjusted results[2]** | | | | | | | |
| Total operating income as reported | 98 | 49 | (16) | 102 | | 147 | (16) |
| Total operating income (adjusted) | 98 | 49 | (16) | 102 | | 147 | (16) |
| Total operating expenses as reported | 116 | 61 | 37 | 91 | 216 | 177 | 129 |
| *of which: personnel-related restructuring expenses[3]* | *0* | *0* | *0* | | | *0* | *0* |
| *of which: non-personnel-related restructuring expenses[3]* | *0* | *0* | *0* | | | *0* | *0* |
| *of which: restructuring expenses allocated from CC – Services[3]* | *1* | *1* | *2* | | | *2* | *4* |
| Total operating expenses (adjusted) | 115 | 60 | 35 | 93 | 232 | 175 | 125 |
| Operating profit / (loss) before tax as reported | (18) | (12) | (53) | 46 | (66) | (30) | (146) |
| Operating profit / (loss) before tax (adjusted) | (17) | (11) | (51) | 52 | (67) | (28) | (142) |
| **Additional information** | | | | | | | |
| Average attributed equity (CHF billion)[4] | 1.2 | 1.2 | 1.4 | (1) | (15) | 1.2 | 1.4 |
| Total assets (CHF billion)[5] | 38.8 | 40.5 | 54.0 | (4) | (28) | 38.8 | 54.0 |
| Risk-weighted assets (CHF billion)[4] | 15.7 | 15.9 | 17.5 | (2) | (11) | 15.7 | 17.5 |
| *of which: held by CC – Non-core and Legacy Portfolio (CHF billion)* | *15.6* | *15.9* | *17.5* | *(2)* | *(11)* | *15.6* | *17.5* |
| Leverage ratio denominator (CHF billion)[4] | 14.9 | 15.7 | 19.5 | (5) | (24) | 14.9 | 19.5 |
| *of which: held by CC – Non-core and Legacy Portfolio (CHF billion)* | *12.4* | *13.4* | *17.9* | *(8)* | *(31)* | *12.4* | *17.9* |
| *of which: held by CC – Group ALM on behalf of CC – Non-core and Legacy Portfolio (CHF billion)[6]* | *2.5* | *2.2* | *1.7* | *10* | *49* | *2.5* | *1.7* |
| Personnel (full-time equivalents) | 47 | 51 | 57 | (8) | (18) | 47 | 57 |

1 Comparative figures in this table may differ from those originally published in quarterly and annual reports due to adjustments following organizational changes, restatements due to the retrospective adoption of new accounting standards or changes in accounting policies, and events after the reporting period. 2 Adjusted results are non-GAAP financial measures as defined by SEC regulations. 3 Reflects restructuring expenses related to legacy cost programs. 4 Refer to the "Capital management" section of this report for more information. 5 Based on third-party view, i.e., without intercompany balances. 6 Represents leverage ratio denominator held by Corporate Center – Group ALM that is directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in the "Capital management" section of this report for more information.

## Composition of Non-core and Legacy Portfolio[1]

| *CHF billion* | RWA | | Total assets[2] | | LRD[3] | |
|---|---|---|---|---|---|---|
| Category | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 |
| Linear rates | 1.0 | 1.2 | 24.5 | 25.5 | 5.2 | 5.5 |
| Non-linear rates | 0.2 | 0.3 | 6.9 | 7.3 | 1.1 | 1.2 |
| Credit | 0.3 | 0.3 | 0.3 | 0.6 | 0.7 | 1.1 |
| Securitizations | 1.8 | 1.8 | 0.7 | 0.7 | 0.6 | 0.7 |
| Auction preferred stock and auction rate securities | 0.5 | 0.5 | 1.8 | 1.7 | 1.8 | 1.7 |
| Municipal swaps and options | 0.3 | 0.4 | 1.7 | 1.8 | 1.1 | 1.3 |
| Other | 1.2 | 1.1 | 2.9 | 2.9 | 1.9 | 1.9 |
| Operational risk | 10.3 | 10.3 | | | | |
| Total | 15.6 | 15.9 | 38.8 | 40.5 | 12.4 | 13.4 |

1 The groupings of positions by category and the order in which these are listed are not necessarily representative of the magnitude of the risks associated with them, nor do the metrics shown in the tables necessarily represent the risk measures used to manage and control these positions. 2 Total assets of CHF 38.8 billion as of 30 June 2018 (CHF 40.5 billion as of 31 March 2018) include positive replacement values (gross exposure excluding the effect of any counterparty netting) of CHF 32.6 billion (CHF 33.7 billion as of 31 March 2018). 3 Swiss SRB leverage ratio denominator.

## Results: 2Q18 vs 2Q17

Corporate Center – Non-core and Legacy Portfolio recorded a loss before tax of CHF 18 million compared with a loss of CHF 53 million.

### Operating income

Total operating income was positive CHF 98 million compared with negative CHF 16 million, mainly due to valuation gains on auction rate securities that were measured at amortized cost and are now measured at fair value through profit or loss effective 1 January 2018 upon adoption of IFRS 9.

→ **Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information on the adoption of IFRS 9**

### Operating expenses

Total operating expenses increased by CHF 79 million to CHF 116 million, mainly due to a net litigation-related expense of CHF 76 million compared with a net release of CHF 34 million. At the same time, net expenses for services from business divisions and other Corporate Center units decreased by CHF 10 million. Furthermore, the second quarter of 2018 included a higher credit related to the UK bank levy and lower professional fees.

## Balance sheet, risk-weighted assets and leverage ratio denominator: 2Q18 vs 1Q18

### Balance sheet assets

Balance sheet assets decreased by CHF 2 billion to CHF 39 billion, mainly due to a reduction in derivatives and associated cash collateral, primarily related to interest rate contracts, reflecting maturities and trade terminations.

### Risk-weighted assets

Risk-weighted assets were stable at CHF 16 billion.

→ **Refer to the "Capital management" section of this report for more information**

### Leverage ratio denominator

The leverage ratio denominator (LRD), including LRD held by Corporate Center – Group Asset and Liability Management on behalf of Non-core and Legacy Portfolio, decreased by CHF 1 billion to CHF 15 billion, as the LRD held by Non-core and Legacy Portfolio decreased by CHF 1 billion to CHF 12 billion, consistent with lower balance sheet assets.

→ **Refer to the "Capital management" section of this report for more information**

## Results: 6M18 vs 6M17

Non-core and Legacy Portfolio recorded a loss before tax of CHF 30 million compared with a loss of CHF 146 million. Operating income was positive CHF 147 million compared with negative CHF 16 million, mainly due to valuation gains on financial assets measured at fair value through profit or loss. Operating expenses increased by CHF 47 million to CHF 177 million, mainly due to a net litigation-related expense of CHF 61 million compared with a net release of CHF 33 million. Additionally, net expenses for services from business divisions and other Corporate Center units decreased by CHF 24 million. Furthermore, the first half of 2018 included lower professional fees.

# Risk, treasury and capital management

Management report

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# Risk management and control

This section provides information on key developments during the reporting period and should be read in conjunction with the "Risk management and control" section of our Annual Report 2017.

## Credit risk

We have adopted IFRS 9, *Financial Instruments*, effective as of 1 January 2018. IFRS 9 introduces a forward-looking expected credit loss (ECL) approach, which is intended to result in an earlier recognition of credit losses based on an ECL impairment approach compared with the incurred-loss impairment approach for financial instruments under IAS 39, *Financial Instruments: Recognition and Measurement*, and the loss-provisioning approach for financial guarantees and loan commitments under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

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

Overall credit risk exposures were broadly unchanged during the second quarter of 2018.

We continue to manage our Swiss lending portfolios prudently and remain watchful for any signs of deterioration that could affect our counterparties.

Within the Investment Bank, our leveraged loan underwriting business continued to see a steady flow of transactions, the majority of which were sub-investment grade, and our overall ability to distribute risk remained robust. Loan underwriting exposures are held for trading, with fair values reflecting the market conditions at the end of the quarter.

→ **Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information on the adoption of IFRS 9**

→ **Refer to "Note 9 Expected credit loss measurement" in the "Consolidated financial statements" section of this report for more information on credit loss expense / recovery**

## Market risk

We continued to manage market risks at generally low levels with management value-at-risk (VaR) well within our limits. Average management VaR (1-day, 95% confidence level) decreased to CHF 11 million from CHF 16 million in the previous quarter, mainly in the Investment Bank due to risk management actions taken during the quarter.

There was one new Group VaR negative backtesting exception in the second quarter of 2018 and the total number of negative backtesting exceptions within a 250-business-day window increased to 2. The FINMA VaR multiplier for market risk RWA remained unchanged at 3.

As of 30 June 2018, the interest rate sensitivity of our banking book to a +1 basis point parallel shift in yield curves was negative CHF 3.0 million compared with negative CHF 1.6 million as of 31 March 2018. The increase in negative interest rate sensitivity was primarily driven by the US dollar-denominated banking book in Corporate Center – Group Asset and Liability Management and by an increase in the US mortgage portfolio balance in Global Wealth Management.

A portion of the fair value change resulting from the banking book interest rate sensitivity would affect other comprehensive income (OCI). The interest rate sensitivity to a +1 basis point parallel shift in yield curves of financial assets and derivatives in the banking book valued through OCI was negative CHF 23 million as of 30 June 2018. This OCI sensitivity was predominantly attributable to cash flow hedges denominated in US dollars and, to a lesser extent, in euros and Swiss francs. The OCI associated with these cash flow hedges is not recognized for the purposes of calculating regulatory capital.

→ **Refer to "Sensitivity to interest rate movements" in the "Group performance" section of this report for more information on the effect of rising interest rates on equity, capital and net interest income**

## Country risk

We remain watchful of developments in Europe and political shifts in a number of countries. Our direct exposure to peripheral European countries remained limited, although we continue to have significant country risk exposure to major EU economies, including the UK, Germany, France and Italy.

We are closely monitoring the growing risks stemming from ongoing US trade policy shifts, and potential impact on key markets, economies and countries.

We remain comfortable with our direct exposure to China, and our exposure to other emerging market countries is generally well diversified.

→ **Refer to the "Risk management and control" section of our Annual Report 2017 for more information**

## Operational risk

The pervasive consequential risk themes that continue to challenge UBS and the financial industry are operational resilience, which is the ability to respond to disruptions and maintain effective day-to-day business activities, conduct and culture, and financial crime.

Cyber security is at the forefront of operational resilience, and we continue to invest in preemptive and detective measures to defend against evolving and highly sophisticated attacks. We continue to set our cyber security objectives in line with prevailing international standards, and our investment priorities focus on behaviors, readiness to address a cyberattack, data protection, and application and infrastructure security.

Given the profile of our wealth management businesses, geopolitical developments and heightened regulatory expectations, maintaining effective programs for prevention and detection of money laundering and for sanctions compliance remains a high priority for us. We continue to invest in improving our detection and monitoring capabilities, analytics and automation of our processes. We have developed a comprehensive and sustainable remediation program to address regulatory requirements, particularly with respect to anti-money laundering requirements.

Conduct risk remains one of the most significant risks across the industry and we continue our efforts to provide the right framework for the management of conduct risk.

In 2018, we are continuing to focus on regulatory reporting and are enhancing our regulatory developments tracking. We are also enhancing our operational risk framework assessment processes, including legal entity management reporting.

## Key risk metrics

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

| | 30.6.18 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | Global Wealth Management | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | Group |
| **Banking products[1, 2]** | | | | | | | | |
| Gross exposure (IFRS 9) | 187,452 | 154,436 | 1,216 | 38,341 | 739 | 124,377 | 521 | 507,082 |
| *of which: loans and advances to customers (on-balance sheet)* | *171,610* | *130,605* | *0* | *9,123* | *61* | *7,674* | *52* | *319,125* |
| *of which: guarantees and loan commitments (off-balance sheet)* | *6,016* | *20,415* | *0* | *22,981* | *108* | *2* | *16* | *49,538* |
| **Traded products[3, 4]** | | | | | | | | |
| Gross exposure | 10,723 | 955 | 0 | 35,537 | | | | 47,214 |
| *of which: over-the-counter derivatives* | *6,794* | *865* | *0* | *12,029* | | | | *19,689* |
| *of which: securities financing transactions* | *207* | *0* | *0* | *17,823* | | | | *18,030* |
| *of which: exchange-traded derivatives* | *3,722* | *89* | *0* | *5,684* | | | | *9,496* |
| Other credit lines, gross[2, 5] | 9,047 | 21,629 | 0 | 3,397 | 51 | 6 | 0 | 34,129 |
| Total credit-impaired exposure, gross (stage 3)[2] | 776 | 1,809 | 0 | 125 | 0 | 26 | 386 | 3,122 |
| Total allowances and provisions for expected credit losses (stages 1 to 3)[2] | 306 | 723 | 0 | 87 | 0 | 2 | 16 | 1,133 |
| *of which: stage 1* | *56* | *66* | *0* | *36* | *0* | *2* | *0* | *159* |
| *of which: stage 2* | *31* | *169* | *0* | *2* | *0* | *0* | *0* | *202* |
| *of which: stage 3 (allowances and provisions for credit-impaired exposures)* | *219* | *489* | *0* | *48* | *0* | *0* | *16* | *772* |

| | 31.3.18 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | Global Wealth Management | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | Group |
| **Banking products[1, 2]** | | | | | | | | |
| Gross exposure (IFRS 9) | 182,334 | 152,177 | 1,172 | 39,632 | 973 | 112,169 | 530 | 488,986 |
| *of which: loans and advances to customers (on-balance sheet)* | *167,629* | *130,800* | *0* | *10,618* | *60* | *7,848* | *65* | *317,019* |
| *of which: guarantees and loan commitments (off-balance sheet)* | *5,289* | *18,506* | *0* | *23,234* | *102* | *2* | *16* | *47,149* |
| **Traded products[3, 4]** | | | | | | | | |
| Gross exposure | 10,411 | 1,078 | 0 | 38,541 | | | | 50,030 |
| *of which: over-the-counter derivatives* | *6,590* | *1,006* | *0* | *10,877* | | | | *18,473* |
| *of which: securities financing transactions* | *211* | *0* | *0* | *22,402* | | | | *22,614* |
| *of which: exchange-traded derivatives* | *3,610* | *72* | *0* | *5,261* | | | | *8,943* |
| Other credit lines, gross[2, 5] | 8,873 | 23,391 | 0 | 3,568 | 55 | 6 | 0 | 35,892 |
| Total credit-impaired exposure, gross (stage 3)[2] | 706 | 1,804 | 0 | 126 | 0 | 25 | 394 | 3,057 |
| Total allowances and provisions for expected credit losses (stages 1 to 3)[2] | 295 | 701 | 0 | 85 | 0 | 2 | 15 | 1,098 |
| *of which: stage 1* | *53* | *59* | *0* | *29* | *0* | *2* | 0 | *143* |
| *of which: stage 2* | *30* | *161* | *0* | *3* | *0* | *0* | 0 | *194* |
| *of which: stage 3 (allowances and provisions for credit-impaired exposures)* | *213* | *481* | *0* | *53* | *0* | *0* | 15 | *762* |

1 IFRS 9 gross exposure including other financial assets at amortized cost, but excluding cash, financial assets at FVOCI, irrevocable committed prolongation of existing loans and unconditionally revocable committed credit lines. 2 Refer to "Note 1 Basis of Accounting," "Note 9 Expected credit loss measurement" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information on the adoption of IFRS 9 and on expected credit losses. 3 Internal management view of credit risk, which differs in certain respects from IFRS. 4 As counterparty risk for traded products is managed at counterparty level, no further split between exposures in the Investment Bank, Corporate Center – Non-core and Legacy Portfolio and Corporate Center – Group ALM is provided. 5 Unconditionally revocable committed credit lines.

## Global Wealth Management and Personal & Corporate Banking loans and advances to customers, gross

| | Global Wealth Management | | Personal & Corporate Banking | |
|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 |
| Secured by residential property | 47,971 | 46,872 | 95,136 | 95,388 |
| Secured by commercial / industrial property | 2,097 | 2,071 | 16,626 | 16,755 |
| Secured by cash | 14,891 | 14,044 | 1,414 | 1,459 |
| Secured by securities | 96,071 | 94,720 | 1,612 | 1,564 |
| Secured by guarantees and other collateral | 9,671 | 9,017 | 5,521 | 5,396 |
| Unsecured loans and advances to customers | 909 | 905 | 10,294 | 10,238 |
| Total loans and advances to customers, gross | 171,610 | 167,629 | 130,605 | 130,800 |
| Allowances | (176) | (173) | (621) | (601) |
| Total loans and advances to customers, net of allowances | 171,435 | 167,455 | 129,984 | 130,198 |

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

| | | | | | Average by risk type | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *CHF million* | Min. | Max. | Period end | Average | Equity | Interest rates | Credit spreads | Foreign exchange | Commodities |
| Global Wealth Management | 1 | 2 | 1 | 1 | 0 | 1 | 2 | 0 | 0 |
| Personal & Corporate Banking | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Asset Management | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment Bank | 5 | 14 | 14 | 10 | 7 | 7 | 6 | 2 | 1 |
| CC – Services | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CC – Group ALM | 3 | 6 | 3 | 4 | 0 | 4 | 1 | 1 | 0 |
| CC – Non-core and Legacy Portfolio | 2 | 3 | 2 | 2 | 1 | 1 | 1 | 0 | 0 |
| Diversification effect[2,3] | | | (7) | (6) | (1) | (5) | (4) | (1) | 0 |
| Total as of 30.6.18 | 6 | 15 | 14 | 11 | 7 | 9 | 7 | 2 | 1 |
| Total as of 31.3.18 | 8 | 24 | 12 | 16 | 12 | 9 | 7 | 3 | 2 |

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

## Interest rate sensitivity – banking book[1]

| CHF million | −200 bps | −100 bps | +1 bp | +100 bps | +200 bps |
|---|---|---|---|---|---|
| CHF | (14.4) | (14.4) | 1.0 | 103.8 | 207.4 |
| EUR | (158.9) | (115.7) | 0.0 | (3.1) | (4.1) |
| GBP | (75.5) | (47.7) | 0.1 | 8.1 | 14.7 |
| USD | 665.7 | 374.9 | (4.2) | (404.6) | (787.9) |
| Other | (7.4) | (4.7) | 0.1 | 9.4 | 19.2 |
| **Total effect on fair value of interest rate-sensitive banking book positions as of 30.6.18** | 409.5 | 192.4 | (3.0) | (286.4) | (550.7) |
| Total effect on fair value of interest rate-sensitive banking book positions as of 31.3.18 | 27.4 | 35.5 | (1.6) | (157.7) | (314.0) |

1 In the prevailing negative interest rate environment for the Swiss franc in particular, and to a lesser extent for the euro, interest rates for Global Wealth Management (excluding Americas) and Personal & Corporate Banking client transactions are generally floored at non-negative levels. Accordingly, for the purposes of this disclosure table, downward moves of 100 / 200 basis points are floored to ensure that the resulting shocked interest rates do not turn negative. The flooring results in non-linear sensitivity behavior.

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

| CHF million | 30.6.18 | | | | | | | 31.3.18 | |
|---|---|---|---|---|---|---|---|---|---|
| | Banking products | | Traded products | | Trading inventory | Total | | Total | |
| | Before hedges | Net of hedges[1] | Before hedges | Net of hedges | Net long per issuer | | Net of hedges[1] | | Net of hedges |
| Austria | 92 | 92 | 116 | 27 | 890 | 1,099 | 1,010 | 1,651 | 1,550 |
| Belgium | 322 | 322 | 169 | 169 | 208 | 700 | 700 | 234 | 234 |
| Finland | 2 | 2 | 73 | 73 | 76 | 152 | 152 | 443 | 443 |
| France | 650 | 650 | 1,125 | 1,033 | 3,375 | 5,150 | 5,058 | 6,409 | 6,314 |
| Greece | 0 | 0 | 0 | 0 | 7 | 8 | 8 | 9 | 9 |
| Ireland[2] | 435 | 435 | 120 | 120 | 171 | 726 | 726 | 404 | 404 |
| Italy | 750 | 629 | 246 | 227 | 144 | 1,140 | 1,000 | 1,431 | 1,237 |
| Portugal | 15 | 15 | 1 | 1 | 2 | 17 | 17 | 34 | 34 |
| Spain | 454 | 454 | 34 | 34 | 472 | 960 | 960 | 866 | 866 |
| Other[3] | 526 | 407 | 7 | 7 | 38 | 571 | 452 | 495 | 437 |

1 Not deducted from the "Net of hedges" exposures are IFRS 9 ECL allowances and provisions. ECL stage 3 allowances and provisions for credit-impaired exposure were CHF 41 million (of which: Malta CHF 35 million and France CHF 3 million). 2 The majority of the Ireland exposure relates to funds and foreign bank subsidiaries. 3 Represents aggregate exposures to Andorra, Cyprus, Estonia, Latvia, Lithuania, Malta, Monaco, Montenegro, San Marino, Slovakia and Slovenia.

# Balance sheet, liquidity and funding management

## Strategy, objectives and governance

This section provides balance sheet, liquidity and funding management information and should be read in conjunction with the "Treasury management" section of our Annual Report 2017, which provides more information about the Group's strategy, objectives and governance for liquidity and funding management.

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

## Adoption of IFRS 9

Effective 1 January 2018, we adopted IFRS 9, *Financial Instruments*. The adoption of IFRS 9 resulted in changes to the classification and measurement of certain financial instruments, which have been applied prospectively from 1 January 2018. The tables below and on the following pages present the balances upon adoption of IFRS 9 from 1 January 2018 onward. For more information on the transition effects on the tables presented within this section, refer to our first quarter 2018 report.

→ **Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information on the adoption of IFRS 9**

## Assets and liquidity management

### Balance sheet assets (30 June 2018 vs 31 March 2018)

As of 30 June 2018, balance sheet assets totaled CHF 944 billion, an increase of CHF 25 billion from 31 March 2018. Total assets excluding derivatives and cash collateral receivables on derivative instruments increased by CHF 16 billion to CHF 798 billion, mainly reflecting increases in cash and balances at central banks and trading portfolio assets. Excluding currency effects, total assets excluding derivatives and cash collateral receivables on derivative instruments increased by CHF 6 billion.

Cash and balances at central banks increased by CHF 9 billion, mainly resulting from client-driven activity that affected funding consumption by the business divisions. Derivatives and cash collateral receivables on derivative instruments increased by CHF 9 billion, primarily in our Foreign Exchange, Rates and Credit business within the Investment Bank, mainly reflecting client-driven increases and fair value changes related to foreign exchange contracts. Trading portfolio assets increased by CHF 7 billion, primarily reflecting increased client activity in the Investment Bank. Lending increased by CHF 4 billion, mainly in Global Wealth Management, mainly due to currency effects.

These increases were partly offset by a CHF 3 billion reduction in other financial assets at amortized cost and fair value, mainly reflecting rebalancing within our high-quality liquid assets (HQLA) portfolio held within Corporate Center – Group Asset and Liability Management (Group ALM). Brokerage receivables decreased by CHF 2 billion, primarily in our Equities business within the Investment Bank. Receivables from securities financing transactions at amortized cost decreased by CHF 1 billion, as a client-driven reduction in the Investment Bank was mostly offset by an increase in Corporate Center – Group ALM, primarily due to HQLA rebalancing, as well as currency effects.

Non-financial assets and financial assets for unit-linked investment contracts were broadly unchanged.

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

**IFRS balance sheet assets**

| | As of | | | | % change from | |
|---|---|---|---|---|---|---|
| CHF billion | 30.6.18 (IFRS 9) | 31.3.18 (IFRS 9) | 1.1.18 (IFRS 9)[1] | 31.12.17 (IAS 39) | 31.3.18 | 1.1.18 |
| Cash and balances at central banks | 102.3 | 92.8 | 87.8 | 87.8 | 10 | 17 |
| Lending[2] | 333.9 | 329.5 | 324.2 | 332.2 | 1 | 3 |
| Securities financing transactions at amortized cost | 76.4 | 77.0 | 84.7 | 89.6 | (1) | (10) |
| Trading portfolio[3,4] | 112.1 | 105.6 | 115.3 | 126.1 | 6 | (3) |
| Derivatives and cash collateral receivables on derivative instruments | 146.5 | 137.6 | 141.7 | 141.7 | 6 | 3 |
| Brokerage receivables | 18.4 | 20.2 | 23.8 | 0.0 | (9) | (23) |
| Other financial assets at AC / FV[5] | 96.6 | 99.2 | 92.7 | 104.5 | (3) | 4 |
| Non-financial assets and financial assets for unit-linked investment contracts[4] | 58.3 | 57.4 | 45.2 | 33.7 | 2 | 29 |
| **Total IFRS assets** | 944.5 | 919.4 | 915.2 | 915.6 | 3 | 3 |

1 Opening balance sheet upon adoption of IFRS 9 on 1 January 2018. Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information. 2 Consists of loans and advances to banks and customers. 3 Consists of financial assets at fair value held for trading. 4 As of 1 January 2018, financial assets for unit-linked investment contracts are reported with non-financial assets. Prior to 1 January 2018, these assets were reported within the trading portfolio. 5 Primarily held in Group ALM. Consists of financial assets at fair value not held for trading, financial assets measured at fair value through other comprehensive income and other financial assets measured at amortized cost, but excludes financial assets for unit-linked investment contracts (as of 1 January 2018) and cash collateral receivables on derivative instruments.

## Liquidity coverage ratio

In the second quarter of 2018, our liquidity coverage ratio (LCR) increased 8 percentage points to 144%, remaining above the 110% Group LCR minimum communicated by FINMA. The increase in LCR was mainly driven by lower net cash outflows primarily related to secured financing transactions, deposits and loans. These effects were partly offset by a reduction in eligible HQLA, mainly driven by an increase in assets subject to transfer restrictions in the US branches of UBS AG due to regulatory requirements for US liquidity stress testing.

→ **Refer to the "Treasury management" section of our Annual Report 2017 for more information on liquidity management and the liquidity coverage ratio**

### Liquidity coverage ratio

| *CHF billion, except where indicated* | Average 2Q18[1] | Average 1Q18[1] |
|---|---|---|
| **High-quality liquid assets[2]** | | |
| Cash balances[3] | 102 | 101 |
| Securities (on- and off-balance sheet) | 79 | 82 |
| Total high-quality liquid assets[4] | 181 | 183 |
| **Cash outflows[5]** | | |
| Retail deposits and deposits from small business customers | 26 | 26 |
| Unsecured wholesale funding | 104 | 106 |
| Secured wholesale funding | 80 | 78 |
| Other cash outflows | 45 | 43 |
| Total cash outflows | 255 | 252 |
| **Cash inflows[5]** | | |
| Secured lending | 86 | 80 |
| Inflows from fully performing exposures | 32 | 30 |
| Other cash inflows | 11 | 7 |
| Total cash inflows | 129 | 118 |
| **Liquidity coverage ratio** | | |
| High-quality liquid assets | 181 | 183 |
| Net cash outflows | 126 | 135 |
| Liquidity coverage ratio (%) | 144 | 136 |

1 Calculated based on an average of 65 data points in the second quarter of 2018 and 64 data points in the first quarter of 2018. 2 Calculated after the application of haircuts. 3 Includes cash and balances at central banks and other eligible balances as prescribed by FINMA. 4 Calculated in accordance with FINMA requirements. 5 Calculated after the application of inflow and outflow rates.

## Liabilities and funding management

### Liabilities (30 June 2018 vs 31 March 2018)

Total liabilities increased to CHF 894 billion as of 30 June 2018 from CHF 868 billion as of 31 March 2018.

Derivatives and cash collateral payables on derivative instruments increased by CHF 10 billion, in line with the aforementioned increases in derivative financial assets and cash collateral receivables. Long-term debt issued increased by CHF 5 billion, primarily due to a client-driven increase in debt issued designated at fair value within the Investment Bank and currency effects. Long-term debt issued and measured at amortized cost was broadly unchanged as the issuance of CHF 2 billion equivalent euro-denominated senior unsecured debt that contributes to our total loss-absorbing capacity (TLAC) and CHF 4 billion equivalent euro- and US dollar-denominated senior unsecured debt was offset by the maturity of CHF 5 billion equivalent of euro-, British pound- and US dollar-denominated senior unsecured debt and the redemption of a CHF 1 billion equivalent US dollar-denominated tier 2 capital instrument. Customer deposits increased by CHF 5 billion, mainly due to currency effects. Brokerage payables increased by CHF 3 billion, primarily in our Equities business within the Investment Bank. Other financial liabilities at amortized cost and fair value increased by CHF 3 billion, mainly in the Investment Bank.

Trading portfolio liabilities decreased by CHF 3 billion, primarily reflecting client-driven reductions in our Foreign Exchange, Rates and Credit business.

Short-term borrowings, payables from securities financing transactions and other non-financial liabilities were broadly unchanged.

The "Funding by product and currency" table and "Asset funding" chart in this section provide more information on our funding sources.

→ **Refer to "Bondholder information" at *www.ubs.com/investors* for more information on capital and senior debt instruments**

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

## Equity

Equity attributable to shareholders decreased to CHF 50,774 million as of 30 June 2018 from CHF 51,243 million as of 31 March 2018.

Total comprehensive income attributable to shareholders was CHF 2,343 million, reflecting net profit of CHF 1,284 million and other comprehensive income (OCI) of CHF 1,060 million. OCI included foreign currency translation OCI of 747 million, OCI related to own credit of CHF 248 million, mainly reflecting increased observability of our own credit adjustment (OCA) curve upon issuance of a 30-year senior unsecured bond during the quarter, and defined benefit plan OCI of CHF 244 million. These effects were partly offset by negative cash flow hedge OCI of CHF 161 million and negative OCI related to debt instruments at fair value of CHF 18 million.

Share premium decreased by CHF 2,302 million, mainly due to the distribution of CHF 2,444 million to shareholders out of the capital contribution reserve of UBS Group AG, partly offset by the amortization of deferred share-based compensation awards, which increased share premium by CHF 157 million.

Net treasury share activity decreased equity attributable to shareholders by CHF 512 million, of which CHF 550 million related to repurchases under the share repurchase program that was announced in January 2018.

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

→ **Refer to the "UBS shares" section of this report for more information on our share repurchase program**

**IFRS balance sheet liabilities and equity**

| | As of | | | | % change from | |
|---|---|---|---|---|---|---|
| *CHF billion* | 30.6.18 (IFRS 9) | 31.3.18 (IFRS 9) | 1.1.18 (IFRS 9)[1] | 31.12.17 (IAS 39) | 31.3.18 | 1.1.18 |
| Short-term borrowings[2] | 55.6 | 55.2 | 58.5 | 58.5 | 1 | (5) |
| Securities financing transactions at amortized cost | 10.1 | 9.2 | 12.0 | 17.0 | 11 | (16) |
| Customer deposits | 403.4 | 398.6 | 403.7 | 409.0 | 1 | 0 |
| Long-term debt issued[3] | 149.1 | 143.8 | 138.1 | 138.1 | 4 | 8 |
| Trading portfolio[4] | 31.4 | 34.7 | 30.5 | 30.5 | (10) | 3 |
| Derivatives and cash collateral payables on derivative instruments | 151.1 | 141.4 | 146.4 | 146.4 | 7 | 3 |
| Brokerage payables | 37.9 | 34.8 | 34.9 | 0.0 | 9 | 9 |
| Other financial liabilities at AC / FV[5] | 19.3 | 16.0 | 16.4 | 41.0 | 21 | 18 |
| Non-financial liabilities and amounts due under unit-linked investment contracts | 35.7 | 34.4 | 24.0 | 23.9 | 4 | 49 |
| **Total IFRS liabilities** | 893.6 | 868.1 | 864.5 | 864.4 | 3 | 3 |
| Share capital | 0.4 | 0.4 | 0.4 | 0.4 | 0 | (4) |
| Share premium | 23.0 | 25.3 | 25.9 | 25.9 | (9) | (11) |
| Treasury shares | (2.0) | (1.5) | (2.1) | (2.1) | 34 | (3) |
| Retained earnings | 35.6 | 33.8 | 32.2 | 32.8 | 5 | 11 |
| Other comprehensive income[6] | (6.1) | (6.7) | (5.8) | (5.7) | (8) | 6 |
| **Total IFRS equity attributable to shareholders** | 50.8 | 51.2 | 50.6 | 51.2 | (1) | 0 |
| IFRS equity attributable to non-controlling interests | 0.1 | 0.1 | 0.1 | 0.1 | (3) | (40) |
| **Total IFRS equity** | 50.8 | 51.3 | 50.7 | 51.3 | (1) | 0 |
| **Total IFRS liabilities and equity** | 944.5 | 919.4 | 915.2 | 915.6 | 3 | 3 |

1 Opening balance sheet upon adoption of IFRS 9 on 1 January 2018. Refer to "Note 1 Basis of accounting" and "Note 19 Transition to IFRS 9 as of 1 January 2018" in the "Consolidated financial statements" section of this report for more information. 2 Consists of short-term debt issued measured at amortized cost and amounts due to banks. 3 Consists of long-term debt issued measured at amortized cost and debt issued designated at fair value. The classification of debt issued into short-term and long-term does not consider any early redemption features. 4 Consists of financial liabilities at fair value held for trading. 5 Consists of other financial liabilities measured at amortized cost and other financial liabilities designated at fair value, but excludes cash collateral payables on derivative instruments and amounts due under unit-linked investment contracts. 6 Excludes defined benefit plans and own credit that are recorded directly in Retained earnings.

## Net stable funding ratio

As of 30 June 2018, our estimated pro forma net stable funding ratio (NSFR) was 107%, unchanged from 31 March 2018 as a CHF 9 billion increase in available stable funding, primarily driven by deposit increases and new issuances, was offset by a CHF 10 billion increase in required stable funding, mainly due to increases in trading assets and loans.

The calculation of our pro forma NSFR includes estimates of the effect of the Basel Committee on Banking Supervision rules and will be refined when NSFR rule-making is completed in Switzerland and as regulatory interpretations evolve and new models and associated systems are enhanced.

→ **Refer to the "Treasury management" section of our Annual Report 2017 for more information on the net stable funding ratio**

### Pro forma net stable funding ratio

| *CHF billion, except where indicated* | 30.6.18 | 31.3.18 |
|---|---|---|
| Available stable funding | 455 | 446 |
| Required stable funding | 425 | 415 |
| **Pro forma net stable funding ratio (%)** | **107** | **107** |

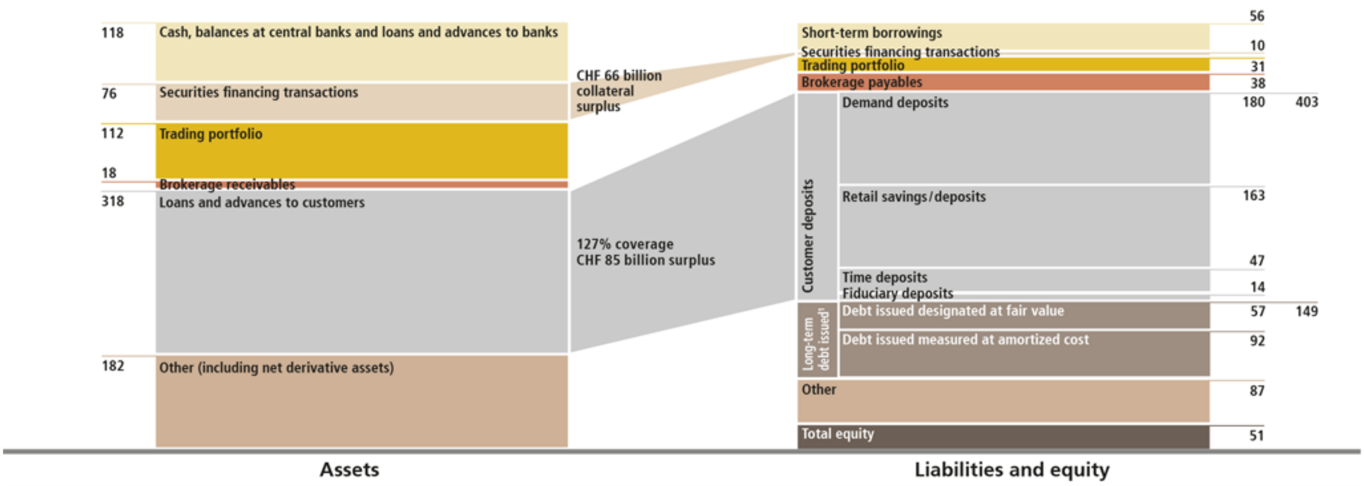
### Funding by product and currency

| | CHF billion | | As a percentage of total funding sources (%) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | All currencies | | All currencies | | CHF | | EUR | | USD | | Other | |
| | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 |
| Short-term borrowings | 55.6 | 55.2 | 8.1 | 8.2 | 0.4 | 0.5 | 2.5 | 3.1 | 4.1 | 3.5 | 1.0 | 1.1 |
| *of which: due to banks* | *10.2* | *9.0* | *1.5* | *1.3* | *0.4* | *0.4* | *0.3* | *0.3* | *0.5* | *0.4* | *0.3* | *0.3* |
| *of which: short-term debt issued[1]* | *45.3* | *46.2* | *6.6* | *6.9* | *0.0* | *0.0* | *2.2* | *2.9* | *3.7* | *3.2* | *0.6* | *0.8* |
| Securities financing transactions | 10.1 | 9.2 | 1.5 | 1.4 | 0.0 | 0.0 | 0.3 | 0.1 | 0.9 | 1.0 | 0.3 | 0.3 |
| Cash collateral payables on derivative instruments | 31.8 | 29.4 | 4.6 | 4.4 | 0.2 | 0.1 | 1.5 | 1.4 | 2.2 | 2.1 | 0.9 | 0.8 |
| Customer deposits | 403.4 | 398.6 | 58.6 | 59.4 | 25.4 | 25.7 | 7.7 | 7.4 | 20.3 | 21.0 | 5.3 | 5.3 |
| *of which: demand deposits* | *179.9* | *179.0* | *26.2* | *26.7* | *9.5* | *9.5* | *6.6* | *6.4* | *6.5* | *6.9* | *3.6* | *3.8* |
| *of which: retail savings / deposits* | *162.6* | *158.7* | *23.6* | *23.6* | *14.9* | *15.1* | *0.8* | *0.8* | *7.9* | *7.8* | *0.0* | *0.0* |
| *of which: time deposits* | *46.9* | *48.1* | *6.8* | *7.2* | *1.0* | *1.0* | *0.1* | *0.1* | *4.2* | *4.7* | *1.5* | *1.4* |
| *of which: fiduciary deposits* | *14.1* | *12.9* | *2.0* | *1.9* | *0.1* | *0.1* | *0.2* | *0.1* | *1.7* | *1.7* | *0.1* | *0.1* |
| Long-term debt issued[2] | 149.1 | 143.8 | 21.7 | 21.4 | 1.8 | 1.9 | 5.5 | 5.4 | 12.5 | 12.2 | 1.9 | 2.0 |
| Brokerage payables | 37.9 | 34.8 | 5.5 | 5.2 | 0.1 | 0.1 | 0.5 | 0.5 | 3.5 | 3.3 | 1.4 | 1.3 |
| **Total** | **687.9** | **671.0** | **100.0** | **100.0** | **28.0** | **28.2** | **17.9** | **17.9** | **43.5** | **43.1** | **10.7** | **10.8** |

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

### Asset funding

*CHF billion, except where indicated* *As of 30.6.18*




1 Long-term debt issued also includes debt with a remaining time to maturity of less than one year.

# Capital management

This section provides information on key developments during the reporting period and should be read in conjunction with the "Capital management" section of our Annual Report 2017, which provides more information about our strategy, objectives and governance for capital management. Disclosures in this section are provided for UBS Group AG on a consolidated basis and focus on information in accordance with the Basel III framework as applicable to Swiss systemically relevant banks (SRBs).

Information in accordance with the Basel Committee on Banking Supervision framework for UBS Group AG consolidated together with capital and other regulatory information for UBS AG standalone, UBS Switzerland AG standalone, UBS Limited standalone and UBS Americas Holding LLC consolidated is provided in 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*.

Capital and other regulatory information for UBS AG consolidated is provided in the UBS AG second quarter 2018 report, which will be available as of 27 July 2018 under "Quarterly reporting" at *www.ubs.com/investors*.

# Swiss SRB requirements and information

Information on the Swiss SRB capital framework and on Swiss SRB going and gone concern requirements that are being phased in until the end of 2019 is provided in the "Capital management" section of our Annual Report 2017, which is available under "Annual reporting" at *www.ubs.com/investors*. These requirements are also applicable to UBS AG consolidated and UBS Switzerland AG standalone. UBS AG is subject to going concern requirements on a standalone basis for which details are provided in the 31 December 2017 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups, which is available under "Pillar 3 disclosures" at *www.ubs.com/investors* and in 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*.

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

**Swiss SRB going and gone concern requirements and information[1]**

| | Swiss SRB, including transitional arrangements | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of 30.6.18 | RWA | | | | LRD | | | |
| *CHF million, except where indicated* | Requirement (%) | Actual (%) | Requirement | Eligible | Requirement (%) | Actual (%) | Requirement | Eligible |
| Common equity tier 1 capital | 9.72 | 13.40 | 24,528 | 33,817 | 2.90 | 3.75 | 26,170 | 33,817 |
| Maximum high-trigger loss-absorbing additional tier 1 capital[2,3] | 3.40 | 7.10 | 8,581 | 17,912 | 1.10 | 1.98 | 9,926 | 17,912 |
| *of which: high-trigger loss-absorbing additional tier 1 capital* | | *3.48* | | *8,780* | | *0.97* | | *8,780* |
| *of which: low-trigger loss-absorbing additional tier 1 capital* | | *0.93* | | *2,359* | | *0.26* | | *2,359* |
| *of which: high-trigger loss-absorbing tier 2 capital* | | *0.17* | | *434* | | *0.05* | | *434* |
| *of which: low-trigger loss-absorbing tier 2 capital* | | *2.51* | | *6,339* | | *0.70* | | *6,339* |
| Total going concern capital | 13.12[4] | 20.50 | 33,109 | 51,729 | 4.00[5] | 5.73 | 36,096 | 51,729 |
| Base gone concern loss-absorbing capacity, including applicable add-ons and rebate | 7.65[6] | 11.96 | 19,317 | 30,195 | 2.58[6] | 3.35 | 23,282 | 30,195 |
| Total gone concern loss-absorbing capacity | 7.65 | 11.96 | 19,317 | 30,195 | 2.58 | 3.35 | 23,282 | 30,195 |
| Total loss-absorbing capacity | 20.77 | 32.46 | 52,425 | 81,924 | 6.58 | 9.08 | 59,378 | 81,924 |

| | Swiss SRB as of 1.1.20 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| As of 30.6.18 | RWA | | | | LRD | | | |
| *CHF million, except where indicated* | Requirement (%) | Actual (%) | Requirement | Eligible | Requirement (%) | Actual (%) | Requirement | Eligible |
| Common equity tier 1 capital | 10.26 | 13.40 | 25,891 | 33,817 | 3.50 | 3.75 | 31,584 | 33,817 |
| Maximum high-trigger loss-absorbing additional tier 1 capital[2] | 4.30 | 4.41 | 10,852 | 11,139 | 1.50 | 1.23 | 13,536 | 11,139 |
| *of which: high-trigger loss-absorbing additional tier 1 capital* | | *3.48* | | *8,780* | | *0.97* | | *8,780* |
| *of which: low-trigger loss-absorbing additional tier 1 capital* | | *0.93* | | *2,359* | | *0.26* | | *2,359* |
| Total going concern capital | 14.56[7] | 17.81 | 36,743 | 44,956 | 5.00[8] | 4.98 | 45,120 | 44,956 |
| Base gone concern loss-absorbing capacity, including applicable add-ons and rebate | 12.30[9] | 14.48 | 31,037 | 36,535 | 4.30[9] | 4.05 | 38,804 | 36,535 |
| Total gone concern loss-absorbing capacity | 12.30 | 14.48 | 31,037 | 36,535 | 4.30 | 4.05 | 38,804 | 36,535 |
| Total loss-absorbing capacity | 26.86 | 32.29 | 67,780 | 81,491 | 9.30 | 9.03 | 83,924 | 81,491 |

1 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. 2 Includes outstanding low-trigger loss-absorbing additional tier 1 (AT1) capital instruments, which are available under the transitional rules of the Swiss SRB framework to meet the going concern requirements until their first call date, even if the first call date is after 31 December 2019. As of their first call date, these instruments are eligible to meet the gone concern requirements. 3 Includes outstanding high- and 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. 4 Consists of a minimum capital requirement of 8% and a buffer capital requirement of 5.12%, including the effect of countercyclical buffers of 0.26%. 5 Consists of a minimum leverage ratio requirement of 3% and a buffer leverage ratio requirement of 1%. 6 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. 7 Consists of a minimum capital requirement of 8% and a buffer capital requirement of 6.56%, including the effect of countercyclical buffers of 0.26% and applicable add-ons of 1.44%. 8 Consists of a minimum leverage ratio requirement of 3% and a buffer leverage ratio requirement of 2%, including applicable add-ons of 0.5%. 9 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.

# Total loss-absorbing capacity

The table below provides Swiss SRB going and gone concern information based on transitional arrangements and based on the final rules as of 1 January 2020. Effective 1 January 2018, common equity tier 1 (CET1) capital, RWA and LRD are the same under both arrangements, as prudential filters as required by the Basel Committee on Banking Supervision are entirely phased in. The remaining differences between the columns "Swiss SRB, including transitional arrangements" and "Swiss SRB as of 1.1.20" are fully related to the eligibility of instruments as required by the too big to fail provisions in the Swiss Capital Adequacy Ordinance applicable to Swiss SRBs, which are described in the "Swiss SRB total loss-absorbing capacity framework" in the "Capital management" section of our Annual Report 2017.

**Swiss SRB going and gone concern information**

| | Swiss SRB, including transitional arrangements | | | Swiss SRB as of 1.1.20 | | |
|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 31.12.17[1] | 30.6.18 | 31.3.18 | 31.12.17 |
| **Going concern capital** | | | | | | |
| **Common equity tier 1 capital** | 33,817[2] | 33,151[2] | 35,494 | 33,817[2] | 33,151[2] | 32,671 |
| High-trigger loss-absorbing additional tier 1 capital | 8,780 | 8,533 | 6,857 | 8,780 | 8,533 | 6,857 |
| Low-trigger loss-absorbing additional tier 1 capital | 2,359 | 2,342 | 1,087[3] | 2,359 | 2,342 | 2,383 |
| **Total loss-absorbing additional tier 1 capital** | 11,139 | 10,875 | 7,944 | 11,139 | 10,875 | 9,240 |
| **Total tier 1 capital** | 44,956 | 44,026 | 43,438 | 44,956 | 44,026 | 41,911 |
| High-trigger loss-absorbing tier 2 capital | 434 | 429 | 435 | | | |
| Low-trigger loss-absorbing tier 2 capital[4] | 6,339 | 7,698 | 7,874 | | | |
| **Total tier 2 capital** | 6,773 | 8,127 | 8,309 | | | |
| **Total going concern capital** | 51,729 | 52,153 | 51,748 | 44,956 | 44,026 | 41,911 |
| **Gone concern loss-absorbing capacity[5]** | | | | | | |
| High-trigger loss-absorbing tier 2 capital | | | | | | 218 |
| Low-trigger loss-absorbing tier 2 capital[4] | 376 | 365 | 378 | 6,716 | 8,063 | 8,252 |
| Non-Basel III-compliant tier 2 capital[6] | 696 | 684 | 689 | 696 | 684 | 689 |
| **Total tier 2 capital** | 1,072 | 1,049 | 1,067 | 7,412 | 8,747 | 9,159 |
| **TLAC-eligible senior unsecured debt** | 29,123 | 26,431 | 27,233 | 29,123 | 26,431 | 27,233 |
| **Total gone concern loss-absorbing capacity** | 30,195 | 27,480 | 28,300 | 36,535 | 35,178 | 36,392 |
| **Total loss-absorbing capacity** | | | | | | |
| **Total loss-absorbing capacity** | 81,924 | 79,632 | 80,048 | 81,491 | 79,204 | 78,303 |
| **Risk-weighted assets / leverage ratio denominator** | | | | | | |
| Risk-weighted assets | 252,373[2] | 253,753[2] | 238,394 | 252,373[2] | 253,753[2] | 237,494 |
| Leverage ratio denominator | 902,408 | 882,469 | 887,635 | 902,408 | 882,469 | 886,116 |
| **Capital and loss-absorbing capacity ratios (%)** | | | | | | |
| Going concern capital ratio | 20.5 | 20.6 | 21.7 | 17.8 | 17.3 | 17.6 |
| *of which: common equity tier 1 capital ratio* | *13.4* | *13.1* | *14.9* | *13.4* | *13.1* | *13.8* |
| Gone concern loss-absorbing capacity ratio | 12.0 | 10.8 | 11.9 | 14.5 | 13.9 | 15.3 |
| Total loss-absorbing capacity ratio | 32.5 | 31.4 | 33.6 | 32.3 | 31.2 | 33.0 |
| **Leverage ratios (%)** | | | | | | |
| Going concern leverage ratio | 5.7 | 5.9 | 5.8 | 5.0 | 5.0 | 4.7 |
| *of which: common equity tier 1 leverage ratio* | *3.75* | *3.76* | *4.00* | *3.75* | *3.76* | *3.69* |
| Gone concern leverage ratio | 3.3 | 3.1 | 3.2 | 4.0 | 4.0 | 4.1 |
| Total loss-absorbing capacity leverage ratio | 9.1 | 9.0 | 9.0 | 9.0 | 9.0 | 8.8 |

1 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. 2 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 for more information. 3 Low-trigger loss-absorbing additional tier 1 capital of CHF 2,383 million was partly offset by required deductions for goodwill of CHF 1,296 million. 4 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. 5 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. 6 Non-Basel III-compliant tier 2 capital instruments qualify as gone concern instruments.

## Total loss-absorbing capacity and movement under Swiss SRB rules applicable as of 1 January 2020

### Going concern capital and movement

As of 30 June 2018, our CET1 capital increased by CHF 0.7 billion to CHF 33.8 billion, mainly as a result of operating profit before tax, partly offset by accruals for capital returns to shareholders and our share repurchase program. Our loss-absorbing additional tier 1 (AT1) capital increased by CHF 0.3 billion to CHF 11.1 billion as of 30 June 2018.

→ **Refer to "UBS shares" in this section for more information on the share repurchase program**

### Gone concern loss-absorbing capacity and movement

Our total gone concern loss-absorbing capacity increased by CHF 1.4 billion to CHF 36.5 billion, mainly due to the issuance of CHF 2.1 billion equivalent in a euro-denominated total loss-absorbing capacity (TLAC)-eligible senior unsecured debt instrument and CHF 0.7 billion due to foreign currency translation effects, partly offset by a decrease resulting from the call of a US dollar-denominated low-trigger tier 2 capital instrument equivalent to CHF 1.4 billion.

→ **Refer to "Bondholder information" at *www.ubs.com/investors* for more information on the eligibility of capital and senior unsecured debt instruments and on key features and terms and conditions of capital instruments**

### Loss-absorbing capacity and leverage ratios

Our CET1 capital ratio increased 0.3 percentage points to 13.4%, reflecting a CHF 0.7 billion increase in CET1 capital and a CHF 1.4 billion decrease in RWA.

Our CET1 leverage ratio decreased from 3.76% to 3.75% in the second quarter of 2018, reflecting a CHF 20 billion increase in the LRD, partly offset by the aforementioned increase in CET1 capital.

Our gone concern loss-absorbing capacity ratio increased 0.6 percentage points to 14.5%, mainly driven by the increase in gone concern loss-absorbing capacity and the aforementioned decrease in RWA. Our gone concern leverage ratio remained stable at 4.0%, as the increase in gone concern loss-absorbing capacity was offset by the increase in the LRD.

### Reconciliation of IFRS equity to Swiss SRB common equity tier 1 capital

| *CHF million* | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|
| **Total IFRS equity** | 50,834 | 51,305 | 51,271 |
| Equity attributable to non-controlling interests | (60) | (62) | (57) |
| Defined benefit plans | (61) | (1) | 0 |
| Deferred tax assets recognized for tax loss carry-forwards | (6,113) | (5,907) | (5,797) |
| Deferred tax assets on temporary differences, excess over threshold | (289) | (458) | (857) |
| Goodwill, net of tax[1] | (6,508) | (6,336) | (6,479) |
| Intangible assets, net of tax | (176) | (192) | (214) |
| Compensation-related components (not recognized in net profit) | (1,805) | (1,581) | (1,620) |
| Expected losses on advanced internal ratings-based portfolio less provisions[2] | (397) | (359) | (634) |
| Unrealized (gains) / losses from cash flow hedges, net of tax | 264 | 103 | (351) |
| Unrealized own credit related to financial liabilities designated at fair value, net of tax, and replacement values | (319) | (46) | 133 |
| Unrealized gains related to debt instruments at fair value through OCI, net of tax | 0 | 0 | (193)[3] |
| Prudential valuation adjustments | (120) | (120) | (59) |
| Accruals for proposed dividends to shareholders for 2017 | 0 | (2,438) | (2,438) |
| Other[4] | (1,432) | (758) | (34) |
| **Total common equity tier 1 capital** | 33,817 | 33,151 | 32,671 |

1 Includes goodwill related to significant investments in financial institutions of CHF 350 million (31 March 2018: CHF 350 million; 31 December 2017: CHF 350 million) presented on the balance sheet line "Investments in associates." 2 From 1 January 2018, provisions have been calculated in accordance with IFRS 9. Provisions in prior periods have been calculated in accordance with International Accounting Standard (IAS) 39. 3 As of 31 December 2017 related to equity and debt instruments available for sale. 4 Includes accruals for dividends to shareholders for the current year of CHF 1.3 billion and other items.

## Swiss SRB total loss-absorbing capacity movement

| *CHF million* | Swiss SRB, including transitional arrangements | Swiss SRB as of 1.1.20 |
|---|---|---|
| **Going concern capital** | | |
| Common equity tier 1 capital as of 31.3.18 | 33,151 | 33,151 |
| Operating profit before tax | 1,679 | 1,679 |
| Current tax (expense) / benefit | (196) | (196) |
| Foreign currency translation effects | 303 | 303 |
| Defined benefit plans | 184 | 184 |
| Share repurchase program[1] | (550) | (550) |
| Other[2] | (754) | (754) |
| Common equity tier 1 capital as of 30.6.18 | 33,817 | 33,817 |
| Loss-absorbing additional tier 1 capital as of 31.3.18 | 10,875 | 10,875 |
| Foreign currency translation and other effects | 264 | 264 |
| Loss-absorbing additional tier 1 capital as of 30.6.18 | 11,139 | 11,139 |
| Tier 2 capital as of 31.3.18 | 8,127 | |
| Call of a low-trigger loss-absorbing tier 2 capital instrument | (1,425) | |
| Foreign currency translation and other effects | 71 | |
| Tier 2 capital as of 30.6.18 | 6,773 | |
| Total going concern capital as of 31.3.18 | 52,153 | 44,026 |
| Total going concern capital as of 30.6.18 | 51,729 | 44,956 |
| **Gone concern loss-absorbing capacity** | | |
| Tier 2 capital as of 31.3.18 | 1,049 | 8,747 |
| Call of a low-trigger loss-absorbing tier 2 capital instrument | | (1,425) |
| Foreign currency translation and other effects | 23 | 89 |
| Tier 2 capital as of 30.6.18 | 1,072 | 7,412 |
| TLAC-eligible senior unsecured debt as of 31.3.18 | 26,431 | 26,431 |
| Issuance of a TLAC-eligible senior unsecured debt instrument | 2,055 | 2,055 |
| Foreign currency translation and other effects | 638 | 638 |
| TLAC-eligible senior unsecured debt as of 30.6.18 | 29,123 | 29,123 |
| Total gone concern loss-absorbing capacity as of 31.3.18 | 27,480 | 35,178 |
| Total gone concern loss-absorbing capacity as of 30.6.18 | 30,195 | 36,535 |
| **Total loss-absorbing capacity** | | |
| Total loss-absorbing capacity as of 31.3.18 | 79,632 | 79,204 |
| Total loss-absorbing capacity as of 30.6.18 | 81,924 | 81,491 |

1 Refer to "UBS shares" in this section of the report for more information. 2 Includes movements related to accruals for dividends to shareholders for the current year and other items.

## Additional information

### Sensitivity to currency movements

*Risk-weighted assets*

We estimate that a 10% depreciation of the Swiss franc against other currencies would have increased our RWA by CHF 12 billion and our CET1 capital by CHF 1.5 billion as of 30 June 2018 (31 March 2018: CHF 12 billion and CHF 1.4 billion, respectively) and reduced our CET1 capital ratio by 2 basis points (31 March 2018: 4 basis points). Conversely, we estimate that a 10% appreciation of the Swiss franc against other currencies would have reduced our RWA by CHF 11 billion and our CET1 capital by CHF 1.4 billion (31 March 2018: CHF 11 billion and CHF 1.3 billion, respectively) and increased our CET1 capital ratio by 2 basis points (31 March 2018: 4 basis points).

*Leverage ratio denominator*

We estimate that a 10% depreciation of the Swiss franc against other currencies would have increased our LRD by CHF 67 billion (31 March 2018: CHF 66 billion) and reduced our Swiss SRB going concern leverage ratio by 7 basis points (31 March 2018: 8 basis points). Conversely, we estimate that a 10% appreciation of the Swiss franc against other currencies would have reduced our LRD by CHF 61 billion (31 March 2018: CHF 60 billion) and increased our Swiss SRB going concern leverage ratio by 8 basis points (31 March 2018: 9 basis points).

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

→ **Refer to "Active management of sensitivity to currency movements" in the "Capital management" section of our Annual Report 2017 for more information**

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

We have estimated the loss in capital that we could incur as a result of the risks associated with the matters described in "Note 15 Provisions and contingent liabilities" in the "Consolidated financial statements" section of this report. We have used for this purpose the advanced measurement approach (AMA) methodology that we use when determining the capital requirements associated with operational risks, based on a 99.9% confidence level over a 12-month horizon. The methodology takes into consideration UBS and industry experience for the AMA operational risk categories to which those matters correspond, as well as the external environment affecting risks of these types, in isolation from other areas. On this standalone basis, we estimate the loss in capital that we could incur over a 12-month period as a result of our risks associated with these operational risk categories at CHF 4.8 billion as of 30 June 2018. This estimate is not related and does not take into account any provisions recognized for any of these matters and does not constitute a subjective assessment of our actual exposure in any of these matters.

→ **Refer to "Operational risk" in the "Risk management and control" section of our Annual Report 2017 for more information**

→ **Refer to "Note 15 Provisions and contingent liabilities" in the "Consolidated financial statements" section of this report for more information**

### 2018 CCAR results

In June 2018, the Federal Reserve Board released the results of its Comprehensive Capital Analysis and Review (CCAR) and did not object to UBS Americas Holding LLC's capital plan.

# Risk-weighted assets

During the second quarter of 2018, risk-weighted assets (RWA) decreased by CHF 1.4 billion to CHF 252.4 billion, reflecting a decrease from asset size and other movements of CHF 7.0 billion, partly offset by model updates of CHF 2.5 billion, an increase related to currency effects of CHF 1.8 billion and regulatory add-ons of CHF 1.0 billion, as well as methodology and policy changes of CHF 0.3 billion.

**Movement in risk-weighted assets by key driver**

| *CHF billion* | RWA as of 31.3.18 | Currency effects | Methodology and policy changes | Model updates / changes | Regulatory add-ons | Asset size and other[1] | RWA as of 30.6.18 |
|---|---|---|---|---|---|---|---|
| Credit and counterparty credit risk[2] | 134.5 | 1.6 | 0.3 | 2.4 | 0.7 | 3.2 | 142.8 |
| Non-counterparty-related risk | 17.4 | 0.2 | | | | 0.2 | 17.8 |
| Market risk | 22.4 | | | 0.1 | 0.3 | (10.4) | 12.4 |
| Operational risk | 79.4 | | | | | 0.0 | 79.4 |
| **Total** | **253.8** | **1.8** | **0.3** | **2.5** | **1.0** | **(7.0)** | **252.4** |

1 Includes the Pillar 3 categories "Asset size," "Credit quality of counterparties," "Acquisitions and disposals" and "Other." Refer to the 31 December 2017 Pillar 3 report – UBS Group and significant regulated subsidiaries and sub-groups under "Pillar 3 disclosures" at www.ubs.com/investors for more information. 2 Includes settlement risk, credit valuation adjustments, equity exposures in the banking book and securitization exposures in the banking book.

## Credit and counterparty credit risk

Credit and counterparty credit risk RWA increased by CHF 8.3 billion to CHF 142.8 billion as of 30 June 2018.

The RWA increase from asset size and other movements of CHF 3.2 billion was mainly due to a CHF 2.0 billion increase in the Investment Bank's Corporate Client Solutions business, primarily reflecting temporary increases in unutilized credit facilities. In addition, a CHF 0.6 billion increase resulted from higher lending business activity in Global Wealth Management.

The RWA increase of CHF 2.4 billion from model updates was primarily driven by the continued phase-in of RWA increases related to probability of default (PD) and loss given default (LGD) changes from the implementation of revised models for Swiss residential mortgages and income-producing real estate, as well as from the new LGD model for unsecured financing and commercial self-used real estate resulting in an increase of CHF 2.0 billion in Personal & Corporate Banking and CHF 0.1 billion in Global Wealth Management. In addition, RWA increased by CHF 0.3 billion due to the implementation of credit conversion factors for Lombard loan facilities that are entirely undrawn in Global Wealth Management.

The increase from regulatory add-ons of CHF 0.7 billion was driven by a higher internal ratings-based multiplier on Investment Bank exposures to corporates.

An increase of CHF 0.3 billion from methodology and policy changes was due to a change in the regulatory portfolio segmentation of our structured margin lending portfolio in Global Wealth Management, which was previously captured within the Other Retail asset class, and is now subject to the Corporate treatment.

We anticipate that methodology changes and model updates, including the continued phase-in of RWA increases related to PD and LGD factors, credit conversion factors and scheduled increases in the FINMA-required multiplier for Investment Bank exposures to corporates will increase credit and counterparty credit risk RWA by around CHF 5 billion in the second half of 2018, including CHF 3 billion in the third quarter of 2018. The extent and timing of RWA increases may vary as methodology changes and model updates are completed and receive regulatory approval, and as regulatory multipliers are adjusted. In addition, changes in composition of the relevant portfolios and other factors will affect our RWA.

→ **Refer to "Credit risk models" in the "Risk management and control" section of our Annual Report 2017 for more information**

## Market risk

Market risk RWA decreased by CHF 10.0 billion in the second quarter of 2018, primarily due to asset size and other movements resulting from lower average regulatory and stressed value-at-risk (VaR) levels observed in the Investment Bank, mainly due to risk management actions taken during the quarter. An increase from regulatory add-ons of CHF 0.3 billion reflects changes to our risks-not-in-VaR framework.

We expect to complete the changes to our risks-not-in-VaR framework in the third quarter of 2018, with RWA expected to increase by less than CHF 1 billion. This estimate does not reflect mitigating actions that we may take or any changes in the trading book composition or risk levels.

→ **Refer to the "Risk management and control" section of this report and 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* for more information on market risk developments**

## Operational risk

Operational risk RWA were CHF 79.4 billion as of 30 June 2018, unchanged from 31 March 2018.

→ **Refer to "Operational risk" in the "Risk management and control" section of our Annual Report 2017 for more information on the advanced measurement approach model**

**Risk-weighted assets by business division and Corporate Center unit**

| *CHF billion* | Global Wealth Management | Personal & Corporate Banking | Asset Manage-ment | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | Total RWA |
|---|---|---|---|---|---|---|---|---|
| | | | | 30.6.18 | | | | |
| Credit and counterparty credit risk[1] | 29.1 | 48.1 | 1.7 | 50.2 | 1.7 | 8.1 | 3.9 | 142.8 |
| Non-counterparty-related risk[2] | 0.1 | 0.1 | 0.1 | 0.0 | 17.5 | 0.0 | 0.0 | 17.8 |
| Market risk | 1.7 | 0.0 | 0.0 | 11.2 | (2.4)[3] | 0.6 | 1.4 | 12.4 |
| Operational risk | 27.0 | 4.0 | 2.4 | 19.8 | 13.3 | 2.5 | 10.3 | 79.4 |
| **Total[4]** | 57.9 | 52.2 | 4.1 | 81.2 | 30.1 | 11.3 | 15.6 | 252.4 |
| RWA held by CC – Group ALM on behalf of business divisions and other CC units[5] | 2.1 | 1.0 | 0.1 | 0.6 | 0.0 | (3.9) | 0.0 | 0.0 |
| **RWA after allocation from CC – Group ALM to business divisions and other CC units** | 60.0 | 53.2 | 4.2 | 81.8 | 30.1 | 7.4 | 15.7 | 252.4 |
| | | | | 31.3.18 | | | | |
| Credit and counterparty credit risk[1] | 27.3 | 45.5 | 1.6 | 46.4 | 2.1 | 7.6 | 4.0 | 134.5 |
| Non-counterparty-related risk[2] | 0.1 | 0.1 | 0.1 | 0.0 | 17.2 | 0.0 | 0.0 | 17.4 |
| Market risk | 2.2 | 0.0 | 0.0 | 20.3 | (2.5)[3] | 0.9 | 1.5 | 22.4 |
| Operational risk | 27.0 | 4.0 | 2.4 | 19.8 | 13.3 | 2.5 | 10.3 | 79.4 |
| **Total[4]** | **56.5** | **49.5** | **4.1** | **86.6** | **30.1** | **11.1** | **15.9** | **253.8** |
| RWA held by CC – Group ALM on behalf of business divisions and other CC units[5] | 2.1 | 1.0 | 0.1 | 0.5 | 0.0 | (3.7) | 0.0 | 0.0 |
| **RWA after allocation from CC – Group ALM to business divisions and other CC units** | **58.6** | **50.5** | **4.1** | **87.1** | **30.1** | **7.4** | **15.9** | **253.8** |
| | | | | 30.6.18 vs 31.3.18 | | | | |
| Credit and counterparty credit risk[1] | 1.8 | 2.7 | 0.1 | 3.7 | (0.4) | 0.5 | (0.1) | 8.2 |
| Non-counterparty-related risk[2] | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.0 | 0.4 |
| Market risk | (0.5) | 0.0 | 0.0 | (9.1) | 0.1 | (0.3) | (0.2) | (10.0) |
| Operational risk | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Total[4]** | **1.3** | **2.7** | **0.1** | **(5.4)** | **0.0** | **0.2** | **(0.3)** | **(1.4)** |
| RWA held by CC – Group ALM on behalf of business divisions and other CC units[5] | 0.0 | 0.0 | 0.0 | 0.1 | 0.0 | (0.2) | 0.0 | 0.0 |
| **RWA after allocation from CC – Group ALM to business divisions and other CC units** | **1.4** | **2.7** | **0.1** | **(5.3)** | **0.0** | **0.0** | **(0.2)** | **(1.4)** |

1 Includes settlement risk, credit valuation adjustments, equity exposures in the banking book and securitization exposures in the banking book. 2 Non-counterparty-related risk includes deferred tax assets recognized for temporary differences (30 June 2018: CHF 8.5 billion; 31 March 2018: CHF 8.4 billion), property, equipment and software (30 June 2018: CHF 9.0 billion; 31 March 2018: CHF 8.8 billion) and other items (30 June 2018: CHF 0.2 billion; 31 March 2018: CHF 0.2 billion). 3 Corporate Center – Services market risk RWA were negative, as they included the effect of portfolio diversification across businesses. 4 Represents RWA held by the respective business division or Corporate Center unit. 5 Represents RWA held by Corporate Center – Group ALM that are directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in this section for more information.

# Leverage ratio denominator

During the second quarter of 2018, the leverage ratio denominator (LRD) increased by CHF 20 billion to CHF 902 billion. This increase was driven by currency effects of CHF 12 billion and asset size and other movements of CHF 8 billion.

**Movement in leverage ratio denominator by key driver**

| *CHF billion* | LRD as of 31.3.18 | Currency effects | Asset size and other | LRD as of 30.6.18 |
|---|---|---|---|---|
| On-balance sheet exposures (excluding derivative exposures and SFTs)[1] | 650.5 | 8.0 | 10.6 | 669.1 |
| Derivative exposures | 100.1 | 1.1 | 1.0 | 102.1 |
| Securities financing transactions | 115.9 | 2.4 | (5.1) | 113.1 |
| Off-balance sheet items | 29.3 | 0.6 | 1.7 | 31.6 |
| Deduction items | (13.3) | (0.4) | 0.1 | (13.5) |
| **Total** | **882.5** | **11.6** | **8.3** | **902.4** |

1 Excludes derivative financial instruments, cash collateral receivables on derivative instruments, receivables from securities financing transactions, and margin loans as well as prime brokerage receivables and financial assets at fair value not held for trading, both related to securities financing transactions, which are presented separately under Derivative exposures and Securities financing transactions in this table.

The LRD movements described below exclude currency effects.

On-balance sheet exposures (excluding derivatives and securities financing transactions (SFTs)) increased by CHF 11 billion, driven by a CHF 9 billion increase in cash and balances at central banks in Corporate Center – Group Asset and Liability Management (Group ALM), mainly resulting from client-driven activity that affected funding consumption by the business divisions. Trading portfolio assets increased by CHF 5 billion, primarily reflecting increased client activity in the Investment Bank. A further increase of CHF 2 billion was mainly due to client-driven increases in lending, mainly in Global Wealth Management. These increases were partly offset by a decrease in other financial assets at amortized cost and fair value of CHF 4 billion, mainly in Corporate Center – Group ALM, due to rebalancing of our high-quality liquid assets (HQLA) portfolio.

The CHF 5 billion decrease in SFTs was primarily due to a client-driven CHF 8 billion decrease in receivables from SFTs, prime brokerage receivables and margin loans, mainly in the Investment Bank. These decreases were partly offset by an increase of CHF 3 billion in Corporate Center – Group ALM, reflecting the aforementioned rebalancing of our HQLA portfolio.

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

**Leverage ratio denominator by business division and Corporate Center unit**

| *CHF billion* | Global Wealth Management | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | 30.6.18 | | | | |
| Total IFRS assets | 197.7 | 135.9 | 27.6 | 262.2 | 20.9 | 261.3 | 38.8 | 944.5 |
| Difference in scope of consolidation[1] | (0.2) | 0.0 | (25.0) | (0.3) | (0.1) | 0.1 | 0.0 | (25.4) |
| Less: derivative exposures and SFTs[2] | (5.6) | (1.1) | 0.0 | (132.8) | 0.0 | (75.0) | (35.4) | (249.9) |
| **On-balance sheet exposures** | 192.0 | 134.9 | 2.6 | 129.1 | 20.8 | 186.4 | 3.4 | 669.1 |
| Derivative exposures | 8.2 | 1.6 | 0.0 | 81.3 | 0.0 | 3.2 | 7.8 | 102.1 |
| Securities financing transactions | 2.3 | 0.0 | 0.0 | 36.2 | 0.0 | 73.4 | 1.2 | 113.1 |
| Off-balance sheet items | 4.8 | 12.3 | 0.0 | 13.6 | 0.1 | 0.8 | 0.0 | 31.6 |
| Items deducted from Swiss SRB tier 1 capital | | | | | (13.5) | | | (13.5) |
| **Total[3]** | 207.3 | 148.8 | 2.6 | 260.2 | 7.4 | 263.8 | 12.4 | 902.4 |
| LRD held by CC – Group ALM on behalf of business divisions and other CC units[4] | 56.4 | 39.0 | 2.3 | 23.5 | 0.5 | (124.2) | 2.5 | 0.0 |
| **LRD after allocation from CC – Group ALM to business divisions and other CC units** | 263.7 | 187.8 | 4.9 | 283.7 | 7.9 | 139.6 | 14.9 | 902.4 |
| | | | | 31.3.18 | | | | |
| Total IFRS assets | 193.5 | 135.9 | 27.1 | 252.4 | 20.8 | 249.1 | 40.5 | 919.4 |
| Difference in scope of consolidation[1] | (0.2) | 0.0 | (24.4) | (0.3) | (0.2) | 0.2 | 0.0 | (24.8) |
| Less: derivative exposures and SFTs[2] | (5.7) | (1.3) | 0.0 | (128.5) | 0.0 | (71.4) | (37.2) | (244.1) |
| **On-balance sheet exposures** | **187.7** | **134.5** | **2.7** | **123.6** | **20.6** | **177.9** | **3.3** | **650.5** |
| Derivative exposures | 7.8 | 2.0 | 0.0 | 78.5 | 0.0 | 2.8 | 8.9 | 100.1 |
| Securities financing transactions | 2.2 | 0.0 | 0.0 | 42.6 | 0.0 | 70.0 | 1.2 | 115.9 |
| Off-balance sheet items | 4.5 | 11.5 | 0.0 | 12.9 | 0.1 | 0.3 | 0.0 | 29.3 |
| Items deducted from Swiss SRB tier 1 capital | | | | | (13.3) | | | (13.3) |
| **Total[3]** | **202.3** | **148.0** | **2.7** | **257.6** | **7.5** | **251.1** | **13.4** | **882.5** |
| LRD held by CC – Group ALM on behalf of business divisions and other CC units[4] | 56.5 | 38.6 | 2.2 | 19.1 | 0.6 | (119.3) | 2.2 | 0.0 |
| **LRD after allocation from CC – Group ALM to business divisions and other CC units** | **258.8** | **186.6** | **4.9** | **276.7** | **8.1** | **131.8** | **15.7** | **882.5** |
| | | | | 30.6.18 vs 31.3.18 | | | | |
| Total IFRS assets | 4.2 | 0.1 | 0.5 | 9.8 | 0.2 | 12.2 | (1.8) | 25.1 |
| Difference in scope of consolidation[1] | 0.0 | 0.0 | (0.6) | 0.0 | 0.0 | (0.1) | 0.0 | (0.6) |
| Less: derivative exposures and SFTs[2] | 0.1 | 0.3 | 0.0 | (4.3) | 0.0 | (3.6) | 1.8 | (5.8) |
| **On-balance sheet exposures** | **4.3** | **0.3** | **(0.1)** | **5.5** | **0.2** | **8.5** | **0.1** | **18.7** |
| Derivative exposures | 0.4 | (0.4) | 0.0 | 2.8 | 0.0 | 0.3 | (1.2) | 2.0 |
| Securities financing transactions | 0.1 | 0.0 | 0.0 | (6.4) | 0.0 | 3.5 | 0.0 | (2.7) |
| Off-balance sheet items | 0.3 | 0.8 | 0.0 | 0.7 | 0.0 | 0.5 | 0.0 | 2.3 |
| Items deducted from Swiss SRB tier 1 capital | | | | | (0.3) | | | (0.3) |
| **Total[3]** | **5.1** | **0.8** | **(0.1)** | **2.6** | **(0.1)** | **12.7** | **(1.0)** | **19.9** |
| LRD held by CC – Group ALM on behalf of business divisions and other CC units[4] | (0.1) | 0.4 | 0.1 | 4.4 | (0.1) | (4.9) | 0.3 | 0.0 |
| **LRD after allocation from CC – Group ALM to business divisions and other CC units** | **4.9** | **1.2** | **0.0** | **7.0** | **(0.2)** | **7.8** | **(0.8)** | **19.9** |

1 Represents the difference between the IFRS and the regulatory scope of consolidation, which is the applicable scope for the LRD calculation. 2 Consists of derivative financial instruments, cash collateral receivables on derivative instruments, receivables from securities financing transactions, and margin loans as well as prime brokerage receivables and financial assets at fair value not held for trading, both related to securities financing transactions, in accordance with the regulatory scope of consolidation, which are presented separately under Derivative exposures and Securities financing transactions. 3 Represents LRD held by the respective business division or Corporate Center unit. 4 Represents LRD held by Corporate Center – Group ALM that is directly associated with activity managed centrally on behalf of the business divisions and other Corporate Center units. Refer to "Equity attribution and return on attributed equity" in this section for more information.

# Equity attribution and return on attributed equity

Under our equity attribution framework, tangible equity is attributed based on a weighting of 50% each for average risk-weighted assets (RWA) and average leverage ratio denominator (LRD). Average RWA and LRD are converted to their common equity tier 1 (CET1) capital equivalents based on capital ratios of 11% and 3.75%, respectively. If the tangible attributed equity calculated under the weighted-driver approach is less than the CET1 capital equivalent of risk-based capital (RBC) for any business division, the CET1 capital equivalent of RBC is used as a floor for that business division.

LRD and RWA held by Corporate Center – Group Asset and Liability Management (Group ALM) directly associated with activities that Corporate Center – Group ALM manages centrally on behalf of the business divisions and other Corporate Center units are allocated to those business divisions and other Corporate Center units for the purpose of equity attribution. This allocation is primarily based on the level of high-quality liquid assets that is needed to meet the Group's minimum liquidity coverage ratio requirement of 110%. Corporate Center – Group ALM retains attributed equity related to liquidity and funding surpluses, i.e., at levels above regulatory requirements, together with that related to its own activities.

In addition to tangible equity, we allocate equity to our businesses to support goodwill and intangible assets.

Further, we attribute all remaining Basel III capital deduction items to Group items. These deduction items include deferred tax assets (DTAs) recognized for tax loss carry-forwards and DTAs on temporary differences in excess of the threshold, which together constitute the largest component of Group items, dividend accruals, unrealized gains from cash flow hedges and compensation- and own shares-related components.

→ **Refer to the "Capital management" section of our Annual Report 2017 for more information on the equity attribution framework**

**Attributed equity**

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF billion* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Average attributed equity** | | | | | |
| Global Wealth Management | 13.2 | 12.9 | 12.7 | 13.0 | 12.7 |
| Personal & Corporate Banking | 6.4 | 6.2 | 6.1 | 6.3 | 6.1 |
| Asset Management | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Investment Bank | 10.4 | 9.9 | 9.1 | 10.2 | 9.1 |
| Corporate Center | 19.3 | 20.5 | 23.1 | 19.9 | 23.6 |
| *of which: CC – Services* | *15.2* | *16.4* | *19.1* | *15.8* | *19.7* |
| *of which: Group items[1]* | *13.4* | *14.7* | *17.4* | *14.0* | *18.0* |
| *of which: CC – Group ALM* | *3.0* | *2.9* | *2.6* | *3.0* | *2.5* |
| *of which: CC – Non-core and Legacy Portfolio* | *1.2* | *1.2* | *1.4* | *1.2* | *1.4* |
| Average equity attributed to business divisions and Corporate Center | 51.0 | 51.2 | 52.7 | 51.1 | 53.2 |
| **Average attributed tangible equity[2]** | | | | | |
| Global Wealth Management | 8.2 | 8.0 | 7.8 | 8.1 | 7.8 |
| Personal & Corporate Banking | 6.4 | 6.2 | 6.1 | 6.3 | 6.1 |
| Asset Management | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Investment Bank | 10.4 | 9.8 | 9.1 | 10.1 | 9.1 |
| Corporate Center | 19.3 | 20.5 | 23.1 | 19.9 | 23.6 |
| *of which: CC – Services* | *15.2* | *16.4* | *19.1* | *15.8* | *19.7* |
| *of which: Group items[1]* | *13.4* | *14.7* | *17.4* | *14.0* | *18.0* |
| *of which: CC – Group ALM* | *3.0* | *2.9* | *2.6* | *3.0* | *2.5* |
| *of which: CC – Non-core and Legacy Portfolio* | *1.2* | *1.2* | *1.4* | *1.2* | *1.4* |
| Average tangible equity attributed to business divisions and Corporate Center | 44.7 | 44.9 | 46.4 | 44.8 | 46.7 |

1 Of the CHF 13.4 billion of average equity attributed to Group items for the second quarter of 2018, CHF 6.0 billion related to average DTAs recognized for tax loss carry-forwards and CHF 0.4 billion related to average DTAs on temporary differences in excess of the 10% of CET1 capital threshold. Dividend accruals are also included in Group items. DTA amounts and dividend accruals represent the average of 30.6.18 and 31.3.18 amounts. 2 Attributed tangible equity equals attributed equity less goodwill and intangible assets.

## Return on attributed equity

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *In %* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Return on (attributed) equity[1]** | | | | | |
| **Reported** | | | | | |
| Global Wealth Management | 31.5 | 34.9 | 27.7 | 33.3 | 28.7 |
| Personal & Corporate Banking | 23.0 | 27.0 | 23.4 | 25.0 | 25.6 |
| Asset Management | 24.3 | 25.5 | 26.1 | 25.0 | 25.0 |
| Investment Bank | 21.8 | 23.8 | 19.7 | 22.8 | 20.4 |
| UBS Group | 10.1 | 11.8 | 8.9 | 10.9 | 9.2 |
| **Adjusted[2]** | | | | | |
| Global Wealth Management | 32.9 | 34.9 | 31.9 | 33.9 | 32.5 |
| Personal & Corporate Banking | 23.6 | 25.4 | 24.9 | 24.5 | 27.0 |
| Asset Management | 30.4 | 25.9 | 31.7 | 28.3 | 30.1 |
| Investment Bank | 23.2 | 25.4 | 18.3 | 24.3 | 21.4 |
| UBS Group | 10.9 | 11.2 | 9.9 | 11.0 | 10.4 |
| **Return on (attributed) tangible equity[1]** | | | | | |
| **Reported** | | | | | |
| Global Wealth Management | 50.9 | 56.9 | 45.6 | 53.9 | 47.5 |
| Personal & Corporate Banking | 23.0 | 27.0 | 23.4 | 25.0 | 25.6 |
| Asset Management | 125.7 | 137.1 | 144.3 | 131.3 | 135.8 |
| Investment Bank | 22.0 | 24.1 | 20.0 | 23.0 | 20.7 |
| UBS Group | 11.6 | 13.6 | 10.3 | 12.6 | 10.6 |
| **Adjusted[2]** | | | | | |
| Global Wealth Management | 53.2 | 56.8 | 52.4 | 55.0 | 53.8 |
| Personal & Corporate Banking | 23.6 | 25.4 | 24.9 | 24.5 | 27.0 |
| Asset Management | 157.5 | 139.2 | 174.9 | 148.5 | 163.2 |
| Investment Bank | 23.4 | 25.7 | 18.6 | 24.5 | 21.7 |
| UBS Group | 12.5 | 13.0 | 11.4 | 12.7 | 12.0 |

1 Return on attributed equity and return on attributed tangible equity shown for the business divisions. Return on equity attributable to shareholders and return on tangible equity shown for the UBS Group. Return on attributed equity and return on attributed tangible equity for Corporate Center is not shown, as it is not meaningful. 2 Adjusted results are non-GAAP financial measures as defined by SEC regulations.

# UBS shares

UBS Group AG shares are listed on the SIX Swiss Exchange (SIX). They are also listed on the New York Stock Exchange (NYSE) as global registered shares. Each share has a par value of CHF 0.10 per share.

Shares issued increased slightly in the second quarter of 2018 due to the issuance of shares out of conditional share capital upon exercise of employee share options.

Treasury shares, which are primarily held to hedge our share delivery obligations related to employee share-based compensation and participation plans, totaled 125 million shares as of 30 June 2018.

Treasury shares held increased by 32 million shares during the second quarter of 2018, mainly due to repurchases of 34.76 million shares, totaling CHF 550 million, under our CHF 2 billion, 3-year share repurchase program that was announced in January 2018.

## UBS Group share information

| | As of or for the quarter ended | | | % change from |
|---|---|---|---|---|
| | 30.6.18 | 31.3.18 | 30.6.17 | 31.3.18 |
| Shares issued | 3,854,589,552 | 3,854,297,125 | 3,851,805,058 | 0 |
| Treasury shares | 125,469,362 | 93,077,090 | 135,182,950 | 35 |
| Shares outstanding | 3,729,120,190 | 3,761,220,035 | 3,716,622,108 | (1) |
| Basic earnings per share (CHF)[1] | 0.34 | 0.41 | 0.32 | (17) |
| Diluted earnings per share (CHF)[1] | 0.33 | 0.39 | 0.31 | (15) |
| Equity attributable to shareholders (CHF million) | 50,774 | 51,243 | 51,744 | (1) |
| Less: goodwill and intangible assets (CHF million) | 6,391 | 6,235 | 6,226 | 3 |
| Tangible equity attributable to shareholders (CHF million) | 44,382 | 45,008 | 45,518 | (1) |
| Total book value per share (CHF) | 13.62 | 13.62 | 13.92 | 0 |
| Tangible book value per share (CHF) | 11.90 | 11.97 | 12.25 | (1) |
| Share price (CHF) | 15.33 | 16.80 | 16.24 | (9) |
| Market capitalization (CHF million)[2] | 59,072 | 64,752 | 62,553 | (9) |

1 Refer to "Note 8 Earnings per share (EPS) and shares outstanding" in the "Consolidated financial statements" section of this report for more information. 2 Market capitalization is calculated on the basis of total shares issued multiplied by the share price at the end of the period.

## Ticker symbols UBS Group AG

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

## Security identification codes

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

# Consolidated financial statements

Unaudited

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**UBS Group AG interim consolidated financial statements (unaudited)**



**UBS AG interim consolidated financial information (unaudited)**

# UBS Group AG interim consolidated financial statements (unaudited)

## Income statement

| | | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|---|
| *CHF million, except per share data* | Note | 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 | | 2,469 | 2,250 | 2,532 | 4,719 | 4,928 |
| Interest expense from financial instruments measured at amortized cost | | (1,559) | (1,310) | (1,321) | (2,869) | (2,467) |
| Interest income from financial instruments measured at fair value through profit or loss | | 1,712 | 1,593 | 1,095 | 3,305 | 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 | | 985 | 1,743 | 1,417 | 2,729 | 3,113 |
| Other net income from fair value changes on financial instruments | | 2,187 | 1,466 | 1,456 | 3,653 | 2,896 |
| Credit loss (expense) / recovery | 9 | (28) | (25) | (46) | (53) | (46) |
| Fee and commission income | | 4,793 | 4,882 | 4,744 | 9,675 | 9,533 |
| Fee and commission expense | | (417) | (409) | (449) | (826) | (885) |
| Net fee and commission income | 3 | 4,377 | 4,473 | 4,295 | 8,850 | 8,648 |
| Other income | 4 | 34 | 40 | 147 | 74 | 190 |
| Total operating income | | 7,554 | 7,698 | 7,269 | 15,252 | 14,801 |
| Personnel expenses | 5 | 4,059 | 4,014 | 4,014 | 8,073 | 8,074 |
| General and administrative expenses | 6 | 1,516 | 1,424 | 1,488 | 2,940 | 2,994 |
| Depreciation and impairment of property, equipment and software | | 284 | 272 | 249 | 556 | 505 |
| Amortization and impairment of intangible assets | | 16 | 16 | 16 | 32 | 37 |
| Total operating expenses | | 5,875 | 5,725 | 5,767 | 11,600 | 11,609 |
| Operating profit / (loss) before tax | | 1,679 | 1,973 | 1,502 | 3,652 | 3,192 |
| Tax expense / (benefit) | 7 | 394 | 457 | 327 | 851 | 701 |
| Net profit / (loss) | | 1,285 | 1,516 | 1,175 | 2,801 | 2,490 |
| Net profit / (loss) attributable to non-controlling interests | | 1 | 1 | 1 | 3 | 47 |
| **Net profit / (loss) attributable to shareholders** | | 1,284 | 1,514 | 1,174 | 2,798 | 2,443 |

**Earnings per share (CHF)**

| | | | | | | |
|---|---|---|---|---|---|---|
| Basic | 8 | 0.34 | 0.41 | 0.32 | 0.75 | 0.66 |
| Diluted | 8 | 0.33 | 0.39 | 0.31 | 0.73 | 0.64 |

## Statement of comprehensive income

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Comprehensive income attributable to shareholders** | | | | | |
| Net profit / (loss) | 1,284 | 1,514 | 1,174 | 2,798 | 2,443 |
| Other comprehensive income that may be reclassified to the income statement | | | | | |
| Foreign currency translation | | | | | |
| Foreign currency translation movements, before tax (revaluation of net investment) | 785 | (482) | (1,252) | 303 | (1,566) |
| Effective portion of changes in fair value of hedging instruments designated as net investment hedges, before tax | (53) | 97 | 258 | 44 | 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 | (384) | (971) | 363 | (1,337) |
| Financial assets measured at fair value through other comprehensive income | | | | | |
| 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) |
| Cash flow hedges of interest rate risk | | | | | |
| 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) |
| Total other comprehensive income that may be reclassified to the income statement, net of tax | 568 | (889) | (1,121) | (322) | (1,641) |
| Other comprehensive income that will not be reclassified to the income statement | | | | | |
| Defined benefit plans | | | | | |
| Gains / (losses) on defined benefit plans, before tax | 240 | (144) | 107 | 96 | 156 |
| Income tax relating to defined benefit plans | 4 | 44 | 1 | 48 | 4 |
| Subtotal defined benefit plans, net of tax | 244 | (100) | 108 | 144 | 160 |
| Own credit on financial liabilities designated at fair value | | | | | |
| 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) |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | 492 | 70 | 35 | 562 | (94) |
| Total other comprehensive income | 1,060 | (820) | (1,086) | 240 | (1,735) |
| Total comprehensive income attributable to shareholders | 2,343 | 695 | 89 | 3,038 | 708 |

## Statement of comprehensive income (continued)

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Comprehensive income attributable to non-controlling interests** | | | | | |
| Net profit / (loss) | 1 | 1 | 1 | 3 | 47 |
| Other comprehensive income that will not be reclassified to the income statement | | | | | |
| Foreign currency translation movements, before tax | (2) | 0 | 14 | (2) | 14 |
| Income tax relating to foreign currency translation movements | 0 | 0 | 0 | 0 | 0 |
| Subtotal foreign currency translation, net of tax | (2) | 0 | 14 | (2) | 14 |
| Total other comprehensive income that will not be reclassified to the income statement, net of tax | (2) | 0 | 14 | (2) | 14 |
| Total comprehensive income attributable to non-controlling interests | (1) | 1 | 14 | 1 | 61 |
| **Total comprehensive income** | | | | | |
| Net profit / (loss) | 1,285 | 1,515 | 1,175 | 2,801 | 2,490 |
| Other comprehensive income | 1,057 | (819) | (1,072) | 238 | (1,721) |
| *of which: other comprehensive income that may be reclassified to the income statement* | *568* | *(889)* | *(1,121)* | *(322)* | *(1,641)* |
| *of which: other comprehensive income that will not be reclassified to the income statement* | *490* | *70* | *49* | *560* | *(80)* |
| Total comprehensive income | 2,342 | 696 | 103 | 3,039 | 769 |

## Balance sheet

| *CHF million* | Note | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances at central banks | | 102,262 | 92,800 | 87,775 |
| Loans and advances to banks | | 15,577 | 13,338 | 13,739 |
| Receivables from securities financing transactions | | 76,450 | 77,016 | 89,633 |
| Cash collateral receivables on derivative instruments | 11 | 24,937 | 24,271 | 23,434 |
| Loans and advances to customers | 9 | 318,278 | 316,195 | 318,509 |
| Other financial assets measured at amortized cost | 12 | 20,996 | 19,129 | 36,861 |
| **Total financial assets measured at amortized cost** | | 558,500 | 542,749 | 569,950 |
| Financial assets at fair value held for trading | 10 | 112,121 | 105,554 | 126,144 |
| *of which: assets pledged as collateral that may be sold or repledged by counterparties* | | *36,580* | *34,536* | *35,363* |
| Derivative financial instruments | 10,11 | 121,604 | 113,333 | 118,227 |
| Brokerage receivables | 10 | 18,415 | 20,250 | |
| Financial assets at fair value not held for trading | 10 | 93,217 | 97,532 | 58,933 |
| **Total financial assets measured at fair value through profit or loss** | | 345,357 | 336,669 | 303,304 |
| **Financial assets measured at fair value through other comprehensive income** | 10 | 6,941 | 6,758 | 8,665 |
| Investments in associates | | 1,026 | 1,037 | 1,018 |
| Property, equipment and software | | 9,083 | 8,860 | 8,829 |
| Goodwill and intangible assets | | 6,391 | 6,235 | 6,398 |
| Deferred tax assets | | 9,859 | 9,729 | 9,844 |
| Other non-financial assets | 12 | 7,324 | 7,324 | 7,633 |
| **Total assets** | | 944,482 | 919,361 | 915,642 |

## Balance sheet (continued)

| CHF million | Note | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| 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 | 11 | 31,843 | 29,426 | 30,247 |
| Customer deposits | | 403,430 | 398,604 | 408,999 |
| Debt issued measured at amortized cost | 14 | 137,530 | 137,883 | 139,551 |
| Other financial liabilities measured at amortized cost | 12 | 6,909 | 5,911 | 36,337 |
| **Total financial liabilities measured at amortized cost** | | 600,084 | 590,014 | 639,711 |
| Financial liabilities at fair value held for trading | 10 | 31,416 | 34,747 | 30,463 |
| Derivative financial instruments | 10,11 | 119,223 | 111,945 | 116,133 |
| Brokerage payables designated at fair value | 10 | 37,904 | 34,793 | |
| Debt issued designated at fair value | 10,13 | 56,849 | 52,059 | 49,502 |
| Other financial liabilities designated at fair value | 10,12 | 37,342 | 34,438 | 16,223 |
| **Total financial liabilities measured at fair value through profit or loss** | | 282,734 | 267,983 | 212,322 |
| Provisions | 15 | 3,123 | 3,044 | 3,133 |
| Other non-financial liabilities | 12 | 7,708 | 7,016 | 9,205 |
| **Total liabilities** | | 893,649 | 868,056 | 864,371 |
| **Equity** | | | | |
| Share capital | | 385 | 385 | 385 |
| Share premium | | 22,961 | 25,262 | 25,942 |
| Treasury shares | | (2,032) | (1,520) | (2,133) |
| Retained earnings | | 35,584 | 33,807 | 32,752 |
| Other comprehensive income recognized directly in equity, net of tax | | (6,124) | (6,692) | (5,732) |
| **Equity attributable to shareholders** | | 50,774 | 51,243 | 51,214 |
| Equity attributable to non-controlling interests | | 60 | 62 | 57 |
| **Total equity** | | 50,834 | 51,305 | 51,271 |
| **Total liabilities and equity** | | 944,482 | 919,361 | 915,642 |

## Statement of changes in equity

| *CHF million* | Share capital | Share premium | Treasury shares | Retained earnings |
|---|---|---|---|---|
| **Balance as of 1 January 2017** | **385** | **28,254** | **(2,249)** | **31,725** |
| Issuance of share capital | 0 | | | |
| Acquisition of treasury shares | | | (851) | |
| Delivery of treasury shares under share-based compensation plans | | (808) | 883 | |
| Other disposal of treasury shares | | | 38 | |
| Premium on shares issued and warrants exercised | | 8 | | |
| Share-based compensation expensed in the income statement | | 361 | | |
| Tax (expense) / benefit | | 14 | | |
| Dividends | | (2,229)[2] | | |
| New consolidations / (deconsolidations) and other increases / (decreases) | | (1) | | |
| Total comprehensive income for the period | | | | 2,349 |
| *of which: net profit / (loss)* | | | | *2,443* |
| *of which: other comprehensive income (OCI) that may be reclassified to the income statement, net of tax* | | | | |
| *of which: OCI that will not be reclassified to the income statement, net of tax – defined benefit plans* | | | | *160* |
| *of which: OCI that will not be reclassified to the income statement, net of tax – own credit* | | | | *(254)* |
| *of which: OCI that will not be reclassified to the income statement, net of tax – foreign currency translation* | | | | |
| **Balance as of 30 June 2017** | **385** | **25,600** | **(2,180)** | **34,074** |
| | | | | |
| **Balance as of 1 January 2018 before the adoption of IFRS 9 and IFRS 15** | **385** | **25,942** | **(2,133)** | **32,752** |
| Effect of adoption of IFRS 9 | | | | (505) |
| Effect of adoption of IFRS 15 | | | | (24) |
| **Balance as of 1 January 2018 after the adoption of IFRS 9 and IFRS 15** | **385** | **25,942** | **(2,133)** | **32,223** |
| Issuance of share capital | 0 | | | |
| Acquisition of treasury shares | | | (925) | |
| Delivery of treasury shares under share-based compensation plans | | (918) | 1,000 | |
| Other disposal of treasury shares | | | 26 | |
| Premium on shares issued and warrants exercised | | 12 | | |
| Share-based compensation expensed in the income statement | | 364 | | |
| Tax (expense) / benefit | | 14 | | |
| Dividends | | (2,444)[2] | | |
| New consolidations / (deconsolidations) and other increases / (decreases) | | (9) | | |
| Total comprehensive income for the period | | | | 3,360 |
| *of which: net profit / (loss)* | | | | *2,798* |
| *of which: other comprehensive income (OCI) that may be reclassified to the income statement, net of tax* | | | | |
| *of which: OCI that will not be reclassified to the income statement, net of tax – defined benefit plans* | | | | *144* |
| *of which: OCI that will not be reclassified to the income statement, net of tax – own credit* | | | | *417* |
| *of which: OCI that will not be reclassified to the income statement, net of tax – foreign currency translation* | | | | |
| **Balance as of 30 June 2018** | **385** | **22,961** | **(2,032)** | **35,584** |

1 Excludes defined benefit plans and own credit that are recorded directly in Retained earnings. 2 Reflects the payment of an ordinary cash dividend of CHF 0.65 (2017: CHF 0.60) per dividend-bearing share out of the capital contribution reserve.

| Other comprehensive income recognized directly in equity, net of tax [1] | *of which: foreign currency translation* | *of which: financial assets measured at fair value through OCI* | *of which: cash flow hedges* | Total equity attributable to shareholders | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|
| **(4,494)** | *(5,564)* | *98* | *972* | **53,621** | **682** | **54,302** |
| | | | | 0 | | 0 |
| | | | | (851) | | (851) |
| | | | | 76 | | 76 |
| | | | | 38 | | 38 |
| | | | | 8 | | 8 |
| | | | | 361 | | 361 |
| | | | | 14 | | 14 |
| | | | | (2,229) | (50) | (2,280) |
| | | | | (1) | 1 | 0 |
| (1,641) | *(1,337)* | *(72)* | *(233)* | 708 | 61 | 769 |
| | | | | *2,443* | *47* | *2,490* |
| *(1,641)* | *(1,337)* | *(72)* | *(233)* | *(1,641)* | | *(1,641)* |
| | | | | *160* | | *160* |
| | | | | *(254)* | | *(254)* |
| | | | | *0* | *14* | *14* |
| **(6,135)** | *(6,901)* | *26* | *739* | **51,744** | **693** | **52,437** |
| | | | | | | |
| (5,732) | *(6,095)* | *12* | *351* | 51,214 | 57 | 51,271 |
| (72) | | *(72)* | | (577) | | (577) |
| | | | | (24) | | (24) |
| (5,804) | *(6,095)* | *(60)* | *351* | 50,612 | 57 | 50,670 |
| | | | | 0 | | 0 |
| | | | | (925) | | (925) |
| | | | | 82 | | 82 |
| | | | | 26 | | 26 |
| | | | | 12 | | 12 |
| | | | | 364 | | 364 |
| | | | | 14 | | 14 |
| | | | | (2,444) | (6) | (2,449) |
| | | | | (9) | 8 | (1) |
| (322) | *363* | *(69)* | *(615)* | 3,038 | 1 | 3,039 |
| | | | | *2,798* | *3* | *2,801* |
| *(322)* | *363* | *(69)* | *(615)* | *(322)* | | *(322)* |
| | | | | *144* | | *144* |
| | | | | *417* | | *417* |
| | | | | *0* | *(2)* | *(2)* |
| (6,124) | *(5,732)* | *(128)* | *(264)* | 50,774 | 60 | 50,834 |

## Statement of cash flows[1]

| | Year-to-date | |
|---|---|---|
| *CHF million* | 30.6.18 | 30.6.17 |
| **Cash flow from / (used in) operating activities** | | |
| Net profit / (loss) | 2,801 | 2,490 |
| **Non-cash items included in net profit and other adjustments:** | | |
| Depreciation and impairment of property, equipment and software | 556 | 505 |
| 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) | 455 | 264 |
| Net loss / (gain) from investing activities | (35) | 246 |
| Net loss / (gain) from financing activities | 1,340 | (307) |
| Other net adjustments | (1,568) | 689 |
| **Net change in operating assets and liabilities:** | | |
| 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 | (6,859) | (6,438) |
| Customer deposits | (1,290) | (13,414) |
| Financial assets and liabilities at FV held for trading and derivative financial instruments | 1,726 | (7,353) |
| Brokerage receivables and payables | 8,439 | |
| Financial assets at fair value not held for trading, other financial assets and liabilities | 2,291 | 7,878 |
| Provisions, other non-financial assets and liabilities | (823) | (557) |
| Income taxes paid, net of refunds | (348) | (689) |
| **Net cash flow from / (used in) operating activities** | 16,327 | (22,708) |
| **Cash flow from / (used in) investing activities** | | |
| Purchase of subsidiaries, associates and intangible assets | (3) | (5) |
| Disposal of subsidiaries, associates and intangible assets[2] | 58 | 95 |
| Purchase of property, equipment and software | (819) | (720) |
| 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 |
| **Net cash flow from / (used in) investing activities** | (3,288) | 982 |

Table continues on the next page.

## Statement of cash flows (continued)[1]

Table continued from previous page.

| | Year-to-date | |
|---|---|---|
| *CHF million* | 30.6.18 | 30.6.17 |
| **Cash flow from / (used in) financing activities** | | |
| Net short-term debt issued / (repaid) | (5,801) | 18,738 |
| Net movements in treasury shares and own equity derivative activity | (833) | (751) |
| Distributions paid on UBS shares | (2,444) | (2,229) |
| Issuance of long-term debt, including debt issued designated at fair value | 38,980 | 24,829 |
| Repayment of long-term debt, including debt issued designated at fair value | (26,066) | (23,407) |
| Net changes in non-controlling interests and preferred notes | 16 | (50) |
| Net cash flow from / (used in) financing activities | 3,853 | 17,130 |
| **Total cash flow** | | |
| Cash and cash equivalents at the beginning of the period | 102,200 | 121,138 |
| Net cash flow from / (used in) operating, investing and financing activities | 16,892 | (4,596) |
| Effects of exchange rate differences on cash and cash equivalents | 135 | (1,502) |
| Cash and cash equivalents at the end of the period[3] | 119,227 | 115,040 |
| *of which: cash and balances with central banks* | *102,145* | *100,006* |
| *of which: due from banks* | *14,288* | *12,676* |
| *of which: money market paper[4]* | *2,794* | *2,358* |
| **Additional information** | | |
| Net cash flow from / (used in) operating activities includes: | | |
| Interest received in cash | 6,703 | 6,009 |
| Interest paid in cash | 4,348 | 3,522 |
| Dividends on equity investments, investment funds and associates received in cash[5] | 1,190 | 985 |

1 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. 2 Includes dividends received from associates. 3 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. 4 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. 5 Includes dividends received from associates reported within Cash flow from / (used in) investing activities.

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

## Note 1 Basis of accounting

### 1.1 Basis of preparation

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

In preparing these interim Financial Statements, the same accounting policies and methods of computation have been applied as in the UBS Group AG consolidated annual Financial Statements for the period ended 31 December 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 Group 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 the Group's financial position, results of operations and cash flows.

Preparation of these interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and disclosures of contingent assets and liabilities. These estimates and assumptions are based on the best available information. Actual results in the future could differ from such estimates and such differences may be material to the Financial Statements. Revisions to estimates, based on regular reviews, are recognized in the period in which they occur. For more information on areas of estimation uncertainty considered to require critical judgment, refer to "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 Group first quarter 2018 report, effective 1 January 2018, UBS 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 early adopted the Amendment to IFRS 9*, Prepayment Features with Negative Compensation*, issued in October 2017, which allows the Group to continue to apply amortized cost accounting to Swiss private mortgages and corporate loans that provide for two-way compensation if a prepayment occurs. The Group 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 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 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.

1 As explained in UBS's Annual Report 2017, 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 Group AG and 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 Group AG's consolidated and UBS AG's consolidated financial statements from Swiss francs to US dollars to align to the change in functional currency, with prior periods restated.

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* 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 Group first quarter 2018 report, effective from 1 January 2018, UBS 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'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 Group 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 does not consider the highly probable criteria to be met where the contingency is beyond the control of UBS.

As permitted by the transitional provisions of IFRS 15, UBS 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 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 is considered principal to the contract with a customer. In turn, fees and expenses can only be presented net when UBS 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 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 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's financial statements.

## Note 2 Segment reporting

UBS'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 the Group. 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 the Group's reporting segments.

Effective 1 February 2018, UBS 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 |
|---|---|---|---|---|---|---|---|---|
| *CHF million* | | | | | Services | Group ALM | Non-core and Legacy Portfolio | |
| **For the six months ended 30 June 2018[1]** | | | | | | | | |
| Net interest income | 1,998 | 989 | (16) | 290 | (179) | (368) | 13 | 2,729 |
| Non-interest income | 6,264 | 897 | 907 | 4,413 | 37 | (121) | 180 | 12,577 |
| Allocations from CC – Group ALM | 88 | 29 | 7 | (204) | 25 | 100 | (44) | 0 |
| Income | 8,350 | 1,915 | 899 | 4,499 | (116) | (389) | 148 | 15,305 |
| Credit loss (expense) / recovery | 2 | (35) | 0 | (21) | 0 | 0 | (1) | (53) |
| Total operating income | 8,352 | 1,880 | 899 | 4,478 | (116) | (389) | 147 | 15,252 |
| Personnel expenses | 3,766 | 398 | 356 | 1,667 | 1,847 | 18 | 19 | 8,073 |
| General and administrative expenses | 589 | 115 | 97 | 287 | 1,766 | 20 | 66 | 2,940 |
| Services (to) / from CC and other BDs | 1,805 | 573 | 237 | 1,357 | (4,065) | 1 | 91 | 0 |
| *of which: services from CC – Services* | *1,755* | *615* | *258* | *1,313* | *(4,101)* | *81* | *79* | *0* |
| Depreciation and impairment of property, equipment and software | 2 | 6 | 1 | 4 | 542 | 0 | 0 | 556 |
| Amortization and impairment of intangible assets | 25 | 0 | 1 | 5 | 1 | 0 | 0 | 32 |
| Total operating expenses | 6,187 | 1,093 | 692 | 3,320 | 92 | 39 | 177 | 11,600 |
| **Operating profit / (loss) before tax** | **2,165** | **787** | **207** | **1,158** | **(207)** | **(428)** | **(30)** | **3,652** |
| Tax expense / (benefit) | | | | | | | | 851 |
| **Net profit / (loss)** | | | | | | | | **2,801** |
| **As of 30 June 2018** | | | | | | | | |
| **Total assets** | **197,729** | **135,929** | **27,570** | **262,221** | **20,944** | **261,308** | **38,781** | **944,482** |
| **For the six months ended 30 June 2017[1]** | | | | | | | | |
| Net interest income | 1,764 | 940 | (15) | 452 | (153) | 115 | 10 | 3,113 |
| Non-interest income | 5,986 | 870 | 935 | 3,859 | 55 | (5) | 34 | 11,734 |
| Allocations from CC – Group ALM | 190 | 103 | 9 | (174) | 60 | (139) | (50) | 0 |
| Income | 7,940 | 1,914 | 929 | 4,137 | (37) | (30) | (6) | 14,847 |
| Credit loss (expense) / recovery | (2) | (21) | 0 | (12) | 0 | 0 | (11) | (46) |
| Total operating income | 7,938 | 1,893 | 929 | 4,124 | (37) | (30) | (16) | 14,801 |
| Personnel expenses | 3,758 | 437 | 357 | 1,591 | 1,888 | 17 | 25 | 8,074 |
| General and administrative expenses | 578 | 134 | 109 | 256 | 1,920 | 7 | (12) | 2,994 |
| Services (to) / from CC and other BDs | 1,757 | 542 | 247 | 1,335 | (3,984) | (13) | 116 | 0 |
| *of which: services from CC – Services* | *1,703* | *587* | *266* | *1,287* | *(4,006)* | *65* | *97* | *0* |
| Depreciation and impairment of property, equipment and software | 2 | 6 | 1 | 5 | 491 | 0 | 0 | 505 |
| Amortization and impairment of intangible assets | 23 | 0 | 2 | 6 | 6 | 0 | 0 | 37 |
| Total operating expenses | 6,119 | 1,119 | 716 | 3,194 | 321 | 12 | 129 | 11,609 |
| **Operating profit / (loss) before tax** | **1,819** | **774** | **213** | **931** | **(358)** | **(41)** | **(146)** | **3,192** |
| Tax expense / (benefit) | | | | | | | | 701 |
| **Net profit / (loss)** | | | | | | | | **2,490** |
| **As of 31 December 2017** | | | | | | | | |
| **Total assets** | **190,074** | **135,556** | **14,269** | **262,931** | **20,875** | **245,737** | **46,200** | **915,642** |

1 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[1]

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| Underwriting fees | 183 | 224 | 274 | 407 | 552 |
| *of which: equity underwriting fees* | *88* | *118* | *148* | *206* | *310* |
| *of which: debt underwriting fees* | *95* | *106* | *125* | *201* | *242* |
| M&A and corporate finance fees | 178 | 194 | 170 | 372 | 347 |
| Brokerage fees | 877 | 968 | 945 | 1,845 | 1,967 |
| 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 | 915 |
| Total fee and commission income[2] | 4,793 | 4,882 | 4,744 | 9,675 | 9,533 |
| *of which: recurring* | *3,161* | *3,071* | | *6,232* | |
| *of which: transaction-based* | *1,611* | *1,793* | | *3,404* | |
| *of which: performance-based* | *22* | *17* | | *39* | |
| Brokerage fees paid | 75 | 85 | 179 | 160 | 344 |
| Other | 342 | 324 | 270 | 666 | 541 |
| Total fee and commission expense | 417 | 409 | 449 | 826 | 885 |
| Net fee and commission income | 4,377 | 4,473 | 4,295 | 8,850 | 8,648 |
| *of which: net brokerage fees* | *802* | *884* | *766* | *1,685* | *1,623* |

1 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 83 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. 2 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 857 million for the Investment Bank (first quarter of 2018: CHF 900 million) and CHF 3 million for Corporate Center (first quarter of 2018: CHF 14 million).

## Note 4 Other income

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| Associates, joint ventures and subsidiaries | | | | | |
| Net gains / (losses) from disposals of subsidiaries[1] | (10) | 0 | (18) | (10) | (22) |
| Share of net profits of associates and joint ventures | 15 | 15 | 17 | 30 | 36 |
| Total | 5 | 15 | (2) | 20 | 14 |
| Financial assets measured at fair value through other comprehensive income | | | | | |
| Net gains / (losses) from disposals | 0 | 0 | 129 | 0 | 136 |
| Impairments | 0 | 0 | 1 | 0 | (13) |
| Total | 0 | 0 | 131 | 0 | 123 |
| 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)[2] | 6 | 6 | 6 | 12 | 12 |
| Net gains / (losses) from disposals of properties held for sale | 0 | 0 | 0 | 0 | (1) |
| Other | 23 | 19 | 14 | 42 | 26 |
| Total other income | 34 | 40 | 147 | 74 | 190 |

1 Includes foreign exchange gains / (losses) reclassified from other comprehensive income related to disposed foreign subsidiaries and branches. 2 Includes net rent received from third parties and net operating expenses.

## Note 5 Personnel expenses

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| Salaries and variable compensation | 2,430 | 2,585 | 2,428 | 5,014 | 4,871 |
| Financial advisor variable compensation[1] | 996 | 974 | 992 | 1,970 | 1,979 |
| Contractors | 127 | 116 | 107 | 243 | 200 |
| Social security | 195 | 229 | 187 | 423 | 389 |
| Pension and other post-employment benefit plans | 169 | (30)[2] | 169 | 138[2] | 369 |
| Other personnel expenses | 142 | 141 | 130 | 284 | 266 |
| **Total personnel expenses** | 4,059 | 4,014 | 4,014 | 8,073 | 8,074 |

1 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. 2 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. As a consequence, a pre-tax gain of CHF 225 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.

## Note 6 General and administrative expenses

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| Occupancy | 221 | 219 | 217 | 441 | 438 |
| Rent and maintenance of IT and other equipment | 148 | 150 | 135 | 299 | 279 |
| Communication and market data services | 154 | 152 | 148 | 306 | 304 |
| Administration | 71 | 135 | 102 | 207 | 201 |
| *of which: UK bank levy*[1] | *(45)* | *0* | *(46)* | *(45)* | *(71)* |
| Marketing and public relations | 84 | 80 | 93 | 164 | 186 |
| Travel and entertainment | 112 | 93 | 110 | 204 | 197 |
| Professional fees | 237 | 231 | 276 | 468 | 532 |
| Outsourcing of IT and other services | 347 | 340 | 362 | 687 | 745 |
| Litigation, regulatory and similar matters[2] | 131 | (11) | 9 | 120 | 42 |
| Other | 10 | 34 | 35 | 44 | 69 |
| **Total general and administrative expenses** | 1,516 | 1,424 | 1,488 | 2,940 | 2,994 |

1 The credits presented for the periods shown are related to prior years. 2 Reflects the net increase / (decrease) in provisions for litigation, regulatory and similar matters recognized in the income statement. Refer to Note 15 for more information. Also includes recoveries from third parties (second quarter of 2018: CHF 10 million; first quarter of 2018: CHF 17 million; second quarter of 2017: CHF 1 million).

## Note 7 Income taxes

The Group recognized an income tax expense of CHF 394 million for the second quarter of 2018 compared with an income tax expense of CHF 327 million for the second quarter of 2017.

Deferred tax expenses were CHF 198 million in the second quarter of 2018 compared with CHF 133 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 196 million compared with CHF 194 million in the second quarter of 2017 and related to taxable profits of UBS Switzerland AG and other legal entities in the UBS Group.

## Note 8 Earnings per share (EPS) and shares outstanding

| | As of or for the quarter ended | | | As of or year-to-date | |
|---|---|---|---|---|---|
| | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Basic earnings (CHF million)** | | | | | |
| Net profit / (loss) attributable to shareholders | 1,284 | 1,514 | 1,174 | 2,798 | 2,443 |
| **Diluted earnings (CHF million)** | | | | | |
| Net profit / (loss) attributable to shareholders | 1,284 | 1,514 | 1,174 | 2,798 | 2,443 |
| Less: (profit) / loss on own equity derivative contracts | (1) | (1) | 0 | (2) | 0 |
| Net profit / (loss) attributable to shareholders for diluted EPS | 1,283 | 1,513 | 1,174 | 2,796 | 2,443 |
| **Weighted average shares outstanding** | | | | | |
| Weighted average shares outstanding for basic EPS[1] | 3,750,246,679 | 3,728,701,542 | 3,715,138,875 | 3,739,474,111 | 3,714,042,783 |
| Effect of dilutive potential shares resulting from notional shares, in-the-money options and warrants outstanding | 99,757,026 | 128,521,488 | 110,988,858 | 114,179,416 | 117,296,611 |
| Weighted average shares outstanding for diluted EPS | 3,850,003,705 | 3,857,223,030 | 3,826,127,733 | 3,853,653,527 | 3,831,339,394 |
| **Earnings per share (CHF)** | | | | | |
| Basic | 0.34 | 0.41 | 0.32 | 0.75 | 0.66 |
| Diluted | 0.33 | 0.39 | 0.31 | 0.73 | 0.64 |
| **Shares outstanding** | | | | | |
| Shares issued | 3,854,589,552 | 3,854,297,125 | 3,851,805,058 | | |
| Treasury shares | 125,469,362 | 93,077,090 | 135,182,950 | | |
| Shares outstanding | 3,729,120,190 | 3,761,220,035 | 3,716,622,108 | | |

1 The weighted average shares outstanding for basic EPS are calculated by taking the number of shares at the beginning of the period, adjusted by the number of shares acquired or issued during the period, multiplied by a time-weighted factor for the period outstanding. As a result, balances are affected by the timing of acquisitions and issuances during the period.

The table below outlines the potential shares that could dilute basic earnings per share in the future, but were not dilutive for the periods presented.

| *Number of shares* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
|---|---|---|---|---|---|
| **Potentially dilutive instruments** | | | | | |
| Employee share-based compensation awards | 6,592,571 | 7,283,110 | 30,018,635 | 6,592,571 | 30,018,635 |
| Other equity derivative contracts | 11,499,172 | 7,757,622 | 12,185,977 | 10,774,521 | 11,904,237 |
| **Total** | 18,091,743 | 15,040,732 | 42,204,612 | 17,367,092 | 41,922,872 |

## Note 9 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 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 9 Expected credit loss measurement (continued)

UBS 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 |
|---|---|---|---|
| **Private clients with mortgages** | 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<br>– Global Wealth Management |
| **Real estate financing** | 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<br>– Global Wealth Management |
| **Large corporate clients** | 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<br>– Investment Bank |
| **SME clients** | 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 |
| **Financial intermediaries and hedge funds** | 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<br>– Investment Bank<br>– Corporate Center |
| **Lombard** | 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<br>– Global Wealth Management |
| **Credit cards** | Credit card solutions in Switzerland and the US | Sensitive to the interest rate environment and employment status | – Personal & Corporate Banking<br>– Global Wealth Management |
| **Commodity trade finance** | 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 |
| **Leasing (finance lease receivables)** | Financing of private aircraft<br><br>Financing of investment goods | Sensitive to changes in collateral values<br><br>Sensitive to GDP development, the interest rate environment, seasonality and business cycles and collateral values | – Personal & Corporate Banking |

## Note 9 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 | 15,577 | 15,569 | 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 | 318,278 | 293,041 | 23,612 | 1,625 | (847) | (53) | (174) | (620) |
| *of which: Private clients with mortgage* | *121,858* | *108,533* | *12,498* | *826* | *(122)* | *(9)* | *(79)* | *(34)* |
| *of which: Real estate financing* | *35,659* | *26,826* | *8,795* | *39* | *(60)* | *(3)* | *(49)* | *(8)* |
| *of which: Large corporate clients* | *10,486* | *9,841* | *555* | *91* | *(82)* | *(5)* | *(9)* | *(68)* |
| *of which: SME clients* | *9,920* | *8,055* | *1,284* | *581* | *(292)* | *(8)* | *(25)* | *(258)* |
| *of which: Lombard* | *116,795* | *116,779* | *0* | *16* | *(90)* | *(4)* | *0* | *(86)* |
| *of which: Credit cards* | *1,406* | *1,123* | *268* | *14* | *(37)* | *(6)* | *(11)* | *(20)* |
| *of which: Commodity trade finance* | *3,075* | *3,049* | *13* | *13* | *(88)* | *(4)* | *0* | *(84)* |
| Other financial assets measured at amortized cost | 20,996 | 20,188 | 292 | 516 | (168) | (39) | (6) | (123) |
| *of which: Loans to financial advisors* | *3,394* | *3,139* | *85* | *171* | *(124)* | *(32)* | *(2)* | *(90)* |
| **Total financial assets measured at amortized cost[1]** | 558,500 | 532,447 | 23,912 | 2,141 | (1,022) | (97) | (179) | (746) |
| **Financial assets measured at fair value through other comprehensive income** | 6,941 | 6,941 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total on-balance sheet financial assets in scope of ECL requirements** | 565,441 | 539,388 | 23,912 | 2,141 | (1,022) | (97) | (179) | (746) |

| | Total exposure | | | | ECL provision | | | |
|---|---|---|---|---|---|---|---|---|
| **Off-balance sheet (in scope of ECL)** | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 |
| Guarantees | 18,529 | 17,826 | 506 | 197 | (34) | (7) | (1) | (26) |
| *of which: Large corporate clients* | *3,818* | *3,462* | *218* | *138* | *(7)* | *(1)* | *0* | *(5)* |
| *of which: SME clients* | *1,262* | *996* | *221* | *45* | *(16)* | *0* | *(1)* | *(15)* |
| *of which: Financial intermediaries and hedge funds* | *7,473* | *7,464* | *9* | *0* | *(4)* | *(4)* | *0* | *0* |
| *of which: Lombard* | *2,493* | *2,493* | *0* | *0* | *0* | *0* | *0* | *0* |
| *of which: Commodity trade finance* | *2,398* | *2,342* | *43* | *13* | *(4)* | *(1)* | *0* | *(3)* |
| Irrevocable loan commitments | 31,009 | 30,407 | 563 | 38 | (42) | (34) | (8) | 0 |
| *of which: Large corporate clients* | *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 |
| *of which: Real estate financing* | *2,676* | *2,404* | *272* | *0* | *(16)* | *(8)* | *(8)* | *0* |
| *of which: Large corporate clients* | *4,065* | *4,000* | *65* | *0* | *(1)* | *(1)* | *0* | *0* |
| *of which: SME clients* | *4,407* | *3,961* | *390* | *57* | *(8)* | *(5)* | *(2)* | *0* |
| *of which: Lombard* | *6,231* | *6,231* | *0* | *0* | *0* | *0* | *0* | *0* |
| *of which: Credit cards* | *6,980* | *6,712* | *267* | *0* | *(5)* | *(3)* | *(1)* | *0* |
| *of which: Commodity trade finance* | *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 |
| **Total off-balance sheet financial instruments and other credit lines** | 87,972 | 85,531 | 2,142 | 300 | (111) | (62) | (23) | (26) |
| **Total allowances and provisions** | | | | | (1,133) | (159) | (202) | (772) |

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

## Note 9 Expected credit loss measurement (continued)

| CHF million | 31.3.18 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 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 | 92,800 | 92,800 | 0 | 0 | 0 | 0 | 0 | 0 |
| Loans and advances to banks | 13,338 | 13,300 | 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 | 316,195 | 287,107 | 27,543 | 1,545 | (838) | (54) | (162) | (622) |
| *of which: Private clients with mortgage* | *120,535* | *104,614* | *15,149* | *772* | *(127)* | *(11)* | *(71)* | *(44)* |
| *of which: Real estate financing* | *36,003* | *26,415* | *9,553* | *36* | *(62)* | *(3)* | *(51)* | *(8)* |
| *of which: Large corporate clients* | *11,610* | *10,828* | *684* | *97* | *(62)* | *(7)* | *(2)* | *(54)* |
| *of which: SME clients* | *10,072* | *7,893* | *1,629* | *550* | *(281)* | *(9)* | *(24)* | *(248)* |
| *of which: Lombard* | *114,436* | *114,423* | *0* | *13* | *(86)* | *(4)* | *0* | *(82)* |
| *of which: Credit cards* | *1,334* | *1,069* | *252* | *14* | *(34)* | *(5)* | *(9)* | *(19)* |
| *of which: Commodity trade finance* | *3,008* | *2,942* | *61* | *5* | *(92)* | *(4)* | *(4)* | *(85)* |
| Other financial assets measured at amortized cost | 19,129 | 18,371 | 271 | 488 | (146) | (35) | (5) | (106) |
| *of which: Loans to financial advisors* | *3,326* | *3,104* | *74* | *149* | *(115)* | *(28)* | *(2)* | *(85)* |
| **Total financial assets measured at amortized cost[1]** | **542,749** | **512,865** | **27,851** | **2,033** | **(992)** | **(94)** | **(168)** | **(730)** |
| **Financial assets measured at fair value through other comprehensive income** | **6,758** | **6,758** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total on-balance sheet financial assets in scope of ECL requirements** | **549,507** | **519,623** | **27,851** | **2,033** | **(992)** | **(94)** | **(168)** | **(730)** |

| | Total exposure | | | | ECL provision | | | |
|---|---|---|---|---|---|---|---|---|
| **Off-balance sheet (in scope of ECL)** | Total | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 |
| Guarantees | 17,404 | 16,624 | 577 | 203 | (40) | (7) | (2) | (31) |
| *of which: Large corporate clients* | *3,775* | *3,380* | *249* | *146* | *(10)* | *(1)* | *0* | *(9)* |
| *of which: SME clients* | *1,313* | *1,029* | *235* | *50* | *(16)* | *0* | *(1)* | *(15)* |
| *of which: Financial intermediaries and hedge funds* | *5,740* | *5,694* | *47* | *0* | *(3)* | *(3)* | *0* | *0* |
| *of which: Lombard* | *2,537* | *2,537* | *0* | *0* | *0* | *0* | *0* | *0* |
| *of which: Commodity trade finance* | *1,783* | *1,752* | *24* | *7* | *(4)* | *(1)* | *0* | *(3)* |
| Irrevocable loan commitments | 29,746 | 29,181 | 547 | 18 | (32) | (24) | (7) | (1) |
| *of which: Large corporate clients* | *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 |
| *of which: Real estate financing* | *2,942* | *2,134* | *808* | *0* | *(12)* | *(2)* | *(9)* | *0* |
| *of which: Large corporate clients* | *4,804* | *4,700* | *99* | *5* | *0* | *0* | *0* | *0* |
| *of which: SME clients* | *4,617* | *4,065* | *496* | *56* | *(7)* | *(4)* | *(3)* | *0* |
| *of which: Lombard* | *5,960* | *5,960* | *0* | *0* | *0* | *0* | *0* | *0* |
| *of which: Credit cards* | *6,879* | *6,609* | *269* | *0* | *(5)* | *(4)* | *(1)* | *0* |
| *of which: Commodity trade finance* | *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 |
| **Total off-balance sheet financial instruments and other credit lines** | **86,184** | **82,885** | **3,003** | **296** | **(106)** | **(49)** | **(26)** | **(32)** |
| **Total allowances and provisions** | | | | | **(1,098)** | **(143)** | **(194)** | **(762)** |

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

**Note 9 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[2] | 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 | 13,719 | 13,701 | 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 | 310,451 | 281,149 | 27,812 | 1,491 | (867) | (61) | (163) | (644) |
| *of which: Private clients with mortgage* | *119,560* | *103,867* | *15,006* | *686* | *(124)* | *(12)* | *(69)* | *(44)* |
| *of which: Real estate financing* | *35,896* | *26,210* | *9,657* | *29* | *(62)* | *(3)* | *(53)* | *(6)* |
| *of which: Large corporate clients* | *11,004* | *10,358* | *557* | *88* | *(69)* | *(6)* | *0* | *(63)* |
| *of which: SME clients* | *10,322* | *8,218* | *1,518* | *585* | *(287)* | *(8)* | *(23)* | *(256)* |
| *of which: Lombard* | *111,748* | *111,731* | *0* | *17* | *(84)* | *(5)* | *0* | *(79)* |
| Other financial assets measured at amortized cost | 18,302 | 17,805 | 32 | 465 | (136) | (29) | (1) | (106) |
| *of which: Loans to financial advisors* | *3,086* | *2,874* | *32* | *179* | *(115)* | *(28)* | *(1)* | *(87)* |
| **Total financial assets measured at amortized cost[1]** | **538,354** | **508,538** | **27,862** | **1,956** | **(1,011)** | **(95)** | **(164)** | **(752)** |
| **Financial assets measured at fair value through other comprehensive income** | **6,755** | **6,755** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Total on-balance sheet financial assets in scope of ECL requirements** | **545,110** | **515,293** | **27,862** | **1,956** | **(1,011)** | **(95)** | **(164)** | **(752)** |
| | Total exposure | | | | ECL provision | | | |
| **Off-balance sheet (in scope of ECL)** | Total | Stage 1 | Stage 2 | Stage 3[2] | 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) |
| *of which: Large corporate clients* | *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 |
| *of which: Real estate financing* | *3,103* | *2,097* | *1,007* | *0* | *(9)* | *(2)* | *(7)* | *0* |
| *of which: SME clients* | *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 |
| **Total off-balance sheet financial instruments and other credit lines** | **87,545** | **83,805** | **3,452** | **288** | **(107)** | **(49)** | **(24)** | **(33)** |
| **Total allowances and provisions** | | | | | **(1,117)** | **(144)** | **(188)** | **(785)** |

1 The carrying value of financial assets at amortized cost is net of the respective ECL allowances. 2 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 10 Fair value measurement**

This Note provides fair value measurement information for both financial and non-financial instruments and should be read in conjunction with "Note 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 10 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[1]**

| | 30.6.18 | | | | 31.3.18 | | | | 31.12.17 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *CHF million* | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets measured at fair value on a recurring basis** | | | | | | | | | | | | |
| Financial assets at fair value held for trading | 96,129 | 12,729 | 3,263 | 112,121 | 89,273 | 14,344 | 1,937 | 105,554 | 108,962 | 15,211 | 1,972 | 126,144 |
| *of which:* | | | | | | | | | | | | |
| *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* | *7,463* | *627* | *8,640* | *342* | *8,157* | *233* | *8,731* | *37* | *7,974* | *552* | *8,563* |
| *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* | *76,214* | *210* | *188* | *76,612* | *68,211* | *338* | *237* | *68,787* | *79,274* | *186* | *105* | *79,565* |
| *Financial assets for unit-linked investment contracts[2]* | | | | | | | | | *10,492* | *755* | *69* | *11,316* |
| Derivative financial instruments | 878 | 119,245 | 1,481 | 121,604 | 853 | 111,135 | 1,344 | 113,333 | 458 | 116,221 | 1,549 | 118,227 |
| *of which:* | | | | | | | | | | | | |
| *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* | *42,025* | *239* | *42,649* | *207* | *46,748* | *189* | *47,143* |
| *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[3] | 0 | 18,415 | 0 | 18,415 | 0 | 20,250 | 0 | 20,250 | | | | |
| Financial assets at fair value not held for trading | 42,929 | 45,518 | 4,769 | 93,217 | 44,989 | 47,876 | 4,667 | 97,532 | 23,032 | 34,481 | 1,419 | 58,933 |
| *of which:* | | | | | | | | | | | | |
| *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[2]* | *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[4]* | *0* | *7,556* | *65* | *7,622* | *0* | *7,621* | *140* | *7,760* | *0* | *118* | *173* | *291* |
| *Auction-rate securities[3]* | *0* | *0* | *1,832* | *1,832* | *0* | *0* | *1,713* | *1,713* | | | | |
| *Investment fund units* | *194* | *458* | *118* | *770* | *167* | *415* | *107* | *689* | *205* | *377* | *0* | *582* |
| *Equity instruments[5]* | *101* | *16* | *484* | *602* | *151* | *47* | *369* | *567* | | | | |
| *Other* | *0* | *57* | *357* | *414* | *0* | *1* | *413* | *415* | *0* | *0* | *489* | *489* |
| **Financial assets measured at fair value through other comprehensive income on a recurring basis** | | | | | | | | | | | | |
| 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 |
| *of which:* | | | | | | | | | | | | |
| *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[5]* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *0* | *146* | *85* | *499* | *730* |
| **Non-financial assets measured at fair value on a recurring basis** | | | | | | | | | | | | |
| 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 |
| **Non-financial assets measured at fair value on a non-recurring basis** | | | | | | | | | | | | |
| Other non-financial assets[6] | 0 | 57 | 9 | 65 | 0 | 58 | 9 | 67 | 0 | 54 | 42 | 95 |
| **Total assets measured at fair value** | 146,519 | 200,297 | 9,522 | 356,338 | 141,707 | 197,861 | 7,957 | 347,525 | 140,015 | 171,125 | 5,489 | 316,629 |

## Note 10 Fair value measurement (continued)

**Determination of fair values from quoted market prices or valuation techniques (continued)[1]**

| | 30.6.18 | | | | 31.3.18 | | | | 31.12.17 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *CHF million* | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial liabilities measured at fair value on a recurring basis** | | | | | | | | | | | | |
| 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 |
| *of which:* | | | | | | | | | | | | |
| *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 | 115,954 | 2,394 | 119,223 | 837 | 108,437 | 2,671 | 111,945 | 398 | 112,928 | 2,807 | 116,133 |
| *of which:* | | | | | | | | | | | | |
| *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* | *52,921* | *115* | *53,620* | *343* | *41,891* | *118* | *42,353* | *213* | *45,150* | *122* | *45,485* |
| *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* |
| **Financial liabilities designated at fair value on a recurring basis** | | | | | | | | | | | | |
| Brokerage payables designated at fair value[3] | 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 |
| *of which:* | | | | | | | | | | | | |
| *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[4]* | *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* |
| **Non-financial liabilities measured at fair value on a non-recurring basis** | | | | | | | | | | | | |
| Other non-financial liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 1 |
| **Total liabilities measured at fair value** | 27,087 | 241,910 | 13,737 | 282,734 | 30,495 | 221,504 | 15,984 | 267,983 | 26,435 | 170,138 | 15,750 | 212,323 |

1 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. 2 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. 3 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. 4 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. 5 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. 6 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.

### 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.

### 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.

## 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 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.

**Deferred day-1 profit or loss**

| | For the quarter ended | | | Year-to-date | |
|---|---|---|---|---|---|
| *CHF million* | 30.6.18 | 31.3.18 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Balance at the beginning of the period** | 457 | 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) |
| **Balance at the end of the period** | 274 | 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 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 10 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 | | | | | | 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 | Valuation technique(s) | Significant unobservable input(s)[1] | low | high | weighted average[2] | low | high | weighted average[2] | unit[1] |
| **Financial assets and liabilities at fair value held for trading, Financial assets at fair value not held for trading[3]** | | | | | | | | | | | | | |
| *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[4]* | *1.8* | | *0.0* | | Relative value to market comparable | Price | 77 | 99 | | | | | points |
| *Investment fund units[5]* | *0.7* | *0.7* | *0.0* | *0.0* | Relative value to market comparable | Net asset value | | | | | | | |
| *Equity instruments[5]* | *0.7* | *0.5* | *0.1* | *0.1* | Relative value to market comparable | Price | | | | | | | |
| **Debt issued designated at fair value[6]** | | | 10.2 | 10.9 | | | | | | | | | |
| **Other financial liabilities designated at fair value[6]** | | | 1.1 | 1.9 | | | | | | | | | |
| **Derivative financial instruments** | | | | | | | | | | | | | |
| *Interest rate contracts* | *0.2* | *0.1* | *0.3* | *0.2* | Option model | Volatility of interest rates[7] | 42 | 76 | | 28 | 70 | | basis points |
| *Credit derivative contracts* | *0.5* | *0.5* | *0.6* | *0.6* | 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 | | % |

1 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). 2 Weighted averages are provided for non-derivative financial instruments and were calculated by weighting inputs based on the fair values of the respective instruments. Weighted averages are not provided for inputs related to derivative contracts as this would not be meaningful. 3 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. 4 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. 5 The range of inputs is not disclosed due to the dispersion of values given the diverse nature of the investments. 6 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. 7 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 10 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**

| | 30.6.18 | | 31.3.18 | | 31.12.17 | |
|---|---|---|---|---|---|---|
| *CHF million* | 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[1] | 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) |
| **Total** | 704 | (586) | 656 | (591) | 502 | (450) |

1 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 10 Fair value measurement (continued)

**Movements of Level 3 instruments**

| CHF billion | Balance as of 31 December 2016 | Total gains / (losses) included in comprehensive income: Net gains / (losses) included in income[1] | Total gains / (losses) included in comprehensive income: *of which: related to Level 3 instruments held at the end of the reporting period* | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Foreign currency translation | Balance as of 30 June 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Financial assets at fair value held for trading** | **1.7** | **0.0** | ***0.0*** | **0.7** | **(2.3)** | **1.6** | **0.0** | **0.2** | **(0.2)** | **0.0** | **1.6** |
| *of which:* | | | | | | | | | | | |
| *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* |
| **Financial assets at fair value not held for trading** | **2.1** | **0.0** | ***0.0*** | **0.0** | **0.0** | **0.3** | **(0.7)** | **0.0** | **(0.1)** | **0.0** | **1.6** |
| *of which:* | | | | | | | | | | | |
| *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*[3] | | | | | | | | | | | |
| *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* |
| **Financial assets measured at fair value through other comprehensive income** | **0.5** | **0.0** | ***0.0*** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **0.5** |
| **Derivative financial instruments – assets** | **2.5** | **(0.2)** | ***(0.3)*** | **0.0** | **0.0** | **0.4** | **(0.5)** | **0.1** | **(0.5)** | **0.0** | **1.9** |
| *of which:* | | | | | | | | | | | |
| *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* |
| **Derivative financial instruments – liabilities** | **4.0** | **(0.1)** | ***(0.2)*** | **0.0** | **0.0** | **0.5** | **(1.0)** | **0.1** | **(0.7)** | **0.0** | **2.8** |
| *of which:* | | | | | | | | | | | |
| *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* |
| **Debt issued designated at fair value** | **9.7** | **1.0** | ***0.8*** | **0.0** | **0.0** | **2.5** | **(2.0)** | **0.2** | **(0.9)** | **(0.3)** | **10.2** |
| **Other financial liabilities designated at fair value** | **1.3** | **0.0** | ***0.0*** | **0.0** | **0.0** | **1.3** | **(0.5)** | **0.0** | **(0.2)** | **0.0** | **1.9** |

1 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. 2 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). 3 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 10 Fair value measurement (continued)

| | | | Total gains / (losses) included in comprehensive income | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance as of 31 December 2017 | Reclassifications and remeasurements upon adoption of IFRS 9 | Balance as of 1 January 2018 | Net gains / (losses) included in income[1] | *of which: related to Level 3 instruments held at the end of the reporting period* | Purchases | Sales | Issuances | Settlements | Transfers into Level 3 | Transfers out of Level 3 | Foreign currency translation | Balance as of 30 June 2018[2] |
| 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 10 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**

| | 30.6.18 | | 31.3.18 | | 31.12.17 | |
|---|---|---|---|---|---|---|
| *CHF billion* | Carrying value | Fair value | Carrying value | Fair value | Carrying value | Fair value |
| **Assets** | | | | | | |
| Cash and balances at central banks | 102.3 | 102.3 | 92.8 | 92.8 | 87.8 | 87.8 |
| Loans and advances to banks | 15.6 | 15.6 | 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 | 318.3 | 318.8 | 316.2 | 317.0 | 318.5 | 319.9 |
| Other financial assets measured at amortized cost | 21.0 | 20.7 | 19.1 | 18.9 | 36.9 | 36.7 |
| **Liabilities** | | | | | | |
| 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 | 403.4 | 403.4 | 398.6 | 398.6 | 409.0 | 409.0 |
| Debt issued measured at amortized cost | 137.5 | 140.1 | 137.9 | 140.9 | 139.6 | 143.5 |
| Other financial liabilities measured at amortized cost | 6.9 | 6.9 | 5.9 | 5.9 | 36.3 | 36.3 |

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 11 Derivative instruments

### a) Derivative instruments

| *As of 30.6.18, CHF billion* | Derivative financial assets | Notional values related to derivative financial assets[3] | Derivative financial liabilities | Notional values related to derivative financial liabilities[3] | Other notional values[4] |
|---|---|---|---|---|---|
| **Derivative financial instruments[1,2]** | | | | | |
| 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[5] | 0.2 | 26 | 0.2 | 18 | |
| Unsettled sales of non-derivative financial instruments[5] | 0.3 | 31 | 0.3 | 20 | |
| **Total derivative financial instruments, based on IFRS netting[6]** | 121.6 | 4,533 | 119.2 | 4,371 | 11,435 |
| Further netting potential not recognized on the balance sheet[7] | (106.6) | | (103.1) | | |
| *of which: netting of recognized financial liabilities / assets* | *(87.4)* | | *(87.4)* | | |
| *of which: netting with collateral received / pledged* | *(19.2)* | | *(15.7)* | | |
| **Total derivative financial instruments, after consideration of further netting potential** | 15.1 | | 16.2 | | |
| | | | | | |
| *As of 31.3.18, CHF billion* | | | | | |
| **Derivative financial instruments[1,2]** | | | | | |
| 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 | 42.6 | 2,547 | 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[5] | 0.4 | 36 | 0.3 | 15 | |
| Unsettled sales of non-derivative financial instruments[5] | 0.3 | 28 | 0.5 | 28 | |
| **Total derivative financial instruments, based on IFRS netting[6]** | 113.3 | 4,382 | 111.9 | 4,197 | 11,273 |
| Further netting potential not recognized on the balance sheet[7] | (99.3) | | (96.8) | | |
| *of which: netting of recognized financial liabilities / assets* | *(80.7)* | | *(80.7)* | | |
| *of which: netting with collateral received / pledged* | *(18.6)* | | *(16.1)* | | |
| **Total derivative financial instruments, after consideration of further netting potential** | 14.1 | | 15.2 | | |
| | | | | | |
| *As of 31.12.17, CHF billion* | | | | | |
| **Derivative financial instruments[1]** | | | | | |
| 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[5] | 0.1 | 12 | 0.1 | 11 | |
| Unsettled sales of non-derivative financial instruments[5] | 0.1 | 15 | 0.1 | 9 | |
| **Total derivative financial instruments, based on IFRS netting[6]** | 118.2 | 4,063 | 116.1 | 3,878 | 10,555 |
| Further netting potential not recognized on the balance sheet[7] | (104.2) | | (98.5) | | |
| *of which: netting of recognized financial liabilities / assets* | *(83.5)* | | *(83.5)* | | |
| *of which: netting with collateral received / pledged* | *(20.7)* | | *(15.0)* | | |
| **Total derivative financial instruments, after consideration of further netting potential** | 14.0 | | 17.7 | | |

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 16 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 16 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 11 Derivative instruments (continued)

### b) Cash collateral on derivative instruments

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

1 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. 2 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 12 Other assets and liabilities

### a) Other financial assets measured at amortized cost

| CHF million | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|
| Prime brokerage receivables[1] | | | 19,080 |
| Debt securities | 12,241 | 10,610 | 9,166 |
| *of which: government bills / bonds* | *9,787* | *7,775* | *6,465* |
| Loans to financial advisors[2] | 3,394 | 3,326 | 3,118 |
| Fee- and commission-related receivables | 1,751 | 1,679 | 1,780 |
| Finance lease receivables | 1,076 | 1,070 | 1,059 |
| Settlement and clearing accounts | 448 | 557 | 716 |
| Accrued interest income | 667 | 609 | 577 |
| Other | 1,417 | 1,279 | 1,365 |
| **Total other financial assets measured at amortized cost** | 20,996 | 19,129 | 36,861 |

1 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. 2 Related to financial advisors in the US and Canada.

### b) Other non-financial assets

| CHF million | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|
| Precious metals and other physical commodities | 3,975 | 4,032 | 4,563 |
| Bail deposit[1] | 1,320 | 1,336 | 1,337 |
| Prepaid expenses | 1,037 | 1,065 | 1,013 |
| Net defined benefit pension and post-employment assets | 61 | 1 | 0 |
| VAT and other tax receivables | 384 | 365 | 359 |
| Properties and other non-current assets held for sale | 65 | 67 | 95 |
| Other | 482 | 459 | 266 |
| **Total other non-financial assets** | 7,324 | 7,324 | 7,633 |

1 Refer to item 1 in Note 15b for more information.

## Note 12 Other assets and liabilities (continued)

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

| *CHF million* | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|
| Prime brokerage payables[1] | | | 29,646 |
| Other accrued expenses | 2,178 | 2,277 | 2,444 |
| Accrued interest expenses | 1,288 | 1,291 | 1,513 |
| Settlement and clearing accounts | 1,257 | 1,067 | 1,395 |
| Other | 2,186 | 1,276 | 1,338 |
| **Total other financial liabilities measured at amortized cost** | 6,909 | 5,911 | 36,337 |

1 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

| *CHF million* | 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 |
| *of which: life-to-date own credit (gain) / loss* | *(41)* | *5* | *36* |
| Loan commitments and guarantees | 8 | 7 | 9 |
| **Total other financial liabilities designated at fair value** | 37,342 | 34,438 | 16,223 |

### e) Other non-financial liabilities

| *CHF million* | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|
| Compensation-related liabilities | 5,922 | 5,224 | 7,674 |
| *of which: accrued expenses* | *1,765* | *1,141* | *2,670* |
| *of which: Deferred Contingent Capital Plan* | *1,770* | *1,629* | *1,993* |
| *of which: other deferred compensation plans* | *1,762* | *1,627* | *2,086* |
| *of which: net defined benefit pension and post-employment liabilities* | *625* | *828* | *925* |
| Current and deferred tax liabilities | 907 | 947 | 912 |
| VAT and other tax payables | 503 | 534 | 415 |
| Deferred income | 240 | 244 | 150 |
| Other | 136 | 67 | 53 |
| **Total other non-financial liabilities** | 7,708 | 7,016 | 9,205 |

## Note 13 Debt issued designated at fair value

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

1 Includes investment fund unit-linked instruments issued. 2 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 14 Debt issued measured at amortized cost

| *CHF million* | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|
| Certificates of deposit | 12,720 | 18,779 | 23,831 |
| Commercial paper | 28,878 | 23,304 | 23,532 |
| Other short-term debt | 3,730 | 4,078 | 3,590 |
| **Short-term debt[1]** | 45,328 | 46,162 | 50,953 |
| Senior unsecured debt | 33,699 | 34,729 | 32,268 |
| *of which: issued by UBS AG with original maturity greater than one year*[2] | *33,697* | *34,725* | *32,256* |
| Senior unsecured debt that contributes to total loss-absorbing capacity | 29,123 | 26,431 | 27,233 |
| Covered bonds | 4,029 | 4,105 | 4,112 |
| Subordinated debt | 16,931 | 18,030 | 16,555 |
| *of which: high-trigger loss-absorbing additional tier 1 capital instruments* | *7,119* | *6,898* | *5,187* |
| *of which: low-trigger loss-absorbing additional tier 1 capital instruments* | *2,359* | *2,342* | *2,383* |
| *of which: low-trigger loss-absorbing tier 2 capital instruments* | *6,748* | *8,097* | *8,286* |
| *of which: non-Basel III-compliant tier 2 capital instruments* | *705* | *694* | *700* |
| Debt issued through the Swiss central mortgage institutions | 8,357 | 8,349 | 8,345 |
| Other long-term debt | 63 | 77 | 87 |
| *of which: issued by UBS AG with original maturity greater than one year*[2] | *54* | *58* | *66* |
| **Long-term debt[3]** | 92,201 | 91,721 | 88,599 |
| **Total debt issued measured at amortized cost[4]** | 137,530 | 137,883 | 139,551 |

1 Debt with an original maturity of less than one year. 2 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). 3 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. 4 Net of bifurcated embedded derivatives, the fair value of which was not material for the periods presented.

## Note 15 Provisions and contingent liabilities

### a) Provisions

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

| *CHF million* | 30.6.18 | 31.3.18 | 31.12.17 |
|---|---|---|---|
| Provisions recognized under IAS 37 | 3,012 | 2,937 | 3,100 |
| Provisions for off-balance sheet financial instruments[1] | 76 | 72 | 33 |
| Provisions for other credit lines[1] | 35 | 35 | 0 |
| **Total provisions** | 3,123 | 3,044 | 3,133 |

1 Provisions recognized in 2018 relate to exposures in the scope of the expected credit loss requirements of IFRS 9. Refer to Notes 9 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.

| *CHF million* | Operational risks[1] | Litigation, regulatory and similar matters[2] | Restructuring | Real estate | Employee benefits[5] | Other | Total |
|---|---|---|---|---|---|---|---|
| **Balance as of 31 December 2017** | 43 | 2,444 | 322 | 134 | 68 | 89 | 3,100 |
| **Balance as of 31 March 2018** | 41 | 2,331 | 280 | 134 | 66 | 85 | 2,937 |
| Increase in provisions recognized in the income statement | 5 | 154 | 39 | 0 | 1 | 2 | 201 |
| Release of provisions recognized in the income statement | (1) | (13) | (29) | 0 | (2) | 0 | (44) |
| Provisions used in conformity with designated purpose | (4) | (94) | (48) | (2) | 0 | (4) | (151) |
| Capitalized reinstatement costs | 0 | 0 | 0 | (2) | 0 | 0 | (2) |
| Foreign currency translation / unwind of discount | 0 | 64 | 6 | 1 | 0 | 0 | 71 |
| **Balance as of 30 June 2018** | 41 | 2,442 | 248[3] | 132[4] | 66 | 83 | 3,012 |

1 Comprises provisions for losses resulting from security risks and transaction processing risks. 2 Comprises provisions for losses resulting from legal, liability and compliance risks. 3 Primarily consists of personnel-related restructuring provisions of CHF 60 million as of 30 June 2018 (31 March 2018: CHF 63 million, 31 December 2017: CHF 83 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). 4 Consists of reinstatement costs for leasehold improvements of CHF 90 million as of 30 June 2018 (31 March 2018: CHF 92 million, 31 December 2017: CHF 92 million) and provisions for onerous lease contracts of CHF 41 million as of 30 June 2018 (31 March 2018: CHF 42 million, 31 December 2017: CHF 41 million). 5 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 15b. There are no material contingent liabilities associated with the other classes of provisions.

### b) Litigation, regulatory and similar matters

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

Such matters are subject to many uncertainties, and the outcome and the timing of resolution are often difficult to predict, particularly in the earlier stages of a case. There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the Group believes it should be exonerated. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The Group makes provisions for such matters brought against it when, in the opinion of management after seeking legal advice, it is more likely than not that the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required, and the amount can be reliably estimated. Where these factors are otherwise satisfied, a provision may be established for claims that have not yet been asserted against the Group, but are nevertheless expected to be, based on the Group's experience with similar asserted claims. If any of those conditions is not met, such matters result in contingent liabilities. If the amount of an obligation cannot be reliably estimated, a liability exists that is not recognized even if an outflow of resources is probable. Accordingly, no provision is established even if the potential outflow of resources with respect to 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 15 Provisions and contingent liabilities (continued)**

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

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

The aggregate amount provisioned for litigation, regulatory and similar matters as a class is disclosed in the "Provisions" table in Note 15a above. It is not practicable to provide an aggregate estimate of liability for our litigation, regulatory and similar matters as a class of contingent liabilities. Doing so would require us to provide speculative legal assessments as to claims and proceedings that involve unique fact patterns or novel legal theories, 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 this report.

**Provisions for litigation, regulatory and similar matters by business division and Corporate Center unit[1]**

| *CHF million* | Global Wealth Management | Personal & Corporate Banking | Asset Management | Investment Bank | CC – Services | CC – Group ALM | CC – Non-core and Legacy Portfolio | UBS |
|---|---|---|---|---|---|---|---|---|
| **Balance as of 31 December 2017** | 555 | 79 | 1 | 345 | 240 | 0 | 1,224 | 2,444 |
| **Balance as of 31 March 2018** | 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 |
| **Balance as of 30 June 2018** | 567 | 75 | 0 | 333 | 216 | 0 | 1,251 | 2,442 |

1 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.

### 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 15 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).

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 15 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.

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 15 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 16 Guarantees, commitments and forward starting transactions

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

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

1 Cash to be paid in the future by either UBS or the counterparty.

## Note 17 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 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 acquires majority ownership, UBS 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 18 Currency translation rates**

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

| | Spot rate | | | | Average rate[1] | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | As of | | | | For the quarter ended | | | Year-to-date | |
| | 30.6.18 | 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 | 0.99 | 0.95 | 0.97 | 0.96 | 0.99 | 0.94 | 0.97 | 0.97 | 0.99 |
| 1 EUR | 1.16 | 1.17 | 1.17 | 1.10 | 1.17 | 1.16 | 1.09 | 1.16 | 1.08 |
| 1 GBP | 1.31 | 1.34 | 1.32 | 1.25 | 1.33 | 1.32 | 1.26 | 1.32 | 1.26 |
| 100 JPY | 0.89 | 0.90 | 0.86 | 0.85 | 0.90 | 0.88 | 0.87 | 0.89 | 0.88 |

1 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 the Group with the same functional currency for each month. Weighted average rates for individual business divisions may deviate from the weighted average rates for the Group.

## 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's accounting policies applicable from 1 January 2018. Accounting polices set out below replace item 3) b, c, g, h, i, l, o and p in Note 1a) in the UBS Group consolidated annual Financial Statements for the year ended 31 December 2017.

As permitted by the transition provisions of IFRS 9 UBS elected not to restate comparative period information, and the accounting policies as set out in Note 1 in the UBS Group 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 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.

The Group 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. The Group 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 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 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)**

*Contractual cash flow characteristics*
In assessing whether the contractual cash flows are SPPI, the Group 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, the Group 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 reflects the effect of changes in market interest rates. The Group 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 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 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 | | A debt financial asset is measured at amortized cost if:<br>– it is held in a business model that has an objective to hold assets to collect contractual cash flows, and<br>– the contractual terms give rise to cash flows that are SPPI.<br><br>This classification includes:<br>– cash and balances at central banks<br>– loans and advances to banks<br>– cash collateral receivable on securities borrowed<br>– receivables on reverse repurchase agreements<br>– cash collateral receivables on derivative instruments<br>– residential and commercial mortgages<br>– corporate loans<br>– secured loans, including Lombard loans, and unsecured loans<br>– loans to financial advisors<br>– debt securities held as high-quality liquid assets (HQLA)<br>– fee and lease receivables. | 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).<br><br>The following items are recognized in the income statement:<br>– Interest income, which is accounted for in accordance with item 3c in this Note<br>– ECL and reversals<br>– Foreign exchange translation gains and losses<br><br>Upfront fees and direct costs relating to loan origination, refinancing or restructuring as well as to loan commitments – when it is probable that UBS will enter into a specific lending relationship – are deferred and amortized over the life of the loan using the EIR method.<br><br>When the financial asset at amortized cost is derecognized, the gain or loss is recognized in the income statement.<br><br>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 *Cash collateral receivables on derivative instruments.* |
| Measured at FVOCI | Debt instruments measured at FVOCI | A debt financial asset is measured at FVOCI if:<br>– 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<br>– the contractual terms give rise to cash flows that are SPPI.<br><br>This classification primarily includes debt securities and certain asset-backed securities held as HQLA for which the contractual cash flows meet the SPPI conditions. | Measured at fair value with unrealized gains and losses reported in *Other comprehensive income*, net of applicable income taxes, until such investments are derecognized (when sold, collected or otherwise disposed). Upon derecognition, any accumulated balances in *Other comprehensive income* are reclassified to the income statement and reported within *Other income.*<br><br>The following items are recognized in the income statement:<br>– Interest income, which is accounted for in accordance with item 3c in this Note<br>– ECL and reversals<br>– Foreign exchange translation gains and losses.<br><br>The amounts recognized in the income statement are determined on the same basis as for financial assets measured at amortized cost. |

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

<table>
<tr><th colspan="2">Financial assets classification</th><th>Significant items included</th><th>Measurement and presentation</th></tr>
<tr><td rowspan="2">Measured at FVTPL</td><td>Held for trading</td><td>Financial assets held for trading include:<br>– all derivatives with a positive replacement value, except those that are designated as effective hedging instruments<br>– 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.</td><td rowspan="2">Measured at fair value with changes recognized in profit or loss.<br><br>Changes in fair value, initial transaction costs and gains and losses realized on disposal or redemption are recognized in Other net income from fair value changes on financial instruments, 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 Net interest income.<br><br>Derivative assets are generally presented as Derivative financial instruments, 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 Cash collateral receivables on derivative instruments.<br><br>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).<br><br>Financial assets held for trading (other than derivatives) are presented as Financial assets at fair value held for trading.<br><br>Other financial assets mandatorily measured at fair value through profit or loss are presented as Financial assets at fair value not held for trading, except for brokerage receivables, which are presented as a separate line item on the Group's balance sheet.</td></tr>
<tr><td>Mandatorily measured at FVTPL – Other</td><td>A financial asset is mandatorily measured at FVTPL if:<br>– 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<br>– the contractual terms give rise to cash flows that are not SPPI, and / or<br>– it is not held for trading.<br><br>The following financial assets are mandatorily measured at FVTPL:<br>– 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<br>– Loans, managed on a fair value basis and hedged with credit derivatives<br>– Certain debt securities held as HQLA and managed on a fair value basis<br>– 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<br>– 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<br>– Auction rate securities, for which contractual cash flows do not meet the SPPI conditions because interest may be reset at rates that contain leverage<br>– Equity instruments<br>– Assets held under unit-linked investment contracts.</td></tr>
</table>

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

<table>
<tr><th colspan="2">Financial liabilities classification</th><th>Significant items included</th><th>Measurement and presentation</th></tr>
<tr><td colspan="2">Measured at amortized cost</td><td>This classification includes:<br>– 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<br>– Cash collateral payables on derivative instruments.</td><td>Measured at amortized cost using the EIR method.<br><br>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.<br><br>When the financial liability at amortized cost is derecognized, the gain or loss is recognized in the income statement.<br><br>Amortized cost liabilities are presented on the balance sheet primarily as Amounts due to banks, Customer deposits, Payables from securities financing transactions and Debt issued measured at amortized cost.<br><br>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 Cash collateral payables on derivative instruments.</td></tr>
<tr><td rowspan="2">Measured at fair value through profit or loss</td><td>Held for trading</td><td>Financial liabilities held for trading include:<br>– All derivatives with a negative replacement value (including certain loan commitments) except those that are designated and effective hedging instruments<br>– Obligations to deliver financial instruments, such as debt and equity instruments, that UBS has sold to third parties, but does not own (short positions).</td><td rowspan="2">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’s own credit risk is presented in OCI.<br><br>Financial liabilities measured at FVTPL are presented as Financial liabilities at fair value held for trading and Other financial liabilities designated at fair value, respectively, except for brokerage payables and debt issued, which are presented as separate sub-totals on the Group’s balance sheet.<br><br>Derivative liabilities are generally presented as Derivative financial instruments, 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 Cash collateral payables on derivative instruments.<br><br>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.<br><br>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).</td></tr>
<tr><td>Designated at FVTPL</td><td>UBS designated at FVTPL the following financial liabilities:<br>– Issued hybrid debt instruments that primarily include equity-linked, credit-linked and rates-linked bonds or notes<br>– Issued debt instruments managed on a fair value basis<br>– 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<br>– Loan commitments that are hedged predominantly with credit derivatives and those managed on a fair value basis<br>– Amounts due under unit-linked investment contracts whose cash flows are linked to financial assets measured at FVTPL and eliminate an accounting mismatch<br>– Brokerage payables, which arise in conjunction with brokerage receivables and are measured at FVTPL to achieve measurement consistency.</td></tr>
</table>

### *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 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 "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's credit card limits and master credit facilities, which are customary in the Swiss market for corporate and commercial clients. UBS 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 at any time. Though these other credit lines are revocable, UBS is exposed to credit risk because the client has the ability to draw down funds before UBS can take credit risk mitigation actions.

*Recognition of expected credit losses*

ECL represent the difference between contractual cash flows and those UBS 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.

UBS 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 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 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., conservativism 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 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-internal experts. The baseline scenario is aligned to the economic and market assumptions used for UBS 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 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's key ECL-relevant portfolios.

For UBS, 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

The forward-looking macroeconomic assumptions used in the ECL calculation are developed by UBS 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, 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 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 has an obligation to extend credit.

Additionally, some financial instruments include both an on-demand loan and a revocable undrawn commitment where the contractual cancelation right does not limit UBS's exposure to credit risk to the contractual notice period as the client has the ability to draw down funds before UBS can take risk mitigating actions. In such cases, UBS is required to estimate the period over which it is exposed to credit risk. This applies to UBS'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'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 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 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 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 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'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**

| Internal rating at origination of the instrument | Rating downgrades / SICR trigger |
|---:|---:|
| 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 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 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 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 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'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.

*h. Restructured and modified financial assets*

When a counterparty is in financial difficulties or where default has already occurred, UBS may restructure financial assets by providing concessions that would otherwise not be considered and that are outside of UBS'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's risk appetite.

Concessions granted when there is no evidence of financial difficulties, or where changes to terms and conditions are within UBS'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'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 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 once the commitments are communicated to the beneficiary or that are revocable only due to automatic cancelation 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.

The Group recognizes ECL on non-cancelable other loan commitments. In addition, UBS also recognizes ECL on loan commitments that can be canceled at any time if UBS is exposed to credit risk (refer to item g in this Note). Corresponding ECL are presented within *Provisions* on the Group'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 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 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 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 Group balance sheet presentation

Although the effect of IFRS 9 classification and measurement changes has been applied prospectively, UBS 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.*

## 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 Group balance sheet presentation as of 31 December 2017**

| *CHF million* | | 31.12.17 | 31.12.17 |
|---|---|---|---|
| **Assets** | References | Former presentation | Revised presentation |
| Cash and balances at central banks | | 87,775 | 87,775 |
| Loans and advances to banks (formerly: Due from banks) | | 13,739 | 13,739 |
| 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 | 319,568 | 318,509 |
| Financial assets held to maturity (superseded) | 3 | 9,166 | |
| Other financial assets measured at amortized cost (new line) | 2,3,7 | | 36,861 |
| **Total financial assets measured at amortized cost** | | | 569,950 |
| Financial assets at fair value held for trading (formerly: Trading portfolio assets) | 4 | 130,707 | 126,144 |
| *of which: assets pledged as collateral that may be sold or repledged by counterparties* | | *35,363* | *35,363* |
| Derivative financial instruments (formerly: Positive replacement values) | | 118,227 | 118,227 |
| 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 | | 58,933 |
| Financial assets designated at fair value | 5 | 58,933 | |
| **Total financial assets measured at fair value through profit or loss** | | | 303,304 |
| Financial assets available for sale (superseded) | 6 | 8,665 | |
| **Financial assets measured at fair value through other comprehensive income (new line)** | 6 | | 8,665 |
| Investments in associates | | 1,018 | 1,018 |
| Property, equipment and software | | 8,829 | 8,829 |
| Goodwill and intangible assets | | 6,398 | 6,398 |
| Deferred tax assets | | 9,844 | 9,844 |
| Other non-financial assets (new line) | 4,7 | | 7,633 |
| Other assets (superseded) | 7 | 29,706 | |
| **Total assets** | | 915,642 | 915,642 |
| | | | |
| **Liabilities** | | | |
| 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) | | 408,999 | 408,999 |
| Debt issued measured at amortized cost | | 139,551 | 139,551 |
| Other financial liabilities measured at amortized cost (new line) | 10 | | 36,337 |
| **Total financial liabilities measured at amortized cost** | | | 639,711 |
| Financial liabilities at fair value held for trading (formerly: Trading portfolio liabilities) | | 30,463 | 30,463 |
| Derivative financial instruments (formerly: Negative replacement values) | | 116,133 | 116,133 |
| Brokerage payables designated at fair value (new line, formerly included within Other liabilities) | | n/a | n/a |
| Financial liabilities designated at fair value (superseded) | 9 | 54,202 | |
| Debt issued designated at fair value (new line) | 9 | | 49,502 |
| Other financial liabilities designated at fair value (new line) | 9,10 | | 16,223 |
| **Total financial liabilities measured at fair value through profit or loss** | | | 212,322 |
| Provisions | | 3,133 | 3,133 |
| Other non-financial liabilities (new line) | 10 | | 9,205 |
| Other liabilities (superseded) | 10 | 57,064 | |
| **Total liabilities** | | 864,371 | 864,371 |
| **Total liabilities and equity** | | 915,642 | 915,642 |

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

*Explanatory footnotes to the table "Retrospective amendments to UBS Group balance sheet presentation"*

| Table ref. | Description of presentation changes applied retrospectively to the balance sheet as of 31 December 2017 |
|---|---|
| **Balance sheet assets** | |
| *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, *Receivables from securities financing transactions*. |
| *2* | Finance lease receivables of CHF 1,059 million as of 31 December 2017, previously presented within *Loans*, are now presented within *Other financial assets measured at amortized cost*. |
| *3* | *Financial assets held to maturity* measured at amortized cost of CHF 9,166 million as of 31 December 2017 are now presented within *Other financial assets measured at amortized cost*. |
| *4* | Precious metal positions of CHF 4,563 million as of 31 December 2017, previously presented in *Trading portfolio assets*, are now presented within *Other non-financial assets*. |
| *5* | Financial assets designated at fair value through profit or loss of CHF 58,933 million as of 31 December 2017, previously presented in a separate line, are now presented within *Financial assets at fair value not held for trading*. |
| *6* | Debt and equity instruments of CHF 8,665 million as of 31 December 2017, previously presented in *Financial assets available for sale*, are now presented within *Financial assets measured at fair value through other comprehensive income*. |
| *7* | The reporting line *Other assets* has been split into two new reporting lines, *Other financial assets measured at amortized cost* and *Other non-financial assets*.<br>– Assets of CHF 29,706 million as of 31 December 2017, previously presented within *Other assets*, are now presented within *Other assets measured at amortized cost* (CHF 26,636 million) and *Other non-financial assets* (CHF 3,070 million).<br>– Financial assets now presented within *Other financial assets measured at amortized cost* 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 5,497 million. Refer to Note 12 a) for more information.<br>– Refer to Note 12 b) for more information on assets now presented within *Other non-financial assets.* |
| **Balance sheet liabilities** | |
| *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, *Payables from securities financing transactions*. |
| *9* | Financial liabilities designated at fair value through profit or loss of CHF 54,202 million as of 31 December 2017 are now presented within *Debt issued designated at fair value* (CHF 49,502 million) and *Other financial liabilities designated at fair value* (CHF 4,700 million). |
| *10* | The reporting line *Other liabilities* has been split into three new reporting lines, *Other financial liabilities measured at amortized cost*, *Other financial liabilities designated at fair value* and *Other non-financial liabilities*.<br>– Liabilities amounting to CHF 57,064 million as of 31 December 2017, previously presented within *Other liabilities,* are now presented within *Other financial liabilities measured at amortized cost* (CHF 36,337 million, thereof CHF 29,646 million brokerage payables), within *Other financial liabilities designated at fair value* (amounts due under unit-linked investment contracts of CHF 11,523 million) and within *Other non-financial liabilities* (CHF 9,205 million).<br>– Refer to note 12 c) for more information on financial liabilities now presented within *Other financial liabilities measured at amortized cost.*<br>– Refer to note 12 d) for more information on financial liabilities now presented within *Other financial liabilities designated at fair value.*<br>– Refer to note 12 e) for more information on liabilities now presented within *Other non-financial liabilities.* |

### 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, 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 Group 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 Group 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 the Group'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 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 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 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 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 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 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's key ECL-relevant portfolios.

The following represent the most significant macroeconomic factors for UBS 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.

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 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'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)**

*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**

| | 31.12.2017 | | 1.1.2018 | | | |
|---|---|---|---|---|---|---|
| *CHF million* | 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) | Carrying amount (IFRS 9) |
| **Assets** | | | | | | |
| Cash and balances at central banks | Loans and receivables | 87,775 | | | 0 | 87,775 |
| Loans and advances to banks | Loans and receivables | 13,739 | (17) | | (3)[12] | 13,719 |
| *to: Brokerage receivables* | *Loans and receivables* | | *(17)[1]* | | | |
| Receivables from securities financing transactions | Loans and receivables | 89,633 | (4,957) | | (2)[12] | 84,674 |
| *to: Financial assets at fair value not held for trading* | *Loans and receivables* | | *(4,957)[2]* | | | |
| Cash collateral receivables on derivative instruments | Loans and receivables | 23,434 | | | 0 | 23,434 |
| Loans and advances to customers | Loans and receivables | 318,509 | (7,822) | 0 | (235)[12] | 310,451 |
| *to: Financial assets at fair value not held for trading* | *Loans and receivables* | | *(2,678)[3]* | | | |
| *to: Brokerage receivables* | *Loans and receivables* | | *(4,691)[1]* | | | |
| *to: Financial assets at fair value held for trading* | *Loans and receivables* | | *(468)[4]* | | | |
| *from: Financial assets at fair value not held for trading* | *FVTPL (designated)* | | *8[5]* | *0* | | |
| *from: Financial assets at fair value held for trading* | *FVTPL (held for trading)* | | *6[5]* | | | |
| Other financial assets measured at amortized cost | Loans and receivables, held to maturity | 36,861 | (18,525) | 0 | (35)[12] | 18,302 |
| *to: Brokerage receivables* | *Loans and receivables* | | *(19,080)[1]* | | | |
| *from: Financial assets measured at fair value through other comprehensive income* | *Available-for-sale* | | *555[6]* | *0* | | |
| Total financial assets measured at amortized cost | | 569,950 | (31,321) | 0 | (275) | 538,354 |
| Financial assets at fair value held for trading | FVTPL (held for trading) | 126,144 | (10,854) | (15) | | 115,275 |
| *to: Loans and advances to customers* | *FVTPL (held for trading)* | | *(6)[5]* | | | |
| *to: Financial assets at fair value not held for trading* | *FVTPL (held for trading)* | | *(11,316)[7]* | | | |
| *from: Loans and advances to customers* | *Loans and receivables* | | *468[4]* | *(15)[4]* | | |
| *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) | 118,227 | | | | 118,227 |
| Brokerage receivables | Loans and receivables | | 23,787 | | | 23,787 |
| *from: Loans and advances to banks* | *Loans and receivables* | | *17[1]* | | | |
| *from: Loans and advances to customers* | *Loans and receivables* | | *4,691[1]* | | | |
| *from: Other financial assets measured at amortized cost* | *Loans and receivables* | | *19,080[1]* | | | |
| Financial assets at fair value not held for trading | FVTPL (designated) | 58,933[9] | 20,297 | (287) | | 78,943 |
| *to: Loans and advances to customers* | *FVTPL (designated)* | | *(8)[5]* | | | |
| *from: Financial assets at fair value held for trading* | *FVTPL (held for trading)* | | *11,316[7]* | | | |
| *from: Receivables from securities financing transactions* | *Loans and receivables* | | *4,957[2]* | *(1)* | | |
| *from: Loans and advances to customers* | *Loans and receivables* | | *2,678[3]* | *(286)[3]* | | |
| *from: Financial assets measured at fair value through other comprehensive income* | *Available-for-sale* | | *1,356[8]* | | | |
| Total financial assets measured at fair value through profit or loss | | 303,304 | 33,231 | (303) | | 336,232 |
| Financial assets measured at fair value through other comprehensive income | Available-for-sale | 8,665 | (1,911) | | | 6,755[10] |
| *to: Other financial assets measured at amortized cost* | *Available-for-sale* | | *(555)[6]* | | | |
| *to: Financial assets at fair value not held for trading* | *Available-for-sale* | | *(1,356)[8]* | | | |
| Investments in associates | | 1,018 | | | | 1,018 |
| Property, equipment and software | | 8,829 | | | | 8,829 |
| Goodwill and intangible assets | | 6,398 | | | | 6,398 |
| Deferred tax assets | | 9,844 | | 58[11] | 64[11] | 9,967 |
| Other non-financial assets | | 7,633 | | | | 7,633 |
| Total assets | | 915,642 | | (245) | (211) | 915,187 |

## 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)**

| | 31.12.2017 | | 1.1.2018 | | | |
|---|---|---|---|---|---|---|
| *CHF million* | 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) | Carrying amount (IFRS 9) |
| **Liabilities** | | | | | | |
| Amounts due to banks | Amortized cost | 7,533 | | | | 7,533 |
| Payables from securities financing transactions | Amortized cost | 17,044 | (5,081) | | | 11,963 |
| *to: Other financial liabilities designated at fair value* | *Amortized cost* | | *(5,081)* [13] | | | |
| Cash collateral payables on derivative instruments | Amortized cost | 30,247 | | | | 30,247 |
| Customer deposits | Amortized cost | 408,999 | (5,268) | | | 403,731 |
| *to: Brokerage payables designated at fair value* | *Amortized cost* | | *(5,268)* [14] | | | |
| Debt issued measured at amortized cost | Amortized cost | 139,551 | | | | 139,551 |
| Other financial liabilities measured at amortized cost | Amortized cost | 36,337 | (29,646) | (4) | | 6,686 |
| *to: Brokerage payables designated at fair value* | *Amortized cost* | | *(29,646)* [14] | | | |
| *Derecognition: deferred fees on other loan commitments* | *Amortized cost* | | | *(4)* [4] | | |
| **Total financial liabilities measured at amortized cost** | | 639,711 | (39,996) | (4) | | 599,712 |
| Financial liabilities at fair value held for trading | FVTPL (held for trading) | 30,463 | | | | 30,463 |
| Derivative financial instruments | FVTPL (derivatives) | 116,133 | | 57 | | 116,191 |
| *Recognition: Loan commitments* | *Amortized cost – off-balance sheet* | | | *60* [4] | | |
| *Derecognition: Loan commitments* | *FVTPL (derivatives)* | | | *(2)* [5] | | |
| Brokerage payables designated at fair value | Amortized cost | | 34,915 | | | 34,915 |
| *from: Customer deposits* | *Amortized cost* | | *5,268* [14] | | | |
| *from: Other financial liabilities measured at amortized cost* | *Amortized cost* | | *29,646* [14] | | | |
| 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 |
| *from: Payables from securities financing transactions* | *Amortized cost* | | *5,081* [13] | *(5)* [13] | | |
| **Total financial liabilities measured at fair value through profit or loss** | | 212,322 | 39,996 | 53 | | 252,370 |
| Provisions | | 3,133 | | | 74[12] | 3,207 |
| Other non-financial liabilities | | 9,205 | | | | 9,205 |
| **Total liabilities** | | 864,371 | | 49 | 74 | 864,494 |
| **Equity** | | | | | | |
| Share capital | | 385 | | | | 385 |
| Share premium | | 25,942 | | | | 25,942 |
| Treasury shares | | (2,133) | | | | (2,133) |
| Retained earnings | | 32,752 | 72[8,15] | (293) | (284) | 32,247 |
| Other comprehensive income recognized directly in equity, net of tax | | (5,732) | (72)[8,15] | | | (5,804) |
| **Equity attributable to shareholders** | | 51,214 | 0 | (293)[15] | (284)[15] | 50,637 |
| Equity attributable to non-controlling interests | | 57 | | | | 57 |
| **Total equity** | | 51,271 | 0 | (293) | (284) | 50,694 |
| **Total liabilities and equity** | | 915,642 | 0 | (245) | (211) | 915,187 |

## 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 *Loans and advances to customers*, CHF 17 million from *Loans and advances to banks* and CHF 19,080 million previously included within *Other financial assets measured at amortized cost*. 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 *Brokerage receivables*. 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 *Receivables from securities financing transactions* to *Financial assets at fair value not held for trading* as of 1 January 2018. A remeasurement loss of CHF 1 million has been recorded in *Retained earnings*.<br>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 *Loans and advances to customers* with a carrying amount of CHF 2,678 million as of 31 December 2017 were reclassified to *Financial assets at fair value not held for trading* upon adoption of IFRS 9. This includes:<br>– 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<br>– 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.<br>These assets are mandatorily measured at FVTPL under IFRS 9. A corresponding net remeasurement loss of CHF 286 million was recognized in *Retained earnings* 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 *Financial assets at fair value held for trading* 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 *Retained earnings* related to this reclassification.<br>Irrevocable loan commitments that are contractually linked with these financial assets are now recognized as *Derivative financial instruments* (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 *Retained earnings*.<br>Liabilities related to deferred fees of CHF 4 million related to these loan commitments recorded as *Other financial liabilities measured at amortized cost* at 31 December 2017 were derecognized with a corresponding entry to *Retained earnings*. |
| *5* | Financial assets with a carrying amount of CHF 14 million as of 31 December 2017 were reclassified to *Loans and advances to customers* from *Financial assets at fair value not held for trading* (CHF 8 million) and from *Financial assets at fair value held for trading* (CHF 6 million) given management's intent to hold these financial assets to collect contractual cash flows.<br>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 *Retained earnings*. |
| *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 *Other financial assets measured at amortized cost* 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 has elected to refine the assets classified within *Financial assets at fair value held for trading* to carve out those that are segregated from UBS's trading activities, where UBS'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 *Financial assets at fair value not held for trading*. As a consequence of this refinement, UBS has reclassified assets held to hedge unit-linked investment contracts of CHF 11,316 million from *Financial assets at fair value held for trading* to *Financial assets at fair value not held for trading* 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* | UBS 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 *Financial assets at fair value not held for trading*. An unrealized gain of CHF 5 million related to these positions was reclassified from *Other comprehensive income* to *Retained earnings*.<br>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 *Financial assets at fair value not held for trading* under the revised IFRS 9 measurement rules. A related unrealized gain in OCI of CHF 199 million has been reclassified to *Retained earnings*.<br>Additionally, a net tax expense of CHF 131 million was transferred from OCI to *Retained earnings* related to the positions above which were reclassified out of the IAS 39 available-for-sale category. |
| *9* | Assets previously designated at FVTPL with a carrying amount of CHF 58,933 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.<br>Of the total, assets with a carrying amount of CHF 58,924 million are now mandatorily measured at FVTPL and included within *Financial assets at fair value not held for trading*. The remaining assets with a carrying amount of CHF 8 million have been de-designated and were reclassified to *Loans and advances to customers* given a change in business model to hold to collect (refer to footnote 5). |
| *10* | 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 *Financial assets measured at fair value through other comprehensive income*. |
| *11* | 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. |
| *12* | 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 *Loans and advances to customers* (CHF 235 million), with effects also recognized in *Other financial assets measured at amortized cost* (CHF 35 million), *Loans and advances to banks* (CHF 3 million), *Receivables from securities financing transactions* (CHF 2 million) and *Provisions* (CHF 74 million). |
| *13* | 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 *Other financial liabilities designated at fair value* as of 1 January 2018. A remeasurement gain of CHF 5 million has been recognized in *Retained earnings* as of 1 January 2018 related to this reclassification.<br>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. |
| *14* | 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 *Brokerage payables designated at fair value* 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. |
| *15* | The adoption of IFRS 9 has resulted in a reduction to IFRS consolidated equity as of 1 January 2018 of CHF 577 million.<br>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 *Other comprehensive income* recognized directly in equity, net of tax, to *Retained earnings* (refer to footnote 8 above), with no overall impact on equity attributable to shareholders. |

## 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**

| | 31.12.2017 | 1.1.2018 | | |
|---|---|---|---|---|
| *CHF million* | Loss allowances and provisions (IAS 39 / IAS 37) | Reversal of allowances (IAS 39) | Recognition of ECL (IFRS 9)[1] | Allowances for ECL / Provisions for ECL (IFRS 9) |
| **On-balance sheet** | | | | |
| 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 | |
| Loans and advances to customers | (658) | 26[2] | (235)[3] | (867) |
| Other financial assets measured at amortized cost | (101)[4] | | (35) | (136) |
| Total on-balance sheet | (761) | 26 | (275) | (1,011) |
| **Off-balance sheet financial instruments and other credit lines** | | | | |
| Guarantees | (29) | | (8) | (37) |
| Loan commitments | (4) | | (32) | (36) |
| Other credit lines | | | (34) | (34) |
| Total off-balance sheet financial instruments and other credit lines | (33) | | (74) | (107) |
| Total | (794) | 26 | (348) | (1,117) |
| *of which Stage 1* | | | *(144)* | *(144)* |
| *of which Stage 2* | | | *(188)* | *(188)* |
| *of which Stage 3* | | | *(16)*[5] | *(785)* |

1 Includes stage 1 and stage 2 expected credit losses and additional stage 3 expected credit losses. 2 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." 3 Includes the reversal of collective allowances of CHF 13 million. 4 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. 5 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 |
| Total change in other comprehensive income | (72) |
| **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) |
| Total change in retained earnings | (505) |
| Total change in equity due to the adoption of IFRS 9 | (577) |

# UBS AG interim consolidated financial information (unaudited)

This section contains a comparison of selected financial and capital information between UBS Group AG consolidated and UBS AG consolidated. Refer to the UBS AG second quarter 2018 report, which will be available as of 27 July 2018 under "Quarterly reporting" at *www.ubs.com/investors*, for the interim consolidated financial statements of UBS AG.

## Comparison UBS Group AG consolidated versus UBS AG consolidated

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

## Comparison UBS Group AG consolidated versus UBS AG consolidated

| | As of or for the quarter ended 30.6.18 | | |
|---|---|---|---|
| *CHF million, except where indicated* | UBS Group AG (consolidated) | UBS AG (consolidated) | Difference (absolute) |
| **Income statement** | | | |
| Operating income | 7,554 | 7,641 | (88) |
| Operating expenses | 5,875 | 6,089 | (213) |
| Operating profit / (loss) before tax | 1,679 | 1,553 | 126 |
| *of which: Global Wealth Management* | *1,037* | *1,027* | *9* |
| *of which: Personal & Corporate Banking* | *368* | *368* | *0* |
| *of which: Asset Management* | *101* | *101* | *0* |
| *of which: Investment Bank* | *569* | *549* | *20* |
| *of which: Corporate Center* | *(396)* | *(492)* | *96* |
| *of which: Services* | *(172)* | *(260)* | *88* |
| *of which: Group ALM* | *(206)* | *(214)* | *8* |
| *of which: Non-core and Legacy Portfolio* | *(18)* | *(18)* | *0* |
| Net profit / (loss) | 1,285 | 1,184 | 101 |
| *of which: net profit / (loss) attributable to shareholders* | *1,284* | *1,183* | *101* |
| *of which: net profit / (loss) attributable to preferred noteholders* | | | |
| *of which: net profit / (loss) attributable to non-controlling interests* | *1* | *1* | *0* |
| **Statement of comprehensive income** | | | |
| Other comprehensive income | 1,057 | 1,066 | (8) |
| *of which: attributable to shareholders* | *1,060* | *1,068* | *(8)* |
| *of which: attributable to preferred noteholders* | | | |
| *of which: attributable to non-controlling interests* | *(2)* | *(2)* | *0* |
| Total comprehensive income | 2,342 | 2,250 | 92 |
| *of which: attributable to shareholders* | *2,343* | *2,251* | *92* |
| *of which: attributable to preferred noteholders* | | | |
| *of which: attributable to non-controlling interests* | *(1)* | *(1)* | *0* |
| **Balance sheet** | | | |
| Total assets | 944,482 | 945,296 | (813) |
| Total liabilities | 893,649 | 895,275 | (1,626) |
| Total equity | 50,834 | 50,021 | 813 |
| *of which: equity attributable to shareholders* | *50,774* | *49,961* | *813* |
| *of which: equity attributable to non-controlling interests* | *60* | *60* | *0* |
| **Capital information** | | | |
| 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* |
| | | | | *26* | *(26)* |
| *1* | *1* | *0* | *27* | *0* | *27* |
| | | | | | |
| (819) | (732) | (87) | 184 | 187 | (3) |
| *(820)* | *(732)* | *(88)* | *(124)* | *(122)* | *(2)* |
| | | | | *307* | *(307)* |
| *0* | *0* | *0* | *309* | *2* | *307* |
| 696 | 639 | 57 | (2,125) | (2,198) | 73 |
| *695* | *638* | *57* | *(2,461)* | *(2,534)* | *73* |
| | | | | *333* | *(333)* |
| *1* | *1* | *0* | *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 |

# Significant regulated subsidiary and sub-group information

# Financial and regulatory key figures for our significant regulated subsidiaries and sub-groups

| | UBS AG (standalone) | | UBS Switzerland AG (standalone) | | UBS Limited (standalone) | | UBS Americas Holding LLC (consolidated) | |
|---|---|---|---|---|---|---|---|---|
| | *CHF million, except where indicated* | | *CHF million, except where indicated* | | *GBP million, except where indicated* | | *USD million, except where indicated* | |
| As of or for the quarter ended | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 | 30.6.18 | 31.3.18 |
| **Financial information**[1,2,3] | | | | | | | | |
| Income statement | | | | | | | | |
| Total operating income | 5,291 | 2,454 | 2,105 | 2,046 | 157 | 204 | 3,320 | 3,295 |
| Total operating expenses | 1,973 | 2,165 | 1,621 | 1,612 | 165 | 171 | 2,794 | 2,868 |
| Operating profit / (loss) before tax | 3,318 | 289 | 484 | 434 | (8) | 33 | 526 | 426 |
| Net profit / (loss) | 3,268 | 321 | 380 | 337 | 3 | 24 | 669 | 436 |
| Balance sheet | | | | | | | | |
| Total assets | 488,503 | 464,305 | 290,331 | 289,372 | 37,532 | 36,182 | 136,215 | 140,915 |
| Total liabilities | 438,031 | 414,036 | 277,180 | 274,250 | 34,706 | 33,357 | 112,358 | 117,684 |
| Total equity | 50,472 | 50,269 | 13,151 | 15,122 | 2,826 | 2,825 | 23,857 | 23,231 |
| **Capital**[4,5] | | | | | | | | |
| Common equity tier 1 capital | 49,148 | 47,508 | 10,072 | 10,118 | 2,524 | 2,521 | 10,693 | 10,188 |
| Additional tier 1 capital | 7,138 | 6,911 | 3,000 | 3,000 | 235 | 235 | 2,141 | 2,141 |
| Tier 1 capital | 56,286 | 54,419 | 13,072 | 13,118 | 2,759 | 2,756 | 12,834 | 12,329 |
| Total going concern capital | 62,625 | 62,118 | 13,072 | 13,118 | | | | |
| Tier 2 capital | | | | | 688 | 671 | 720 | 719 |
| Total gone concern loss-absorbing capacity | | | 8,400 | 8,400 | | | | |
| Total capital | | | | | 3,447 | 3,427 | 13,555 | 13,048 |
| Total loss-absorbing capacity | | | 21,472 | 21,518 | | | | |
| **Risk-weighted assets and leverage ratio denominator**[4,5] | | | | | | | | |
| Risk-weighted assets | 283,948 | 288,194 | 94,887 | 94,311 | 11,593 | 10,778 | 51,136 | 50,485 |
| Leverage ratio denominator | 614,642 | 591,413 | 304,046 | 301,968 | 36,217 | 35,995 | 129,375 | 132,764 |
| **Capital and leverage ratios (%)**[4,5] | | | | | | | | |
| Common equity tier 1 capital ratio | 17.3 | 16.5 | 10.6 | 10.7 | 21.8 | 23.4 | 20.9 | 20.2 |
| Tier 1 capital ratio | | | | | 23.8 | 25.6 | 25.1 | 24.4 |
| Going concern capital ratio | 22.1 | 21.6 | 13.8 | 13.9 | | | | |
| Total capital ratio | | | | | 29.7 | 31.8 | 26.5 | 25.8 |
| Total loss-absorbing capacity ratio | | | 22.6 | 22.8 | | | | |
| Leverage ratio[6] | 10.2 | 10.5 | | | 7.6 | 7.7 | 9.9 | 9.3 |
| Total loss-absorbing capacity leverage ratio | | | 7.1 | 7.1 | | | | |
| **Liquidity**[5,7,8] | | | | | | | | |
| High-quality liquid assets (billion) | 82 | 85 | 69 | 69 | 6 | 6 | | |
| Net cash outflows (billion) | 60 | 67 | 54 | 55 | 1 | 1 | | |
| Liquidity coverage ratio (%)[9, 10] | 137 | 127 | 128 | 126 | 473 | 473 | | |
| **Other** | | | | | | | | |
| Joint and several liability between UBS AG and UBS Switzerland AG (billion)[11] | | | 33[12] | 64 | | | | |

1 UBS AG and UBS Switzerland AG financial information is prepared in accordance with Swiss GAAP (FINMA Circular 2015/1 and Banking Ordinance), but does not represent interim financial statements under Swiss GAAP. 2 UBS Limited financial information is prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the EU, but does not represent interim financial statements under IFRS. 3 UBS Americas Holding LLC financial information is prepared in accordance with accounting principles generally accepted in the US (US GAAP), but does not represent interim financial statements under US GAAP. 4 For UBS AG and UBS Switzerland AG, based on applicable transitional arrangements for Swiss systemically relevant banks (SRBs). For UBS Limited, based on Directive 2013/36/EU and Regulation 575/2013 (together known as CRD IV) and their related technical standards, as implemented within the UK by the Prudential Regulation Authority (PRA). For UBS Americas Holding LLC, based on applicable US Basel III rules. 5 Refer to 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 for more information. 6 For UBS AG, on the basis of going concern capital. On the basis of tier 1 capital for UBS Limited and UBS Americas Holding LLC. 7 There was no local disclosure requirement for UBS Americas Holding LLC as of 30 June 2018 and 31 March 2018. 8 For UBS Limited, the values represent an average of the month-end balances for the twelve months ending 30 June 2018 and 31 March 2018 in line with the European Banking Authority guidelines on the liquidity coverage ratio disclosure (EBA/GL/2017/01). Including PRA Pillar 2 requirements, the equivalent average ratios were 192% and 192% for 30 June 2018 and 31 March 2018, respectively. 9 UBS AG is required to maintain a minimum liquidity coverage ratio of 105% as communicated by FINMA. 10 UBS Switzerland AG, as a Swiss SRB, is required to maintain a minimum liquidity coverage ratio of 100%. 11 Refer to the "Capital management" section of our Annual Report 2017 for more information on the joint and several liability. Under certain circumstances, the Swiss Banking Act and FINMA's Banking Insolvency Ordinance authorize FINMA to modify, extinguish or convert to common equity liabilities of a bank in connection with a resolution or insolvency of such bank. 12 The joint liability of UBS Switzerland AG for contractual obligations of UBS AG decreased by CHF 31 billion in the second quarter of 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.

UBS Group AG is a holding company and conducts substantially all of its operations through UBS AG and its subsidiaries. UBS Group AG and UBS AG have contributed a significant portion of their respective capital and provide substantial liquidity to subsidiaries. Many of these subsidiaries are subject to regulations requiring compliance with minimum capital, liquidity and similar requirements. The tables in this section summarize the regulatory capital components and capital ratios of our significant regulated subsidiaries and sub-groups determined under the regulatory framework of each subsidiary's or sub-group's home jurisdiction.

Supervisory authorities generally have discretion to impose higher requirements or to otherwise limit the activities of subsidiaries. Supervisory authorities also may require entities to measure capital and leverage ratios on a stressed basis and may limit the ability of the entity to engage in new activities or take capital actions based on the results of those tests.

In June 2018, the Federal Reserve Board released the results of its Comprehensive Capital Analysis and Review (CCAR) and did not object to UBS Americas Holding LLC's capital plan.

Standalone regulatory information for UBS AG, UBS Switzerland AG and UBS Limited as well as consolidated regulatory information for UBS Americas Holding LLC 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*.

Selected financial and regulatory information for UBS AG consolidated is included in the key figures table below. Refer also to the UBS AG second quarter 2018 report, which will be available as of 27 July 2018 under "Quarterly reporting" at *www.ubs.com/investors*.

**UBS AG (consolidated) key figures**

| | As of or for the quarter ended | | | | As of or year-to-date | |
|---|---|---|---|---|---|---|
| *CHF million, except where indicated* | 30.6.18 | 31.3.18 | 31.12.17 | 30.6.17 | 30.6.18 | 30.6.17 |
| **Results** | | | | | | |
| 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 |
| **Key performance indicators**[1] | | | | | | |
| Profitability and growth | | | | | | |
| 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 |
| Resources | | | | | | |
| Common equity tier 1 capital ratio (%)[2] | 13.4 | 13.2 | 14.0 | 13.8 | 13.4 | 13.8 |
| Common equity tier 1 leverage ratio (%)[2] | 3.73 | 3.78 | 3.75 | 3.78 | 3.73 | 3.78 |
| Going concern leverage ratio (%)[2] | 4.5 | 4.6 | 4.2 | 4.2 | 4.5 | 4.2 |
| **Additional information** | | | | | | |
| Profitability | | | | | | |
| Return on equity (%) | 9.4 | 10.8 | (18.6) | 8.7 | 10.1 | 9.0 |
| Return on risk-weighted assets, gross (%)[3] | 12.1 | 12.8 | 12.4 | 13.0 | 12.5 | 13.3 |
| Return on leverage ratio denominator, gross (%)[3] | 3.4 | 3.5 | 3.3 | 3.4 | 3.5 | 3.4 |
| Resources | | | | | | |
| 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[2] | 33,686 | 33,424 | 33,240 | 32,558 | 33,686 | 32,558 |
| Risk-weighted assets[2] | 251,648 | 253,784 | 236,606 | 236,552 | 251,648 | 236,552 |
| Going concern capital ratio (%)[2] | 16.2 | 15.9 | 15.6 | 15.3 | 16.2 | 15.3 |
| Total loss-absorbing capacity ratio (%)[2] | 31.7 | 30.7 | 31.4 | 29.7 | 31.7 | 29.7 |
| Leverage ratio denominator[2] | 903,467 | 883,676 | 887,189 | 861,919 | 903,467 | 861,919 |
| Total loss-absorbing capacity leverage ratio (%)[2] | 8.8 | 8.8 | 8.4 | 8.1 | 8.8 | 8.1 |
| Other | | | | | | |
| Invested assets (CHF billion)[4] | 3,242 | 3,155 | 3,179 | 2,911 | 3,242 | 2,911 |
| Personnel (full-time equivalents)[5] | 46,597 | 46,433 | 46,009 | 48,476 | 46,597 | 48,476 |

1 Refer to the "Measurement of performance" section of our Annual Report 2017 for the definitions of our key performance indicators. 2 Based on the Swiss systemically relevant bank framework as of 1 January 2020. Refer to the "Capital management" section of this report for more information. 3 Calculated as operating income before credit loss (annualized as applicable) / average risk-weighted assets and average leverage ratio denominator, respectively. 4 Includes invested assets for Personal & Corporate Banking. 5 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.

# Abbreviations frequently used in our financial reports

**A**

| | |
|---|---|
| ABS | asset-backed security |
| AEI | automatic exchange of information |
| AGM | annual general meeting of shareholders |
| A-IRB | advanced internal ratings-based |
| AIV | alternative investment vehicle |
| ALCO | Asset and Liability Management Committee |
| AMA | advanced measurement approach |
| AoA | Articles of Association of UBS Group AG |
| ASFA | advanced supervisory formula approach |
| AT1 | additional tier 1 |

**B**

| | |
|---|---|
| BCBS | Basel Committee on Banking Supervision |
| BD | business division |
| BEAT | base erosion and anti-abuse tax |
| BIS | Bank for International Settlements |
| BoD | Board of Directors |
| BVG | Swiss occupational pension plan |

**C**

| | |
|---|---|
| CC | Corporate Center |
| CCAR | Comprehensive Capital Analysis and Review |
| CCB | countercyclical buffer |
| CCF | credit conversion factor |
| CCP | central counterparty |
| CCR | counterparty credit risk |
| CCRC | Corporate Culture and Responsibility Committee |
| CDO | collateralized debt obligation |
| CDR | constant default rate |
| CDS | credit default swap |
| CEA | Commodity Exchange Act |
| CECL | current expected credit loss |
| CEM | current exposure method |
| CEO | Chief Executive Officer |
| CET1 | common equity tier 1 |
| CFO | Chief Financial Officer |
| CFTC | US Commodity Futures Trading Commission |
| CHF | Swiss franc |
| CLN | credit-linked note |
| CLO | collateralized loan obligation |
| CMBS | commercial mortgage-backed security |
| COP | close-out period |
| CRD IV | EU Capital Requirements Directive of 2013 |
| CRM | credit risk mitigation (credit risk) or comprehensive risk measure (market risk) |
| CST | combined stress test |
| CVA | credit valuation adjustment |

**D**

| | |
|---|---|
| DBO | defined benefit obligation |
| DCCP | Deferred Contingent Capital Plan |
| DOJ | US Department of Justice |
| DOL | US Department of Labor |
| D-SIB | domestic systemically important bank |
| DTA | deferred tax asset |
| DVA | debit valuation adjustment |

**E**

| | |
|---|---|
| EAD | exposure at default |
| EBA | European Banking Authority |
| EC | European Commission |
| ECAI | external credit assessment institution |
| ECB | European Central Bank |
| ECL | expected credit losses |
| EEPE | effective expected positive exposure |
| EIR | effective interest rate |
| EL | expected loss |
| EMEA | Europe, Middle East and Africa |
| EOP | Equity Ownership Plan |
| EPE | expected positive exposure |
| EPS | earnings per share |
| ERISA | Employee Retirement Income Security Act of 1974 |
| ETD | exchange-traded derivative |
| ETF | exchange-traded fund |
| EU | European Union |
| EUR | euro |
| EURIBOR | Euro Interbank Offered Rate |

**F**

| | |
|---|---|
| FCA | UK Financial Conduct Authority |
| FCT | foreign currency translation |
| FDIC | US Federal Deposit Insurance Corporation |
| FINMA | Swiss Financial Market Supervisory Authority |
| FINRA | US Financial Industry Regulatory Authority |
| FMIA | Swiss Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading |
| FMIO | FINMA Ordinance on Financial Market Infrastructure |
| FRA | forward rate agreement |
| FSA | UK Financial Services Authority |
| FSB | Financial Stability Board |
| FTA | Swiss Federal Tax Administration |
| FTD | first to default |
| FTP | funds transfer price |
| FVA | funding valuation adjustment |
| FVOCI | fair value through other comprehensive income |
| FVTPL | fair value through profit or loss |
| FX | foreign exchange |

**G**

| | |
|---|---|
| GAAP | generally accepted accounting principles |
| GBP | British pound |
| GEB | Group Executive Board |
| GHG | greenhouse gas |
| GIA | Group Internal Audit |
| GIIPS | Greece, Italy, Ireland, Portugal and Spain |
| GMD | Group Managing Director |
| GRI | Global Reporting Initiative |
| Group ALM | Group Asset and Liability Management |
| G-SIB | global systemically important bank |

## Abbreviations frequently used in our financial reports (continued)

**H**

| | |
|---|---|
| HQLA | high-quality liquid assets |

**I**

| | |
|---|---|
| IAA | internal assessment approach |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRIC | International Financial Reporting Interpretations Committee |
| IFRS | International Financial Reporting Standards |
| IMA | internal models approach |
| IMM | internal model method |
| IRB | internal ratings-based |
| IRC | incremental risk charge |
| ISDA | International Swaps and Derivatives Association |

**K**

| | |
|---|---|
| KPI | key performance indicator |
| KRT | Key Risk Taker |

**L**

| | |
|---|---|
| LAC | loss-absorbing capacity |
| LAS | liquidity-adjusted stress |
| LCR | liquidity coverage ratio |
| LGD | loss given default |
| LIBOR | London Interbank Offered Rate |
| LLC | Limited liability company |
| LRD | leverage ratio denominator |
| LTV | loan-to-value |

**M**

| | |
|---|---|
| MiFID II | Markets in Financial Instruments Directive II |
| MiFIR | Markets in Financial Instruments associated Regulation |
| MRT | Material Risk Taker |
| MTN | medium-term note |

**N**

| | |
|---|---|
| NAV | net asset value |
| NII | net interest income |
| NPA | non-prosecution agreement |
| NRV | negative replacement value |
| NSFR | net stable funding ratio |

**O**

| | |
|---|---|
| OCA | own credit adjustment |
| OCI | other comprehensive income |
| OIS | overnight index swap |
| OTC | over-the-counter |

**P**

| | |
|---|---|
| PD | probability of default |
| PFE | potential future exposure |
| PIT | point in time |
| P&L | profit or loss |
| PRA | UK Prudential Regulation Authority |
| PRV | positive replacement value |

**Q**

| | |
|---|---|
| QRRE | qualifying revolving retail exposures |

**R**

| | |
|---|---|
| RBA | ratings-based approach |
| RBC | risk-based capital |
| RLN | reference-linked note |
| RMBS | residential mortgage-backed security |
| RniV | risks-not-in-VaR |
| RoAE | return on attributed equity |
| RoE | return on equity |
| RoTE | return on tangible equity |
| RV | replacement value |
| RW | risk weight |
| RWA | risk-weighted assets |

**S**

| | |
|---|---|
| SA | standardized approach |
| SA-CCR | standardized approach for counterparty credit risk |
| SAR | stock appreciation right |
| SE | structured entity |
| SEC | US Securities and Exchange Commission |
| SEEOP | Senior Executive Equity Ownership Plan |
| SESTA | Swiss Federal Act on Stock Exchanges and Securities Trading |
| SESTO | FINMA Ordinance on Stock Exchanges and Securities Trading |
| SFA | supervisory formula approach |
| SFT | securities financing transaction |
| SI | sustainable investing |
| SICR | significant increase in credit risk |
| SME | small and medium-sized enterprises |
| SMF | Senior Management Function |
| SNB | Swiss National Bank |
| SPPI | solely payments of principal and interest |
| SRB | systemically relevant bank |
| SRM | specific risk measure |
| SSFA | simplified supervisory formula approach |
| SVaR | stressed value-at-risk |

**T**

| | |
|---|---|
| TBTF | too big to fail |
| TCJA | US Tax Cuts and Jobs Act |
| TLAC | total loss-absorbing capacity |
| TRS | total return swap |
| TTC | through the cycle |

**U**

| | |
|---|---|
| USD | US dollar |

**V**

| | |
|---|---|
| VaR | value-at-risk |

This is a general list of the abbreviations frequently used in our financial reporting. Not all of the listed abbreviations may appear in this particular report.

# Information sources

## Reporting publications

**Annual publications:** *Annual Report (SAP no. 80531):* Published in English, this single-volume report provides a description of our Group strategy and performance; the strategy and performance of the business divisions and Corporate Center; a description of risk, treasury, capital management, corporate governance, corporate responsibility and our compensation framework, including information on compensation for the Board of Directors and the Group Executive Board members; and financial information, including the financial statements. *Auszug aus dem Geschäftsbericht (SAP no. 80531):* This publication provides the translation into German of selected sections of the Annual Report. *Annual Review (SAP no. 80530):* The booklet contains key information on our strategy and performance, with a focus on corporate responsibility at UBS. It is published in English, German, French and Italian. *Compensation Report (SAP no. 82307):* The report discusses our compensation framework and provides information on compensation for the Board of Directors and the Group Executive Board members. It is available in English and German.

**Quarterly publications:** The quarterly financial report provides an update on our strategy and performance for the respective quarter. It is available in English.

**How to order publications:** The annual and quarterly publications are available in PDF at *www.ubs.com/investors* in the "UBS Group AG and UBS AG consolidated financial information" section, and printed copies can be requested from UBS free of charge. For annual publications refer to *www.ubs.com/investors* in the "Investor services" section, which can be accessed via the link on the left-hand side of the screen. Alternatively, they can be ordered by quoting the SAP number and the language preference, where applicable, from UBS AG, F4UK–AUL, P.O. Box, CH-8098 Zurich, Switzerland.

## Other information

**Website:** The "Investor Relations" website at *www.ubs.com/investors* provides the following information on UBS: news releases, financial information, including results-related filings with the US Securities and Exchange Commission, information for shareholders, including UBS share price charts as well as data and dividend information, and for bondholders, the UBS corporate calendar and presentations by management for investors and financial analysts. Information on the internet is available in English, with some information also available in German.

**Results presentations:** Our quarterly results presentations are webcast live. A playback of most presentations is downloadable at *www.ubs.com/presentations*.

**Messaging service:** Email alerts to news about UBS can be subscribed to under "UBS News Alert" at *www.ubs.com/investors*. Messages are sent in English, German, French or Italian, with an option to select theme preferences for such alerts.

**Form 20-F and other submissions to the US Securities and Exchange Commission:** We file periodic reports and submit other information about UBS to the US Securities and Exchange Commission (SEC). Principal among these filings is the annual report on Form 20-F, filed pursuant to the US Securities Exchange Act of 1934. The filing of Form 20-F is structured as a "wrap-around" document. Most sections of the filing can be satisfied by referring to parts of the annual report. However, there is a small amount of additional information in Form 20-F that is not presented elsewhere and is particularly targeted at readers in the US. Readers are encouraged to refer to this additional disclosure. Any document that we file with the SEC is available on the SEC's website *www.sec.gov,* or at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, DC, 20549. Call the SEC on +1-800-SEC-0330 for more information on the operation of its public reference room. Refer to *www.ubs.com/investors* for more information.

**Cautionary Statement Regarding Forward-Looking Statements |** This report contains statements that constitute "forward-looking statements," including but not limited to management's outlook for UBS's financial performance and statements relating to the anticipated effect of transactions and strategic initiatives on UBS's business and future development. While these forward-looking statements represent UBS's judgments and expectations concerning the matters described, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from UBS's expectations. These factors include, but are not limited to: (i) the degree to which UBS is successful in 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 Group AG to make payments or distributions, including due to restrictions on the ability of its subsidiaries to make loans or distributions, directly or indirectly, or, in the case of financial difficulties, due to the exercise by FINMA 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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